

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**FOR
AGENDA**

EBS/84/142
Supplement 3

CONFIDENTIAL

August 27, 1984

To: Members of the Executive Board

From: The 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. A draft decision appears on pages 8-10.

This subject has been scheduled for discussion on Wednesday, August 29, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Leddy (ext. (5)8332) or Mr. Silard (ext. (5)7715).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

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

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

Approved by W. O. Habermeier and Graeme F. Rea

August 27, 1984

1. The Executive Board was informed on July 25, 1984 (EBS/84/142, Supplement 1) of Viet Nam's overdue obligations totaling SDR 13,905,741. Since that time, three further obligations totaling SDR 4,240,977 have become overdue to the Fund: net SDR charges of SDR 1,171,608 due August 1, 1984, quarterly charges of SDR 499,628 due August 8, 1984 and a Trust Fund repayment of 2,569,741 due August 14, 1984. A revised table of Viet Nam's overdue obligations as of August 24, 1984 is presented in Attachment I, which shows total overdue payments to the Fund of SDR 18,146,718.

2. Also attached (Attachment II) for the information of Executive Directors are a letter dated July 27, 1984 received from Mr. Nguyen Duy Gia, Governor of the Fund for Viet Nam, a telex from the Acting Managing Director dated August 16, 1984, and a further telex from Governor Nguyen Duy Gia received August 22, 1984.

3. A draft decision for consideration by the Executive Board on August 29, 1984 is provided in Attachment III. The draft would be revised, as appropriate, to take into account the presentation of Viet Nam's case and the views of the Executive Board.

ATTACHMENT I
August 24, 1984

Viet Nam - Overdue Payments to the Fund

Type of Obligation	Date of Purchase	Due Date	SDR Amount
<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
Quarterly charges		August 8, 1984	499,628
Subtotal			8,532,399
<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/}
Net SDR charges		August 1, 1984	1,171,608
Subtotal			4,324,189
<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
Repayment *	August 15, 1978	August 14, 1984	2,569,741
Subtotal			5,290,130
Total			18,146,718

* Note The repurchase that is overdue is still within the period of 5 years from the date of the purchase. The Trust Fund loan repayments that are overdue are still within the period of 10 years from the dates of the disbursements.

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

ATTACHMENT II
JULY 27, 1984

MR. J. DE LAROSIERE
MANAGING DIRECTOR
INTERNATIONAL MONTARY FUND
WASHINGTON, D.C. 20431 USA

PURSUANT TO MY CABLES TO YOU DATED MARCH 20, MAY 29 AND JULY 17, 1984 REGARDING VIET NAM'S RELATION WITH THE FUND. I AM PLEASED TO WRITE TO YOU THIS LETTER THE CONTENT OF WHICH I BELIEVE WILL RECEIVE YOUR DUE ATTENTION AND THOROUGH STUDY FOR APPROPRIATE SOLUTION.

SINCE SOCIALIST REPUBLIC OF VIET NAM ASSUMED ITS MEMBERSHIP IN THE FUND IN SEPTEMBER 1976, MANY FUND MISSIONS INCLUDING HIGH FUND OFFICIALS HAVE VISITED VIET NAM FOR STRENGTHENING AND IMPROVEMENT OF THE COOPERATIVE RELATIONS BETWEEN VIET NAM AND THE FUND. IN LIGHT OF THAT DISCUSSIONS WE FEEL THAT FUND MISSIONS HAVE OBTAINED BETTER UNDERSTANDING OF VIET NAM'S SITUATION AND PARTICULARLY BEEN AWARE OF OUR BASIC DIFFICULTIES WHICH HAVE BEEN CAUSED BY CONSEQUENCES OF 30 YEARS OF WARS. THE REHABILITATION AND RECONSTRUCTION OF OUR WAR-TORN ECONOMY WHICH HAVE BEEN CONSIDERED AN EXAMPLE THE WORLD OVER WILL TAKE TIME AND REQUIRE GREAT EFFORTS FROM OUR PEOPLE. THAT'S NOT END, OUR COUNTRY HAS BEEN UNDERMINED IN MANY FIELDS BY FOREIGN ENEMIES. THAT INCLUDE THEIR ECONOMY SABOTAGE, CREDITS ISOLATION AND ALSO SUFFERED FROM SUCCESSIVE NATURAL CALAMITIES IN MANY YEARS. AS ONE OF THE DEVELOPING COUNTRIES, VIET NAM HAS ALSO BEEN AFFECTED BY AFTERMATH OF GLOBAL ECONOMIC RECESSION. IN THESE CIRCUMSTANCES AND WITH A VIEW TO OVERCOME THESE DIFFICULTIES AND OBSTACLES, WE HAVE SO FAR HAD PERIODICAL CONSULTATIONS WITH MANY FUND MISSIONS AND CONTINUOUSLY INTRODUCED APPROPRIATE ECONOMIC ADJUSTMENT POLICIES AND MEASURES IN ORDER TO GRADUALLY SETTLE THESE DIFFICULTIES. THE PROGRESS ACHIEVED, HOWEVER, HAVE NOT COME UP TO OUR EXPECTATION. ALTHOUGH VIET NAM HAS BEEN FACING SUCH DIFFICULTIES, IT TOTALLY AND STRICTLY FULFILLED ALL ITS OBLIGATIONS TO THE FUND UP TO THE END OF 1983.

IN SUCH SPECIAL CIRCUMSTANCES, WE ARE, FOR THE TIME BEING, UNABLE TO FULFILL OUR FINANCIAL OBLIGATIONS TO THE FUND, THAT IS OUT OF OUR RELUCTANCE AND BEYOND OUR WISH. THAT'S WHY, DURING OUR DISCUSSIONS WITH FUND MISSION TO VIET NAM IN MARCH 1984 WE HAVE REQUESTED YOU THROUGH THE MISSION FOR RESCHEDULINGS OF OUR DUE PAYMENTS TO THE FUND. WE THEN SENT OUR OFFICIAL REQUEST TO YOU IN OUR TELEX DATED MARCH 20, 1984.

THE ECONOMIC DEVELOPMENT, PROMOTION OF PRODUCTION AND EXPORT TO ACHIEVE A SUSTAINABLE PUBLIC FINANCE AND MONETARY AND A VIABLE BALANCE OF PAYMENTS HAVE BEEN OUR FIRST AND FOREMOST CONCERNS. TO THAT END, OUR GOVERNMENT HAVE RECENTLY INTRODUCED NEW POLICIES AND MEASURES IN ORDER TO IMPROVE ECONOMIC MANAGEMENT. PARTICULAR ATTENTIONS HAVE BEEN FOCUSED ON PRODUCTIVITY, QUALITY, EFFICIENCY AND FINANCIAL AUTONOMY TO BUSINESS ENTITIES, SO THAT THEY CAN BRING INTO FULL PLAY OF ALL THEIR CREATIVENESS AND INITIATIVES. OUR GOVERNMENT HAVE ALSO INTRODUCED MORE PRODUCTION INCENTIVES, NEW POLICIES AND MEASURES FOR THE IMPROVEMENT OF EXPORTS AND EFFECTIVE ADJUSTMENT OF PRICES... IN ADDITION TO

THAT OTHER ECONOMIC LEVERS HAVE ALSO BEEN STRONGLY USED TO BRING ABOUT A NEW DEVELOPMENT SO AS TO REDUCE IN A NOT DISTANT FUTURE, THE GOVERNMENT BUDGETARY DEFICIT AND TO STEP BY STEP SUSTAIN PUBLIC FINANCIAL POSITION, MONETARY AND BALANCE OF PAYMENTS ON THE BASIS OF AN IMPROVED PRODUCTION AND EXPORTS, WHICH WOULD HELP TO DISCHARGE FULLY OUR FINANCIAL OBLIGATION TO THE FUND.

WE THEREFORE HOPE THAT YOU WOULD APPRECIATE OUR DIFFICULTIES AND KINDLY ACCEPT OUR REQUEST FOR RESCHEDULING OF OUR OVERDUE AND COMING DUE PAYMENTS TO THE FUND, IN A REASONABLE PERIOD OF TIME, AND EXTEND FURTHER FINANCIAL ASSISTANCE TO VIET NAM SO THAT WE WILL BE ABLE TO OVERCOME THESE DIFFICULTIES. THE ACCEPTANCE BY FUND OF OUR REQUEST FOR RESCHEDULINGS OF OUR DUE PAYMENTS TO THE FUND IN THE SPECIFIC CIRCUMSTANCES, WILL NEITHER BE A PRECEDENT FOR THE FUND IN RESPECT OF GENERAL PRACTICES AND POLICIES NOR IT LEADS TO ACCUMULATION OF OBLIGATION AND GREATER DIFFICULTIES FOR VIET NAM LATER BUT WILL HELP TO CONTRIBUTE TO THE PROMOTION OF PRODUCTION, EXPORT AND IMPROVE OUR DEBT SERVICING.

WE APPRECIATE THE DIFFICULTIES THE FUND AND YOUR GOOD SELF ARE FACING IN THIS RESPECT, THEREFORE WE WOULD LIKE TO PROPOSE THAT YOU WOULD SEND A FUND MISSION TO VIET NAM PREFERABLY BEFORE THE ANNUAL MEETINGS FOR DISCUSSION ON OUR NEWLY INTRODUCED POLICIES AND MEASURES SO AS TO HELP TO PROCEED WITH OUR PROGRAM TO USE FUND'S RESOURCES UNDER THE FIRST CREDIT TRANCHE AND ON OUR REQUEST FOR RESCHEDULINGS OF OUR DUE PAYMENTS TO THE FUND. IF IT IS NOT CONVENIENT TO DISPATCH A FUND MISSION TO VIET NAM WE ARE PLEASED TO HOLD DISCUSSIONS WITH YOU SOON IN THE FUND'S HEADQUARTERS AT AN APPROPRIATE TIME SUBJECT TO YOUR ARRANGEMENTS.

I HOPE TO RECEIVE YOUR EARLY AND POSITIVE RESPONSE.
MY PERSONAL REGARDS.

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

Received in Fund: August 9, 1984

ATTACHMENT II

#VT.M

THE HONORABLE NGUYEN DUY GIA
MINISTER, DIRECTOR GENERAL
STATE BANK OF VIET NAM
HANOI, VIET NAM

DEAR MR. GOVERNOR

1. THIS MESSAGE IS WITH REFERENCE TO YOUR LETTER OF JULY 27, 1984 TO THE MANAGING DIRECTOR, WHICH WE RECEIVED AUGUST 9, 1984, REGARDING VIET NAM'S OVERDUE AND FORTHCOMING OBLIGATIONS TO THE FUND AND SUGGESTING DISCUSSION, INTER ALIA, OF RESCHEDULING OF OBLIGATIONS DUE TO THE FUND AND THE USE OF FUND RESOURCES BY VIET NAM. I SHOULD RECALL THAT THE FUND'S POSITION IN THIS RESPECT HAS BEEN FULLY SET OUT IN THE MANAGING DIRECTOR'S COMMUNICATION TO YOU DATED JULY 23, 1984. THERE HAS BEEN NO CHANGE IN THAT POSITION, AND I AM AFRAID I CANNOT ACCEPT YOUR SUGGESTION THAT A FUND MISSION VISIT HANOI TO DISCUSS RESCHEDULING OF FUND OBLIGATIONS OR USE OF FUND RESOURCES NOR THAT THESE TOPICS BE THE SUBJECT OF DISCUSSION WITH YOU IN THE FUND'S HEADQUARTERS. ANY DISCUSSIONS WOULD NEED TO CONCENTRATE ON STEPS THAT COULD BE TAKEN BY VIET NAM TO ACHIEVE PROMPT SETTLEMENT OF THE OVERDUE OBLIGATIONS TO THE FUND AND REMAIN CURRENT IN THE FUTURE, AND IF YOU FEEL THIS WOULD BE PRODUCTIVE IN ACHIEVING EARLY ELIMINATION OF THE ARREARS I WOULD BE PLEASED TO ARRANGE FOR SUCH DISCUSSIONS.

2. AS YOU KNOW, THE EXECUTIVE BOARD DECIDED ON JULY 27, 1984 TO CONSIDER THE MANAGING DIRECTOR'S COMPLAINTS ON VIET NAM, AND HIS NOTICE OF VIET NAM'S FAILURE TO FULFILL OBLIGATIONS TO THE TRUST FUND, ON AUGUST 29, 1984. PROMPT PAYMENT OF THE OBLIGATIONS DUE TO THE FUND WOULD BE NECESSARY TO OBTAIN THE NEED FOR THE EXECUTIVE BOARD TO CONSIDER THESE MATTERS AS SCHEDULED, AND I URGE THAT YOU MAKE FULL SETTLEMENT FORTHWITH.

3. I WOULD MENTION IN THIS CONNECTION THAT IT WAS NOTED IN THE COURSE OF THE EXECUTIVE BOARD DISCUSSION ON JULY 27, 1984 THAT VIET NAM'S GROSS FOREIGN ASSETS, INCLUDING GOLD (AS REPORTED DURING THE ARTICLE IV CONSULTATIONS), ARE SUBSTANTIALLY IN EXCESS OF THE OVERDUE OBLIGATIONS TO THE FUND. IN LIGHT OF THIS, I FEEL CERTAIN THAT THE BOARD WOULD BE MOST DISSATISFIED IF VIET NAM WERE TO MAINTAIN THE VIEW, AS STATED IN YOUR LETTER OF JULY 27, THAT IT IS FOR THE TIME BEING UNABLE TO FULFILL ITS FINANCIAL OBLIGATIONS TO THE FUND. I HOPE YOU WILL RECONSIDER, AS A MATTER OF PARTICULAR URGENCY IN LIGHT OF THE EXECUTIVE BOARD'S DISCUSSION SCHEDULED FOR AUGUST 29, WHETHER IT WOULD NOT INDEED BE POSSIBLE FOR VIET NAM TO ELIMINATE ITS ARREARS TO THE FUND PRIOR TO THAT DATE AND THUS CLEAR THE WAY FOR RESUMPTION OF NORMAL RELATIONS BETWEEN VIET NAM AND THE FUND.

4. I LOOK FORWARD TO YOUR EARLY AND POSITIVE ADVICE.
REGARDS

ERB
ACTING MANAGING DIRECTOR
INTERFUND

SENT: August 16, 1984

4244-NHTW VT
HANOI DATE 21/8/84

MR. J. DE LAROSIERE
MANAGING DIRECTOR
INTERFUND, WASHINGTON DC

PLEASE COPY TO MR. J.E. ISMAEL, EXECUTIVE DIRECTOR

I HAVE BEEN INFORMED THAT YOUR COMPLAINTS ON VIET NAM UNDER RULES K-1 AND S-1 AND THE NOTICE OF THE FAILURE BY VIET NAM TO REPAY A TRUST FUND LOAN SHALL BE PLACED ON THE AGENDA OF THE EXECUTIVE BOARD FOR DISCUSSION ON AUGUST 29, 1984.

BEFORE THE COMPLAINTS WERE ISSUED I HAD ON MORE THAN ONE OCCASION COMMUNICATED TO YOU ON THE MATTER IN MY CABLES OF MARCH 20, MAY 29 AND JULY 17, 1984. ONCE AGAIN I WOULD LIKE TO AVAIL MYSELF OF THIS OPPORTUNITY TO EXPLAIN TO YOU THE EXCEPTIONAL DIFFICULTIES OF MY COUNTRY IN RECENT YEARS. IT HAS EMERGED FROM A LONGEST AND MOST BITTER WAR IN THIS CENTURY AND THEN SUFFERED FROM SUCCESSIVE CALAMITIES. OUR FOREMOST CONCERNS NOW ARE TO UNDERTAKE POST WAR ECONOMIC REHABILITATION AND DEVELOPMENT. HOWEVER, OUR EFFORTS IN THIS REGARD HAVE BEEN RESISTED BY HOSTILE FORCES THROUGH THEIR POLICY OF ECONOMIC AND POLITICAL ISOLATION OF VIET NAM FROM THE REST OF THE WORLD AND WAR THREAT.

IN THE FACE OF THESE CIRCUMSTANCES WE HAVE TIMELY ADOPTED ECONOMIC ADJUSTMENTS AIMING AT PROMOTING PRODUCTION AND EXPORTS ECONOMIC DEVELOPMENT IS A TIME CONSUMING EFFORT, THEREFORE OUR BALANCE OF PAYMENTS DURING RECENT PAST HAS NOT BEEN CONSOLIDATED AND FOREIGN LOANS AND GRANTS FROM VARIOUS SOURCES HAVE DECLINED OUR GROSS FOREIGN EXCHANGE RESERVES ARE UNTOLERABLY LOW FOR A COUNTRY. DESPITE OF THESE DIFFICULTIES WE TRIED OUR UTMOST TO FULFILL FINANCIAL OBLIGATIONS TO THE FUND UNTIL EARLY 1984.

BECAUSE OF EXCEPTIONAL HARDSHIP IN RECENT YEARS, ESPECIALLY SINCE EARLY OF THIS YEAR WE ASKED FOR FUND ASSISTANCE INCLUDING THE POST-PONEMENT OF OUR REPURCHASES AND REPAYMENTS AFTER WE FAILED IN OUR EFFORTS TO MOBILIZE POSSIBLE RESOURCES INCLUDING BLOCKED FUND TO REPAY THE FUND. WE ARE FULLY AWARE OF OUR OBLIGATIONS AND ARE ANXIOUS TO FULFILL. RECENTLY ON AUGUST 17, 1984 WE INSTRUCTED BANKER (BANKER) TRUST COMPANY TO WITHDRAW U.S. DOLLARS 11 MILLION BEING INTEREST ON OUR BLOCKED DEPOSITS TO DISCHARGE OVERDUE PAYMENTS TO THE FUND.

WE HOPE YOU UNDERSTAND OUR SITUATION THROUGH OUR COMMUNICATION TO YOU AND FROM REPORT BY FUND MISSION TO VIET NAM SO AS TO ACQUAINT EXECUTIVE BOARD WITH OUR SPECIAL DIFFICULTIES SO THAT THEY CAN FIND POSSIBLE ASSISTANCE TO VIET NAM.

LAST JUNE, OUR GOVERNMENT INTRODUCED A SERIES OF COMPREHENSIVE ECONOMIC MANAGEMENT, TO PROMOTE PRODUCTION AND EXPORTS. THE NEWLY ADOPTED POLICIES INCLUDE FLEXIBLE POLICIES IN PRICING SYSTEM SALARIES AND EXCHANGE RATE. GREATER FINANCIAL AUTONOMY AND MORE DECISION MAKING HAVE BEEN GRANTED TO PRODUCTION UNITS. MORE INCENTIVES GIVEN TO EXPORT SECTOR AND MEASURES INTRODUCED TO INCREASE BUDGET REVENUE AND REDUCE THE GROWTH OF MONETARY AGGREGATES. WE HOPE THAT THESE POLICIES AND MEASURES WILL GRADUALLY EXERT A POSITIVE IMPACT ON OUR MONETARY AND FINANCIAL POSITION AND WILL HELP IMPROVE OUR BALANCE OF PAYMENTS.

OUR IMMEDIATE DIFFICULTIES ARE TEMPORARY AND WILL SOON BE REMOVED SHOULD FUND ASSISTANCE BECOME AVAILABLE.

DUE TO UNEXPECTED CIRCUMSTANCE WE ARE NOT ABLE TO SEND OUR REPRESENTATIVE TO EXECUTIVE BOARD MEETING ON AUGUST 29, 1984 WE GIVE FULL POWER TO MR. J.E. ISMAEL TO REPRESENT ON OUR BEHALF AT THE BOARD MEETING.

WITH THE SYMPATHY AND UNDERSTANDING OF YOUR GOOD SELF AND THE BOARD I BELIEVE THE MEETING WILL FIND A MUTUALLY ACCEPTABLE SOLUTION TO OUR PROBLEMS.

MY BEST REGARDS.

DOCTOR NGUYEN DUY GIA
MINISTER-DIRECTOR GENERAL
STATE BANK OF VIET NAM
MINISTER-GOVERNOR OF VIET NAM IN THE FUND

Received in Fund: August 22, 1984

ATTACHMENT III

DRAFT DECISION

Viet Nam: Complaints Under Rule K-1 and Rule S-1 and
Notice of Failure to Settle Trust Fund Obligations

1. The Managing Director has reported under Rule K-1 and Rule S-1 of the Fund's Rules and Regulations to the Executive Board the facts on the basis of which it appeared to him at the dates of these reports that Viet Nam was not fulfilling its obligations under the Articles of Agreement and submitted complaints on July 25, 1984 (EBS/84/142, Supplement 1) in accordance with those rules. The complaint under Rule K-1 was that as of July 24, 1984 Viet Nam was not fulfilling its obligations relating to repurchases and the payment of charges in the General Department in the total amount of SDR 8,032,771. The complaint under Rule S-1 was that as of July 24, 1984 Viet Nam was not fulfilling its obligation to pay charges in the SDR Department in the total amount of SDR 3,152,581. Furthermore, the Managing Director added to his complaints a notice of the facts on the basis of which it appeared to him that as of July 24, 1984 Viet Nam was not fulfilling its obligations under Decision No. 5069-(76/72) on the Trust Fund to repay a disbursement and to pay interest in the total amount of SDR 2,720,389. These facts, and the complaints and notice of the Managing Director have been communicated to the authorities of Viet Nam.
2. Taking into account the further obligations of Viet Nam that have become overdue since July 24, 1984, Viet Nam's overdue obligations to the Fund have increased to SDR 8,532,399 in the General Department,

SDR 4,324,189 in the SDR Department, and SDR 5,290,130 under the Trust Fund.

3. Having considered the reports of the Managing Director, the complaints and the notice, and the views of Viet Nam, the Fund finds that Viet Nam has failed to fulfill its obligations under the Articles of Agreement and the Trust Fund as stated in 1 and 2 above.

4. The Fund regrets the non-observance by Viet Nam of its obligations and urges Viet Nam to resume their observance forthwith.

The Fund decides

- (a) pursuant to Rule K-2 of the Fund's Rules and Regulations that Viet Nam shall not make use of the general resources of the Fund until such time as Viet Nam is current on its obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Department,
- (b) pursuant to Article XXIII, Section 2(b) of the Articles of Agreement to suspend the right of Viet Nam to use SDRs it acquires after the suspension until such time as Viet Nam is fulfilling its obligations to which that provision applies, and
- (c) if Viet Nam were otherwise eligible to make use of the general resources of the Fund, to take into account the existence of any overdue obligation to the Trust Fund in considering

any request by Viet Nam for the use of the
general resources.

5. The Fund shall review this decision within a period of three months from the date of the decision.