

EBS/84/245

CONFIDENTIAL

November 28, 1984

To: Members of the Executive Board

From: The Secretary

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

The attached document has been placed on the agenda of an Executive Board meeting scheduled at 3:00 p.m. on Friday, November 30, 1984. A draft decision appears on pages 21 and 22.

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. Berthet (ext. (5)7633).

Att: (1)

INTERNATIONAL MONETARY FUND

VIET NAM

Overdue Financial Obligations to the Fund--Review of
Decision on Complaints under Rules K-1 and S-1 and
Notice of Failure to Settle Trust Fund Obligations

Prepared by the Asian, Legal and Treasurer's Departments

Approved by Douglas A. Scott, George P. Nicoletopoulos
and W. O. Habermeier

November 28, 1984

On November 30, 1984 the Executive Board will review its decision, taken August 29, 1984, regarding Viet Nam's overdue obligations to the General Department, the SDR Department and the Trust Fund (see Decision No. 7791-(84/129), Attachment I). This paper describes recent developments with respect to Viet Nam's overdue obligations to the Fund, discusses several related matters raised in a recent communication from the Governor of the Fund for Viet Nam, and proposes a decision for adoption by the Executive Board.

The Executive Board was informed on August 27, 1984 (EBS/84/142, Sup. 3) of Viet Nam's overdue obligations to the Fund totaling SDR 18,146,718. Since that time, no payments to the Fund have been made by Viet Nam, and three further obligations totaling SDR 5,278,187 have become overdue: a credit tranche repurchase of SDR 3,550,000 due October 11, 1984, net charges in the SDR Department of SDR 1,228,559 due November 1, 1984, and quarterly charges of SDR 499,628 due November 8, 1984. Taking account of these obligations, Viet Nam's overdue payments to the Fund now total SDR 23,424,905 as shown in the table below.

Since the Executive Board's decision on the matter of Viet Nam's overdue obligations on August 29, 1984, there have been several communications and discussions between the Vietnamese authorities and the Fund, including discussions with management and the staff during the Annual Meetings in September. Telexes dated September 5 and October 16, 1984 from the Managing Director to the Honorable Nguyen Duy Gia, Governor of the Fund for Viet Nam, and his reply to the latter telex dated November 17, 1984 (received in the Fund November 19), are attached (Attachment II).

Viet Nam - Overdue Obligations to the Fund

(November 27, 1984)

Type of obligation	Date of purchase or loan	Due date	Days late	SDR amount
<u>General Department</u>				
Quarterly charges		02/06/84	295	471,934
Repurchase	01/12/81	04/11/84	230	3,550,000
Quarterly charges		05/07/84	204	460,837
Repurchase	01/12/81	07/11/84	139	3,550,000
Quarterly charges		08/08/84	111	499,628
Repurchase	01/12/81	10/11/84	47	3,550,000
Quarterly charges		11/08/84	19	499,628
Subtotal				12,582,027
<u>SDR Department</u>				
Net SDR charges		02/01/84	300	1,037,692
Assessment		04/30/84	211	6,671
Net SDR charges		05/01/84	210	2,108,218 ^{1/}
Net SDR charges		08/01/84	118	1,171,608
Net SDR charges		11/01/84	26	1,228,559
Subtotal				5,552,748
<u>Trust Fund</u>				
Repayment	08/15/78	02/14/84	287	2,569,741
Interest		06/29/84	151	150,648
Repayment	08/15/78	08/14/84	105	2,569,741
Subtotal				5,290,130
Total				23,424,905

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

In the discussions on the matter during the Annual Meeting, the Managing Director expressed his deep concern that the issue remains unresolved and that overdue obligations continue to accrue, explaining that one of the basic principles of the Fund, applicable to all members, is that members must fulfill their obligations to the institution. The Executive Board's decision on August 29, 1984 regarding Viet Nam's access to Fund resources and use of SDRs was a most serious step; however, unless significant progress could be made toward prompt elimination of the arrears, the Fund would have no choice but to consider what further steps should be taken to deal with the matter. While the Fund was well aware of Viet Nam's economic problems, those problems were not justification for Viet Nam's not fulfilling its obligations to the Fund. In this respect, many members faced very difficult situations but nonetheless met their obligations to the Fund as a matter of priority; if the Fund were to leave Viet Nam's arrears situation unaddressed, this would imply treating Viet Nam differently from other members and would be contrary to the Fund's principles.

The Vietnamese authorities indicated that significant efforts have been made to accommodate the Fund's advice and proposals, but that it has not been possible to settle the obligations to the Fund accruing since the end of 1983 because of the continuing effects of the longest war in the country's history. The authorities indicated that they were not certain that the Fund recognized the exceptional difficulties facing the country, in part because the Fund has not provided financial assistance to Viet Nam in recent years. As a first priority, measures needed to be taken to restore economic growth. These measures would take time to bear fruit but would ultimately enable Viet Nam to meet its obligations to the Fund. At present, however, the obligations could not be met because of exceptional hardship facing the country.

The Managing Director explained that all members were receiving uniform treatment and that if Viet Nam were to make use of the Fund's resources, it would need to be on the basis of rules and criteria applicable to all. It had not been evident to the management and staff on the basis of earlier consultations with Viet Nam that the conditions for a Fund arrangement had been met. Once the arrears were cleared and the conditions for a program were met, there would be no difficulty in responding positively to a request for Fund assistance. Recently announced measures ^{1/} appeared to constitute steps in the right direction and could be discussed further in detail with the staff. It was imperative, however, that Viet Nam settle the overdue obligations and restore normal relations with the Fund.

Subsequent discussions with the staff during the Annual Meetings did not yield substantially more detailed information on measures being introduced or contemplated by the authorities. The Vietnamese representatives reported, however, that it had become necessary during 1984 to

^{1/} See telex dated August 21, 1984 from Governor Gia to the Managing Director, EBS/84/142, Sup. 3 (8/27/84), Attachment II, pp. 6-7.

divert resources and transportation facilities from normal uses for security reasons and that this had in particular affected exports, which had declined by 30-40 percent during the first nine months of 1984. They also indicated that all or a substantial part of Viet Nam's earlier holdings of unpledged gold (about 414,000 ounces) 1/ had been sold in order to maintain a reasonable flow of imports.

In his communication dated October 16, 1984 to Governor Gia, the Managing Director again urged that the overdue obligations to the Fund be settled promptly and expressed the hope that a response from Viet Nam would provide the basis for a positive report to the Executive Board in connection with the review of its decision to be held at the end of November 1984. In discussing the matter of Viet Nam's overdue obligations, the Managing Director referred to the reported sale of the unpledged gold and urged that consideration be given to using part of the proceeds 2/ for settlement of the outstanding obligations to the Fund.

The telex dated November 17, 1984 from Governor Gia to the Managing Director, responding to the Managing Director's telex of October 16, does not refer to the matter of the gold. It does, however, raise a number of points which are discussed below.

a. Viet Nam's blocked accounts in U.S. banks

Governor Gia's telex indicates that Viet Nam has recently completed necessary formalities to withdraw US\$11 million from a blocked account with a U.S. bank, to be paid to the Fund value November 25, 1984. The staff's understanding with respect to these accounts, including their unavailability for payments to the Fund, was explained in EBS/84/142 and confirmed during the discussion at EBM/84/129. No payments have been received from these accounts as of November 27, 1984, and it continues to be the staff's understanding, on the basis of further inquiries, that such payments will not be received by the Fund.

b. Rescheduling of Viet Nam's obligations to the Fund

Governor Gia's telex reiterates Viet Nam's request for postponement of obligations to the Fund on grounds of exceptional hardship (telex of August 21, 1984, EBS/84/142, Sup. 3, 8/27/84 and EBM/84/129, 8/29/84). Specifically, Viet Nam requests that the Fund reschedule Viet Nam's repurchases and repayments to the Fund to an appropriate time, pursuant to Article V, Section 7(g); and proposes to pay overdue and future charges in Vietnamese dong, pursuant to Article V, Section 8(e).

1/ See EBS/84/142 (6/29/84), p. 5 and discussion at EBM/84/129 (8/29/84).

2/ At market prices prevailing in early September 1984, the sale of 414,000 ounces of gold might have yielded on the order of US\$140 million.

The Fund's policies and the provisions of the Articles of Agreement dealing with postponement of obligations to the Fund are described in detail in EBS/84/211 (10/11/84), pp. 10-13, reproduced in Attachment III to this paper. In general on the issue of postponement or rescheduling of obligations to the Fund, the position of the Fund is that while exercise of the relevant powers of the Fund under the provisions of the Articles of Agreement is not precluded, the Executive Board as a matter of policy (for reasons explained in the above-mentioned documentation) does not wish to open the way for rescheduling of obligations to the Fund. The Fund's general approach on the question of rescheduling has been described to the authorities on a number of occasions, and management has explained in past communications that it was not in a position to recommend Executive Board approval of a request for rescheduling by Viet Nam.

However, a member is entitled to request that the Fund consider postponement or rescheduling under the relevant provisions of the Articles. The following points are made in relation to Viet Nam's request and the different types of its overdue obligations to the Fund.

(i) Repurchases

The provision of the Articles referred to in connection with repurchases (Article V, Section 7(g)) permits postponement of a repurchase within the normal period for repurchase under the Articles by a decision of the Executive Board taken by a majority of the votes cast; and beyond that period by a 70 percent majority of the total voting power, provided that such action is consistent with the temporary use of the Fund's general resources and is justified because discharge on the due date would result in exceptional hardship for the member. The provision for postponement beyond the normal period has not been used to date. Under this provision, the member must satisfy the Fund that discharge of a payment on the due date would result in exceptional hardship. It would be necessary for the member to establish, and for the Board to agree, that discharge of the repurchase in question on the due date would itself result in hardship that is of an exceptional nature and goes beyond that faced by other members in similar circumstances in discharging their obligations; and for the Board to find that a longer repurchase period would be consistent with the temporary use of the Fund's resources. As discussed below, the staff does not consider that a case that would justify use of this provision has been made.

(ii) Charges

The provision of the Articles referred to in connection with charges (Article V, Section 8(e)) authorizes the Fund to permit (by a majority of the votes cast in the Executive Board) payment of charges to the General Department in a member's own

currency in exceptional circumstances. Such payments would result, in effect, in a postponement of the obligations to the Fund and would give rise to repurchase obligations that would need to be settled in accordance with policies that would have to be adopted by the Fund by a 70 percent majority of the total voting power. This provision has not been used to date. In determining whether exceptional circumstances exist, it would be necessary for the Fund to take into account whether the member's circumstances were exceptional as compared with the circumstances of other members that nevertheless meet their financial obligations to the Fund. The staff has taken the view that the considerations arguing against a general policy of postponement of repurchases apply with at least equal force to a policy of effective postponement of charges due to the Fund. As discussed below, the staff does not consider that a case that would justify use of this provision has been made.

(iii) SDR charges and assessments

Governor Gia's telex does not refer specifically to obligations to pay charges and assessments in the SDR Department, both of which are included in Viet Nam's overdue obligations to the Fund. The Articles do not provide for postponement of these obligations or for their payment in media other than SDRs.

(iv) Trust Fund repayments and interest

The Trust Fund Instrument and the 1980 decision on termination of the Trust Fund establish the conditions relating to obligations to the Trust Fund. Individual installments may be postponed for up to two years from the due date, by a decision taken by the Fund as Trustee by a majority of the votes cast, if the Fund finds that payment on the due date would result in serious hardship for the borrower. This provision has not been used to date. The staff is unable to conclude that a case for use of this provision has been made by Viet Nam and, in particular, the basis on which the provision would be used in this instance as compared with the situations of other members having obligations to the Trust Fund. There is no provision for postponement of interest payments to the Trust Fund.

In support of Viet Nam's request for postponement, Governor Gia's telex of November 17, 1984 states that Viet Nam is unable to meet its obligations to the Fund because of exceptional hardship in the balance of payments, and refers to previous communications and discussions in support of this position. The discussions during the Annual Meetings in September have been described above. Earlier communications and discussions have cited, in general terms, a number of factors, includ-

ing the effects of war and the need to concentrate on economic rehabilitation and development; further problems caused by forces hostile to Viet Nam; natural disasters; the effects of global recession; declines in external assistance; and low foreign exchange reserves. 1/

While Viet Nam clearly faces serious economic and financial difficulties, the staff is unable, on the basis of the information provided by Viet Nam, to support its request for postponement of the obligations to the Fund. With respect to the questions whether the settlement of the obligations to the Fund on their due dates would result in serious or exceptional hardship and whether exceptional circumstances exist, the staff notes that the obligations due to the Fund in 1984 in total amount to only about 1.4 percent of projected imports and should be manageable with little, if any, discernible impact on flows of resources in the economy; any difficulties in making these payments would have been less had the obligations been settled as they fell due. Moreover, in contrast to the situation of many members, Viet Nam has experienced favorable trends in domestic output in the past two years, which should have strengthened the country's position to make the necessary allocations to settle the obligations to the Fund. In addition, while Viet Nam's foreign exchange holdings are low, they are comparable to the holdings of a number of other Fund members which are indebted to and discharge their obligations to the Fund. Although Viet Nam has reportedly sold its unpledged gold holdings in the recent past, it was apparently decided to use the proceeds for purposes other than settlement of obligations to the Fund.

In sum, it is the staff's view that it is within Viet Nam's capacity to become and remain current with the Fund. Similarly, the staff does not regard Viet Nam's situation as such that would warrant acceptance of its request that the Fund permit payment of charges to the General Department in Vietnamese dong or the postponement of repayments to the Trust Fund. As noted, obligations to the SDR Department cannot be postponed or satisfied in media other than SDRs.

c. Use of Fund resources

Governor Gia's telex of November 17, 1984 requests that the Fund consider the possibility of sending a mission to Viet Nam to help establish a medium-term comprehensive economic adjustment program with the Fund's financial assistance. An Article IV consultation mission is presently expected to visit Hanoi in March 1985. In accordance with the Fund's policy, a mission would not be able to discuss the use of Fund resources while Viet Nam is in arrears to the Fund. However, as in the case of other members in arrears and past consultations, it would be possible for a mission to assess the recent measures (see below) and the economic prospects and to explore with the authorities what further steps may be possible to facilitate prompt settlement of the overdue obligations to the Fund.

1/ See telexes of July 27 and August 21, 1984, attached to EBS/84/142, Sup. 3, and discussion at EBM/84/129 (8/29/84).

d. Recent economic developments and policies

In his telex of November 17, 1984, Governor Gia outlines a series of measures recently introduced by the authorities. A large part of the measures appear to be directed toward giving more autonomy to public enterprises. These include a modification of the cost-profit accounting system; a broadening of enterprises' access to bank credit, including credit in foreign currencies; and delegation of more authority to managers in the area of labor employment and training. In addition, priority will be given to those units which can maintain stable and effective production, while those units which cannot ensure effective production and which incur constant losses will be dissolved. In the area of agriculture, the measures include further enhancement of economic contracts, diversification of economic cooperation among production units, and improvement in the supply of inputs. The telex also refers to adjustments in prices and wages in conformity with the present economic and financial situation. In the area of fiscal policy, reference is made to strictly control public finances and to reduce nonessential expenditures. Finally, the telex mentions that measures have been taken to increase exports through policies of price and exchange rate adjustments.

The broad thrust of these new measures seems to be in the right direction. ^{1/} However, they are described in general terms, and therefore the staff is not in a position at this time to assess their adequacy or conclude that they could make a contribution to prompt settlement of the overdue obligations to the Fund.

Conclusion

In summary, the staff is unable to recommend, on the basis of the information that has been provided by Viet Nam, that the Executive Board accept its request for rescheduling of repurchases and repayments and payment of charges in its own currency. In addition, in accordance with established policy, the staff would not recommend that a Fund mission be sent to Viet Nam to discuss a program involving use of Fund resources, as requested by Viet Nam. The Fund could, of course, consider a mission to assess recent measures and explore with the authorities whether further steps can be taken to achieve prompt settlement of the arrears to the Fund.

The staff would propose that the matter of Viet Nam's overdue obligations to the Fund be brought back to the Executive Board no later than January 15, 1985. At that meeting, the Board would consider a declaration that Viet Nam is ineligible to use the Fund's general resources if Viet Nam is not then current on its financial obligations

^{1/} See the Staff Report for the 1984 Article IV Consultation (SM/84/114, 5/18/84) and the Acting Chairman's Summing Up of the Executive Board's Discussion (SUR/84/56, 6/19/84).

to the Fund. A similar decision with respect to the SDR Department would be considered at the same time.

A proposed decision for adoption by the Executive Board is at Attachment IV.

Attachments

Executive Board Decision No. 7791-(84/129)
Adopted August 29, 1984

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.

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

DEAR MR. GOVERNOR:

I REFER TO THE EXECUTIVE BOARD'S DECISION ON AUGUST 29, 1984 REGARDING VIET NAM'S OVERDUE OBLIGATIONS TO THE FUND, THE TEXT OF WHICH IS BEING COMMUNICATED TO YOU SEPARATELY.

I UNDERSTAND THAT MR. ISMAEL, YOUR EXECUTIVE DIRECTOR IN THE FUND, WILL BE PROVIDING YOU WILL A FULL DESCRIPTION OF THE BOARD'S DISCUSSION. I WANT YOU TO KNOW, HOWEVER, THAT THE BOARD IS FULLY AWARE OF THE DIFFICULT TASKS FACING YOU AND YOUR COLLEAGUES IN PURSUING NEEDED ECONOMIC ADJUSTMENT MEASURES, AND A NUMBER OF DIRECTORS RECALLED THAT THESE HAD BEEN DISCUSSED IN DETAIL IN THE COURSE OF THE RECENT ARTICLE IV CONSULTATION WITH THE FUND. AT THE SAME TIME, DIRECTORS NOTED THAT MANY FUND MEMBERS LIKEWISE FACE SERIOUS ECONOMIC AND FINANCIAL PROBLEMS BUT THAT, DESPITE THESE DIFFICULTIES, THESE MEMBERS REMAIN CURRENT IN THEIR OBLIGATIONS TO THE FUND. THE TIMELY FULFILLMENT OF OBLIGATIONS TO THE FUND IS ESSENTIAL TO ITS FUNCTIONS AND ROLE IN THE WORLD ECONOMY, AND THE FUND'S POLICIES ON THE MATTER OF OVERDUE OBLIGATIONS REFLECT THE EXECUTIVE BOARD'S DETERMINATION TO TAKE THE STEPS NECESSARY TO SAFEGUARD THE INSTITUTION'S CREDIBILITY AND FINANCIAL STANDING.

PLEASE BE ASSURED THAT IT IS THE FUND'S DESIRE THAT NORMAL FINANCIAL RELATIONS BETWEEN VIET NAM AND THE FUND BE RESTORED AT THE EARLIEST POSSIBLE DATE. I HOPE VERY MUCH THAT THE FORTHCOMING ANNUAL MEETINGS WILL PROVIDE AN OPPORTUNITY FOR DISCUSSION OF STEPS THAT CAN BE TAKEN TO ELIMINATE THE OVERDUE OBLIGATIONS AND CONTRIBUTE TO THAT RESULT.

WITH BEST REGARDS

DE LAROSIERE
MANAGING DIRECTOR
INTERFUND

Sent: September 5, 1984

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

DEAR MR. GOVERNOR:

WITH REFERENCE TO VIET NAM'S OVERDUE OBLIGATIONS TO THE FUND AND OUR CONVERSATION ON THIS MATTER DURING THE RECENT ANNUAL MEETING, THE EXECUTIVE BOARD WILL, AS YOU KNOW, REVIEW ITS DECISION REGARDING VIET NAM'S OVERDUE OBLIGATIONS NOT LATER THAN THE END OF NOVEMBER 1984. PRIOR TO THIS REVIEW, IT WILL BE NECESSARY TO REPORT TO THE EXECUTIVE BOARD ON DEVELOPMENTS IN THIS MATTER, AND I WOULD HOPE TO BE ABLE TO REPORT THAT PAYMENT HAS BEEN MADE OR IS IN IMMEDIATE PROSPECT. IN THIS CONNECTION, THE STAFF HAS BEEN INFORMED BY YOUR DELEGATION TO THE ANNUAL MEETING THAT ALL OR MOST OF VIET NAM'S UNPLEDGED GOLD HOLDINGS HAVE NOW BEEN SOLD. THE BOARD WOULD REGARD IT AS A MOST UNFORTUNATE SIGNAL IF THIS OPPORTUNITY WERE NOT TAKEN TO SETTLE THE ARREARS TO THE FUND, AND I URGE THAT CONSIDERATION BE GIVEN TO USING PART OF THE PROCEEDS OF THE SALES FOR THIS PURPOSE.

IN CONSIDERING THIS MATTER, YOU WILL RECALL THAT AS INDICATED IN OUR MEETING IN SEPTEMBER, THE EXECUTIVE BOARD WOULD NEED TO CONSIDER WHETHER FURTHER ACTION BY THE FUND WOULD BE APPROPRIATE TO SAFEGUARD ITS POSITION IN THE EVENT THE OVERDUE OBLIGATIONS ARE NOT SETTLED BY THE TIME OF ITS REVIEW. ON THE OTHER HAND, PROMPT SETTLEMENT OF THE OBLIGATIONS WOULD END THE LIMITATIONS THAT HAVE BEEN DECIDED BY THE BOARD AND WOULD THUS PUT THE STAFF IN A POSITION TO BE ABLE TO OPEN DISCUSSIONS WITH VIET NAM ON THE ELEMENTS OF AN ADJUSTMENT PROGRAM THAT COULD SERVE AS A BASIS FOR FURTHER USE OF FUND RESOURCES BY VIET NAM.

AS I HAVE POINTED OUT IN OUR EARLIER DISCUSSIONS AND COMMUNICATIONS, THE FUND'S POLICIES WITH RESPECT TO OVERDUE OBLIGATIONS, WHICH APPLY EQUALLY TO ALL MEMBER COUNTRIES, REFLECT THE NEED TO SAFEGUARD THE INSTITUTION'S CREDIBILITY, FINANCIAL STANDING AND ROLE IN THE WORLD ECONOMY. THE EXECUTIVE BOARD IS FULLY AWARE OF THE DIFFICULTIES FACING VIET NAM'S ECONOMY, BUT IS LIKEWISE AWARE THAT MANY OTHER MEMBERS FACE PROBLEMS OF SIMILAR OR GREATER DIFFICULTY YET REMAIN CURRENT ON THEIR OBLIGATIONS TO THE FUND. AS I HAVE ALSO STRESSED, MR. GOVERNOR, IT IS THE FUND'S DESIRE THAT NORMAL FINANCIAL RELATIONS BETWEEN VIET NAM AND THE FUND BE RESTORED AT THE EARLIEST POSSIBLE DATE.

I LOOK FORWARD TO YOUR EARLY REPLY AND HOPE VERY MUCH THAT IT WILL PROVIDE A BASIS FOR A POSITIVE REPORT TO THE EXECUTIVE BOARD.

WITH BEST REGARDS,
DE LAROSIERE
MANAGING DIRECTOR
INTERFUND

Sent: October 16, 1984

HANOI DATE 17/11/84
TO MR. J. DE LAROSIERE
MANAGING DIRECTOR
INTERFUND WASHINGTON DC

I WOULD LIKE TO THANK YOU FOR YOUR CABLE OF OCTOBER 16, 1984 REQUESTING VIETNAM TO PAY ITS OVERDUE OBLIGATIONS TO THE FUND.

1. AFTER MANY EXCHANGES OF CABLES AND LETTERS AND DIRECT DISCUSSIONS WITH YOU REGARDING VIETNAM'S OVERDUE OBLIGATIONS TO THE FUND, WE TRUST THAT YOU HAVE BEEN FULLY AWARE OF THE EXCEPTIONAL DIFFICULTIES FACING OUR ECONOMY AND OUR VIEWS ON THE EFFECTIVE SOLUTION TO DISCHARGE VIETNAM'S OVERDUE OBLIGATIONS TO THE FUND. DURING RECENT MONTHS AND SINCE THE EMERGENCE OF OUR OVERDUE FINANCIAL OBLIGATIONS TO THE FUND WE HAVE BY ANY MEANS MOBILIZED FINANCIAL RESOURCES TO SETTLE OUR OVERDUE PAYMENTS TO THE FUND. IT IS BECAUSE OF OUR EXCEPTIONAL HARDSHIP IN OUR BALANCE OF PAYMENTS WE COULD NOT PAY OUR OVERDUE OBLIGATIONS TO THE FUND. RECENTLY WE HAVE COMPLETED NECESSARY FORMALITIES TO WITHDRAW U.S. DOLLARS 11 MILLION BEING ACCRUED INTERESTS ON OUR BLOCKED DEPOSIT ACCOUNT WITH BANKTRUST NEW YORK TO PAY TO THE FUND VALUE ON NOVEMBER 25, 1984.

IN VIEW OF THE EXCEPTIONAL DIFFICULTIES WHICH HAVE BEEN DULY COMMUNICATED TO THE FUND, WE ARE OF THE VIEW THAT THE APPROPRIATE AND EFFECTIVE SOLUTION NOW TO OUR PROBLEM IS THAT THE FUND SHOULD APPROVE OUR PROPOSAL FOR RESCHEDULING OF OUR REPURCHASES AND REPAYMENTS TO THE FUND TO AN APPROPRIATE TIME IN CONFORMITY WITH ARTICLE V, SECTION 7(G). AS REGARDS OVERDUE AND COMING DUE CHARGES WE PROPOSE TO PAY IN VIETNAMESE DONG AS SPECIFIED IN SECTION 8(E) WHICH IS APPLICABLE TO MEMBER COUNTRIES ENCOUNTERING EXCEPTIONAL HARDSHIPS AS VIETNAM.

2. IN THE LONG RUN, THE APPROPRIATE AND EFFECTIVE SOLUTION TO OUR FULL DISCHARGES OF OUR OVERDUE AND COMING DUE OBLIGATIONS TO THE FUND IS THAT THE FUND SHOULD CONSIDER THE POSSIBILITY OF SENDING A FUND MISSION TO VIETNAM TO HELP ESTABLISH A MEDIUM-TERM COMPREHENSIVE ECONOMIC ADJUSTMENT PROGRAM WITH FUND'S FINANCIAL ASSISTANCE THAT IN TURN WILL HELP VIETNAM SETTLE PART OF ITS SERIOUS DIFFICULTIES FOR WHICH WE BEEN DOING OUR UTMOST TO INTRODUCE AND IMPLEMENT NEW POLICIES AND CORRECTIVE MEASURES.

IN ORDER TO KEEP YOU ABREAST OUR PRESENT ECONOMIC SITUATION WE WISH TO INFORM YOU THE FOLLOWING POLICIES AND MEASURES WHICH HAVE RECENTLY BEEN INTRODUCED TO INCREASE THE GROWTH RATE, TO BOOST UP PRODUCTION, TO PROMOTE EXPORTS AND TO REMOVE BOTTLENECKS IN THE ECONOMY, AT THE SAME TIME TO INTRODUCE A NEW SYSTEM OF ECONOMIC MANAGEMENT, TO IMPROVE FINANCIAL POSITIONS AND TO ACHIEVE A VIABLE BALANCE OF PAYMENTS.

PRODUCTION POLICIES AND MEASURES

TO MOBILIZE THE INTEGRATED STRENGTH OF THE WHOLE COUNTRY IN ORDER TO RAPIDLY MAKE FULL USE OF ALL POTENTIALITIES FOR PROMOTING PRODUCTION AND BUSINESS WITH EVER INCREASING PRODUCTIVITY QUALITY AND EFFICIENCY.

TO THAT END, OUR GOVERNMENT HAS LAID DOWN THE ORIENTATIONS AND REQUIREMENTS FOR REORGANIZATION AND REARRANGEMENT OF PRODUCTION, CAPITAL CONSTRUCTION AND IMPROVEMENT OF ECONOMIC MANAGEMENT MECHANISM AT GRASSROOT UNITS, NAMELY:

- TO BRING INTO FULL PLAY OF THE INITIATIVE AND ESTABLISH FINANCIAL AUTONOMY TO ALL PRODUCTION AND TRADE UNITS. WITH A VIEW TO MAKING THE BEST USE OF THE EXISTING PRODUCTION CAPACITIES, OUR GOVERNMENT HAVE GIVEN FAVORABLE AND NECESSARY CONDITIONS AND CAPABILITIES TO PRODUCTION UNIT TO PRODUCE ESSENTIAL PRODUCTS FOR THE ECONOMY AND PRIORITY BE GIVEN TO THOSE UNITS WHICH CAN MAINTAIN STABLE AND EFFECTIVE PRODUCTION. IT IS OUR GOVERNMENT POLICY TO SHIFT THE PRODUCTION LINES OF THOSE PRODUCTION UNITS WHICH COULD NOT OPERATE IN ACCORDANCE WITH THEIR ORIGINAL DESIGNS AND DISSOLVE THOSE WHICH COULD NOT ENSURE EFFECTIVE PRODUCTION AND INCUR CONSTANT LOSSES.

- IN ORDER TO IMPLEMENT THE FINANCIAL AUTONOMY OF STATE ENTERPRISES, IT HAS BEEN OUR POLICIES TO MODIFY THE COST-PROFIT ACCOUNTING SYSTEM, TO FIX WHOLE SALE PRICES FOR ENTERPRISES, TO IMPROVE CONTRIBUTION FROM STATE ENTERPRISES, TO ADJUST PROFIT MARGINS AND COST-PROFIT ACCOUNTING PROCEDURES, TO DETERMINE ENTERPRISES, FUND SO THAT ENTERPRISES, PROFITS WOULD BE CLOSELY ASSOCIATED WITH THE DEVELOPMENT OF PRODUCTION, PRODUCTIVITIES AND EFFICIENCY, TO BROADEN ENTERPRISES' ACCESS TO BANK CREDIT, INCLUDING CREDIT IN FOREIGN CURRENCIES FOR EXPANSION OF PRODUCTION AND TRADE.

- TO IMPROVE THE PLANNING OF ENTERPRISES' FUNDS ON THE BASIS OF PRODUCTION QUOTA AND UNIT PRICES BASING ON RELIABLE GROUNDS ENTERPRISES WILL RECEIVE THEIR WAGES PRO-RATE TO THEIR ACTUAL FULFILLMENT OF VOLUME AND VALUE PLAN TARGETS OF PRODUCTION AND DELIVERIES TO THE STATE. TO CONTINUE TO MAINTAIN AND GENERALIZE THE WORK PERFORMANCE CONTRACT SYSTEM AND APPLY COST-PROFIT ACCOUNTING TO ALL PRODUCTION UNITS.

- TO GIVE MORE AUTHORITY AND RESPONSIBILITIES TO ENTERPRISES' MANAGERS FOR THEIR LABOR EMPLOYMENT AND TRAINING.

CONCERNING AGRICULTURAL PRODUCTION, THE STATE WILL DIRECT AGRICULTURAL COOPERATIVES TO ESTABLISH THEIR ECONOMIC PLANS THROUGH TIMELY INTRODUCTION OF INCENTIVE POLICIES, ADEQUATE SUPPLY OF INPUTS AND TECHNOLOGY, FURTHER ENHANCEMENT OF ECONOMIC CONTRACTS, DIVERSIFICATION OF ECONOMIC COOPERATION AMONG THE PRODUCTION UNITS, ECONOMIC UNIONS. . . STRICTLY CONTROL THE OBSERVATION OF ECONOMIC CONTRACTS PERFORMANCES

BY PRODUCTION UNITS AND TO IMPROVE INPUT SUPPLY TO AGRICULTURAL COOPERATIVES.

FINANCIAL, MONETARY AND PRICING POLICIES AND MEASURES

IT HAS BEEN OUR POLICIES TO CONTINUE ADJUSTMENTS ON PRICES, WAGES, FINANCIAL AND MONETARY SYSTEM IN CONFORMITY WITH THE PRESENT ACTUAL ECONOMIC AND FINANCIAL SITUATIONS WHICH HAVE BEEN CHANGED AND NOT YET STABILIZED IN ORDER TO BETTER SERVING PRODUCTION, BUSINESS AND PEOPLE'S LIFE. TO STRICTLY CONTROL ON THE PUBLIC FINANCE AND TO REDUCE NONESSENTIAL EXPENDITURES.

ON THE BASIS OF PROMOTION OF PRODUCTION, OUR EFFORTS HAVE BEEN CONCENTRATED TO INCREASE PROCUREMENT AND CONTROL ON THE FLOWS OF COMMODITIES AND TO EXPAND INTERNAL TRADE OF PUBLIC SECTOR, COOPERATIVE STORES AND TO RAISE PEOPLE'S LIVING STANDARD.

IMPORT-EXPORT AND BALANCE OF PAYMENTS POLICIES AND MEASURES

TO DEVELOP AND IMPROVE THE ECONOMIC RELATIONS WITH FOREIGN COUNTRIES, TO INTRODUCE AND MAINTAIN ADEQUATE INCENTIVES TO LOCALITIES, ECONOMIC SECTORS AND PRODUCTION UNITS TO PRODUCE MORE EXPORTABLE ITEMS AND INCREASE THEIR EXPORTS THROUGH POLICIES ON PRICE AND EXCHANGE RATE ADJUSTMENTS.

TO REORGANIZE AND ENHANCE THE CAPABILITIES OF ALL IMPORT-EXPORT INSTITUTIONS. TO CONTINUE NEGOTIATIONS ON PUBLIC AND PRIVATE DEBT RESCHEDULINGS.

THESE POLICIES AND MEASURES HAVE BEEN IMPLEMENTED THROUGHOUT THE COUNTRY AND CERTAINLY WILL BRING ABOUT GOOD RESULTS WHICH IN TURN WILL HELP VIETNAM IMPROVE ITS ECONOMIC SITUATION, BALANCE OF PAYMENTS AND INCREASE RESOURCES FOR PRODUCTION AND DEBT SERVICING CAPACITY INCLUDING OUR FINANCIAL OBLIGATIONS TO THE FUND.

WE SINCERELY HOPE THAT THE ABOVE POLICIES AND MEASURES WILL RECEIVE DUE SUPPORT FROM THE FUND AND SERVE AS BASIS FOR OUR DISCUSSIONS WITH NEXT FUND CONSULTATION MISSION TO VIETNAM.

MY BEST REGARDS.

DOCTOR NGUYEN DUY GIA
MINISTER-DIRECTOR GENERAL
STATE BANK OF VIETNAM

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Taken from EBS/84/211 ("Overdue Financial Obligations to the Fund - Six-Monthly Report"), October 11, 1984, pp. 10-13.

b. Postponement of obligations to the Fund. In EBS/84/46 and the Board's discussion in April, a number of issues bearing on the question of postponement of obligations to the Fund were considered. It was pointed out that the introduction of standard schedules for repurchases after the Second Amendment of the Articles in 1978 was intended to facilitate reduction of indebtedness to the Fund in relatively frequent and equal installments over the specified repurchase period. The postponement of an installment would mean a greater accumulation of repurchase obligations at a later stage, and could therefore lead to even more severe difficulties for the member in discharging the obligations due, unless the member's balance of payments and reserve position had improved adequately in the interim. In most instances, the emergence of overdue obligations to the Fund could be considered evidence of the need for the member to adopt policies that would lead to an improvement in its balance of payments position. A postponement of repurchases beyond their normal due dates is equivalent to the extension of new credit to a member by the Fund and, unless accompanied by adjustment policies, is unlikely to serve as more than a temporary palliative; in such circumstances, any Fund assistance would best be associated with further programs of adjustment under new arrangements. For these reasons, and in view of the Fund's central role in the international monetary system and the special character of its assistance in supporting members' adjustment programs, it was considered essential that obligations to the Fund not be included in the multilateral reschedulings of indebtedness to official institutions under the auspices of the Paris Club (or other groups).

These considerations were found persuasive by the Executive Board, and the management's and staff's understanding of the Board's position following the discussion in April has been as expressed in the summing up in Buff Statement 84/56: the Executive Board does not wish to open the way for rescheduling of obligations to the Fund; this does not preclude the exercise of the provisions in the Articles of Agreement 1/ relating to postponement if the Board so desires; the burden of proof in justifying rescheduling or postponement rests with the member and not the Fund, and the Board would have to satisfy itself that any case presented is justified; there is not much support in the Board for this course of action; and the Fund will not match the rescheduling operations of the Paris Club or any other group. In the few instances in which members have raised the question of postponement or rescheduling of obligations to the Fund, the staff and management have therefore explained the Fund's general policy approach to the question of

1/ Or, although not discussed in April, in the Decision on the termination of the Trust Fund (Decision No. 6704-(80/185) TR (12/17/80) (Selected Decisions, Tenth Issue, p. 318).

rescheduling and have not entered into discussions on the possible terms and conditions of any postponement.

The experience so far would not seem to indicate that a change of approach is needed or desirable. However, the following points might usefully be clarified as a matter of general interest and in light of recent discussions.

(1) Several distinctions need to be made in relation to the postponement of various types of obligations to the Fund.

(a) A repurchase may be postponed within the original period, as determined under the Articles, by a majority of the votes cast in the Executive Board. Such postponements have been agreed on only three occasions involving two members (Nicaragua and Guyana), 1/ on the expectation that the members would be better able to fulfill their obligations after a brief delay. As matters developed, however, the two members involved faced substantial balance of payments problems, have not been able to remain current with the Fund, and are now the subject of limitations imposed by the Board.

(b) A postponement of a repurchase beyond the original period established pursuant to the Articles requires a decision by the Board (by a 70 percent majority of the total voting power) that such action is consistent with the temporary use of the Fund's general resources and is justified because discharge on the due date would result in exceptional hardship for the member. 2/ There has been no case of such a postponement under Article V, Section 7(g), nor has there been general consideration by the Board of the factors that would need to be taken into account in reaching judgments on requests for such postponements.

(c) With respect to charges on use of the Fund's resources, the Articles authorize the Fund to permit payment in a member's own currency in exceptional circumstances. 3/ Such payments

1/ See "Guyana--Rescheduling of Repurchases" (EBS/82/81, 5/7/82), "Guyana--Postponement of Repurchase" (EBS/82/161, 9/15/82); and "Nicaragua--Postponement of Repurchase" (EBS/82/150, 8/25/82).

2/ Article V, Section 7(g) states: "The Fund, on the request of a member, may postpone the date of discharge of a repurchase obligation, but not beyond the maximum period under (c) or (d) above or under policies adopted by the Fund under (e) above, unless the Fund determines, by a seventy percent majority of the total voting power, that a longer period for repurchase which is consistent with the temporary use of the general resources of the Fund is justified because discharge on the due date would result in exceptional hardship for the member."

3/ Article V, Section 8(e).

would, in effect, result in a postponement of the obligation to the Fund, to the extent they resulted in Fund holdings of the member's currency subject to charges, and would give rise to a repurchase obligation which would need to be settled in accordance with policies that would have to be adopted by the Fund by a 70 percent majority of the total voting power under Article V, Section 7(e). This provision, which was introduced by the Second Amendment, has not been used in the past, and the staff believes that the considerations arguing against a general policy of postponement of repurchases apply with at least equal force to a policy of effective postponement of charges due to the Fund.

(d) Individual Trust Fund installments may be postponed for up to two years from the due date, by a simple majority decision of the Fund as Trustee, if the Fund finds that payment on the due date would result in serious hardship for the borrower. The two-year limitation on postponements of Trust Fund installments (with the test of "serious hardship") was established as part of the decision on termination of the Trust Fund in December 1980. The agreement on these provisions followed consideration of a staff suggestion that the periods for repayment might be extended from 5-10 years to 6-12 years in an individual case, on the basis of a representation by the member that it continued to have a balance of payments need. Although the potential difficulties of establishing "serious hardship" and of making the necessary distinctions among members were noted during the Board's discussion, the Board chose not to make the possibility of postponement available automatically on the basis of a representation of balance of payments need. There have been no postponements of Trust Fund installments, nor has there been discussion by the Board of the criteria by which such proposals might be assessed.

(e) The Articles do not provide for postponement of charges or assessments in the SDR Department, or for satisfaction of the obligation in media other than SDRs, and there is no provision in the Trust Fund Instrument for postponement of interest payments.

(2) It is to be noted that, in considering a request for postponement of a repurchase beyond the period specified under the Articles on grounds of exceptional hardship, the case could not rest on the existence of general difficulties or hardship on the part of the member concerned. In this regard, it will be recalled that it was agreed as part of the general approach to the issue of overdue payments that while the Board would have to satisfy itself that discharge of a payment on the due date would result in exceptional hardship, the burden of proof must be on the member. It would be necessary for the member to establish, and for the Board to agree, that discharge of the particular repurchase on the due date would itself result in hardship that is of an exceptional nature and not faced by other members in discharging their obligations;

and the Board would also need to find that a longer period for repurchase would be consistent with the temporary use of the Fund's general resources.

(3) As explained above, postponements have been recommended on only three occasions, all of which involved postponement within the standard repurchase periods. These recommendations were forwarded to the Executive Board on an exceptional, ad hoc basis, in the hope that the members would be in a position to discharge their obligations after a brief period. No recent case has arisen which has given the staff confidence that postponement for temporary liquidity reasons was warranted or would better assure payment after a brief delay. In the view of the staff, a change in approach does not seem to be warranted in the light of experience so far.

The staff believes that the considerations underlying the Fund's present attitude toward the matter of postponement or rescheduling of Fund obligations remain compelling. The present approach does not preclude postponement on a case by case basis but makes it clear that the burden of showing exceptional hardship is on the member and that a positive response to a request is unlikely to be forthcoming.

Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund has reviewed Decision No. 7791-(84/129), August 29, 1984, regarding the non-observance by Viet Nam of its financial obligations to the Fund, in the light of recent developments, including the increasing amount of these obligations and the recent contacts and communications between the Fund and Viet Nam, as set forth in EBS/84/245, November 28, 1984.
2. The Fund regrets the continuing non-observance by Viet Nam of its financial obligations to the Fund and again urges Viet Nam to settle the overdue obligations promptly.
3. The Fund, having considered the proposals of Viet Nam to postpone the date of discharge of repurchase and repayment obligations and to pay charges in the General Department in its own currency, does not accept the proposals.
4. In accordance with its policy with respect to discussions with members having overdue obligations to the Fund, the Fund is not in a position to agree to the request of Viet Nam to send a mission to help establish a program involving the Fund's financial assistance.
5. The Fund shall review further Decision No. 7791-(84/129) not later than January 15, 1985, taking into account any further developments. Unless by that time Viet Nam is current in its financial obligations to the Fund, the Fund

will at that time consider declaring Viet Nam ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2, and suspending the right of Viet Nam to use SDRs it acquires after the suspension pursuant to Article XXIII, Section 2(b).

6. Viet Nam shall be informed of this decision by rapid means of communication.