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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/95

10:00 a.m., June 18, 1984

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	T. Ramtoolah, Temporary
	P. Péterfalvy, Temporary
	X. Blandin
	G. E. L. Nguyen, Temporary
	J. Delgadillo, Temporary
	D. C. Templeman, Temporary
	N. U. Haque, Temporary
	Y. Okubo, Temporary
J. E. Ismael	Jaafar A.
R. K. Joyce	
	H. A. Arias, Temporary
	G. Grosche
	N. Coumbis
	C. J. Batliwalla, Temporary
	S. El-Khouri, Temporary
	T. de Vries
	K. G. Morrell
	O. Kabbaj
	M. Camara, Temporary
	E. Portas, Temporary
	I. Fridriksson, Temporary
	T. A. Clark
Zhang Z.	Wang E.

L. Van Houtven, Secretary
J. C. Corr, Assistant

Also Present:
African Department: O. B. Makalou, Deputy Director; F. d'A. Collings, A. B. Diao, J. R. Hill, S. N'guiamba. Asian Department: W. G. L. Evers, J.-P. C. Golle, S. Kohsaka. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; B. de Schaetzen, M. Guitian, S. Kanesa-Thasan. Fiscal Affairs Department: M. Schulze-Ghattas. Legal Department: J. K. Oh, J. V. Surr. Treasurer's Department: T. B. C. Leddy. Advisors to Executive Directors: I. R. Panday, D. I. S. Shaw. Assistants to Executive Directors: R. L. Bernardo, M. Eran, G. Ercel, V. Govindarajan, D. Hammann, H. Kobayashi, A. Koné, E. Landis, J. K. Orleans-Lindsay, M. Rasyid, J. Reddy, D. J. Robinson, Shao Z., S. Sornyanyontr, A. J. Tregilgas, Wang C. Y.

1. VIET NAM - 1984 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1984 Article IV consultation with Viet Nam (SM/84/114, 5/18/84; and Cor. 1, 5/31/84). They also had before them a report on recent economic developments in Viet Nam (SM/84/124, 5/29/84).

The staff representative from the Asian Department stated that a cable had recently been received from Viet Nam suggesting that Viet Nam's blocked accounts in the United States should be used for the payment of the arrears outstanding to the Fund. The staff did not know whether that suggestion was feasible; it had informed the Vietnamese authorities that if the possibility existed, they should contact the U.S. authorities to pursue the matter further. Those communications did not affect Viet Nam's obligation to make the payments that were due to the Fund. Viet Nam had been informed that unless a payment was made a complaint would be issued to the Executive Board soon.

Mr. Ismael made the following statement:

> During 1983, the Vietnamese economy made progress in many areas. The consumer price inflation rate was brought down from 80 percent to 55 percent, the overall budget deficit was reduced by almost half from 18.6 percent to 10.7 percent of GDP, the current account deficit was reduced from 7.1 percent to 5.7 percent of GDP, and the overall balance of payments deficit was reduced from 1.7 percent of GDP to only 1.1 percent of GDP. Real GDP grew by almost 6 percent. These indicators illustrate Viet Nam's success in bringing about remarkable adjustment while at the same time maintaining an impressive rate of economic growth. In the face of a harsh external environment and financing difficulties, Viet Nam's achievemnt is indeed commendable.
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> Agricultural production in 1983 was adversely affected by unfavorable weather conditions, by a sharp reduction in subsidiary crop production, and by shortages of imports. Hence, agricultural output increased by only 2.8 percent. Paddy production rose by 4.7 percent, bringing all food grain production to 17 million tons. Self-sufficiency in food grains reflects the success of government policies geared toward increasing food production. Industrial output increased by 15 percent as a result of wider application of incentive policies in light industries and handicrafts, and decentralized decision making.
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> The main objective of the production policies in 1984 is to consolidate self-sufficiency in food and to increase the production of industrial crops (jute, soybeans, groundnuts, and sugar) that can be used for exports and provide raw materials to agro-based industries. The authorities plan to increase the cultivated area for industrial crops in 1984 and 1985. To raise food production, they intend to promote double cropping, and to provide processing

facilities and fertilizer. With respect to industrial production, the authorities will continue to emphasize decentralized decision making and improve the utilization of existing plant capacity. In view of the limited resources, the authorities' investment policy has shifted in favor of light industries and handicrafts. Investment in heavy industries is restricted to those industries which are considered vital for economic development--for example, cement and electricity generation.

The improvement in the fiscal position in 1983 was attributable to a slowdown in expenditure while, as a percentage of GDP, revenues remaned unchanged over the previous year, despite new tax measures on the private sector (license tax and profit tax). As a result of the austerity measures, the budget deficit was brought down by almost one half. The deficit is expected to decline further to 9.7 percent of GDP in 1984. A budget deficit of the order of 9-10 percent appears large because of the classification of foreign aid (including grants) as a financing item. (This classification is different from the standard classification prescribed in the Government Finance Statistics Manual.) It is also noteworthy that in 1983, less than one tenth of the budget deficit was financed from domestic sources. Since aid receipts are projected to decline in 1984, it is expected that a larger proportion of the budget deficit will be financed from domestic sources.

Monetary developments in 1983 were characterized by a sharp slowdown of domestic credit expansion. After the high rates of growth of almost 100 percent in 1981 and 84 percent in 1982, liquidity increases decelerated to only 37 percent in 1983. In 1984, the authorities intend to reduce the growth in total liquidity to 5 percent by encouraging enterprises to use their own resources rather than rely on bank credit.

The balance of payments, although still in deficit, showed some improvement. Exports declined from 5.3 percent to 4.0 percent of GDP; imports, however, declined to a large extent, from 12.8 percent to 9.5 percent of GDP. The current account deficit declined to 5.7 percent of GDP from 7.1 percent in 1982. The overall balance of payments deficit also declined from 1.7 percent of GDP to only 1.1 percent in 1983. Official holdings of foreign exchange remained at a low level of $16.4 million. Consequently, Viet Nam was unable to meet all its foreign exchange obligations. In 1983, the increase in external arrears amounted to $177 million, significantly less than the increase of $213 million in 1982. Indeed, the very high debt service ratio has placed an unsustainable burden on the balance of payments. The authorities are currently negotiating debt rescheduling with Japan, Libya, India, and Algeria, and if the negotiations are successful, the debt relief of $291 million would allow Viet Nam a $72 million surplus in the balance of payments. Outstanding arrears would be reduced accordingly. The authorities request the understanding and cooperation of the creditors for debt rescheduling, and express the hope that with world economic recovery, Viet Nam would be able to expand its exports sufficiently to meet all its debt service obligations.

I would like to reiterate that the authorities have introduced a number of supply-side and austerity measures aimed at improving the performance of the economy. The progress is evident from the economic performane in 1983. However, Viet Nam has very limited resources as aid inflows from the convertible area have decreased substantially and access to capital markets is nonexistent. The country is obviously going through a very difficult phase in dealing with political problems with neighboring countries, in bringing about economic integration of the North and South, and in improving the performance of the economy. In view of the domestic social and political constraints, the measures taken by the authorities, including the limited adoption of market mechanisms, to improve economic performance are commendable. Finally, it should be borne in mind that Viet Nam is a centrally planned economy and that economic adjustment policies, which could work beautifully in a market economy, might not be workable or acceptable in Viet Nam. Therefore, I would like to advise caution on the part of the staff and the Board in urging the authorities to adopt policies which are either politically not acceptable or not entirely suited to a centrally planned economy. Indeed, it would be preferred if greater attention were to be devoted to the question of how to improve the workings of a centrally planned economy without having to impose ideas from a totally different political and economic system. Any outside advice must be consistent with the social, political, and economic ideology of the country.

In conclusion, I join my Vietnamese authorities in expressing our appreciation to the staff for their reports. My authorities also express their appreciation of the Fund technical assistance to improve financial statistics.

Mr. Morrell said that he was in broad agreement with the staff's appraisal and that he supported the proposed decision. By some measures, 1983 had been a reasonable year for Viet Nam. It had continued to experience a relatively high rate of growth, with GDP increasing by 5.9 percent. At the same time, the overall budget deficit had fallen by almost 8 percentage points to the still high level of 10.7 percent of GDP, and consumer price increases were estimated to have slowed to 55 percent from 80 percent in 1982. However, despite the continued growth of output and a reduction in inflationary pressures, Viet Nam's external position had remained weak in 1983, with export growth slowing to 10 percent, from 27 percent in 1982, import growth accelerating to 8 percent, from 2 percent in 1982, and the current account deficit widening. Because of the low level of reserves, the overall balance of payments deficit in 1983 had been financed entirely from further growth of arrears on foreign debt payments to the convertible currency area. Viet Nam's position was clearly precarious, as indicated by the continuing delays in payments to the Fund, the large and increasing external arrears, and the low level of foreign exchange reserves.

The Vietnamese authorities' strategy for external adjustment involved a gradual shift in production away from heavy industry to agriculture and light industry, Mr. Morrell observed, in order to increase the supply of goods for consumption and export. Particular emphasis was being placed upon production of industrial crops because they had significant export potential and provided raw materials to agro-based industries. The strategy had resulted in some success, as indicated by the fact that in recent years there had been a steady decline in the trade deficit with the convertible currency area. That success had not been as pronounced as it could have been, however, due to, inter alia, the recent reintroduction of central control over foreign trade, and the cumbersome approval procedures for joint ventures with foreign interests. He urged the authorities to consider measures to remedy those deficiencies in their strategy.

The Vietnamese authorities appeared to have difficulty accepting the importance that a change in relative prices might play in the adjustment of their economy, Mr. Morrell continued. They appeared more reluctant than ever to increase incentives through the price system. In the early 1980s, there had been some sympathy for the role that more realistic pricing and less rigid regulations might play, but apparently such considerations no longer pertained. However, until the necessary price adjustments took place, certain problems would probably persist; for example, many domestically produced goods, including exports, would continue to be sold below cost; transfers from state enterprises, relative to GDP, would continue to fall, offsetting the authorities' increased tax effort; and, the foreign exchange constraint would continue to act as an important impediment to the further development of the economy, preventing the import of foreign capital goods necessary to modernize domestic production capacity.

To achieve the objective set by the Vietnamese authorities, Mr. Morrell remarked, changes in the exchange rate arrangements appeared to be necessary. Devaluation alone would not be sufficient. There was an accompanying need to change domestic prices to reflect the newly depreciated exchange rate. Mr. Ismael had commented on the issue in his statement, but the question was not really a matter of philosophy. If the authorities wished to retain a system of central planning, which they were entitled to do, it was not inconsistent with that choice to make changes in administrative prices where relevant. The most important prices were the exchange rate and the domestic prices that followed from it. Viet Nam was not an isolated country; as a member of the international community, it had to adjust relative prices where appropriate. An exchange rate adjustment would, therefore, provide both the right kind of incentives and the appropriate shadow prices to guide the authorities in setting priorities in the production area. The staff was undoubtedly correct in concluding that "a substantial adjustment of the exchange rate accompanied by flexible pricing policies in the export- and import-competing sectors is essential for achieving a viable balance of payments and should no longer be delayed."

The authorities had made efforts to reschedule their external debt, Mr. Morrell noted. Although rescheduling was necessary, it was an insufficient step in itself. Similarly, increased aid would be insufficient. Only when the Vietnamese authorities were prepared to contemplate a change in relative prices within their economy would there be hope that the economy could develop in such a way as to eliminate the country's external arrears and overcome its balance of payments difficulties. He urged the authorities to take early and comprehensive adjustment measures on all policy fronts and to take steps to phase out the various exchange restrictions and multiple currency practices as soon as possible.

Mr. Ramtoolah commented that, despite a difficult external environment, whether in the form of adverse weather conditions or reduced financial assistance, and despite internal constraints in the form of infrastructural and administrative bottlenecks, Viet Nam had made commendable progress recently in dealing with the various imbalances facing the economy. In 1983 the overall fiscal deficit had been reduced to 10.7 percent of GDP from 18.6 percent in 1982, reflecting expenditure restraint, while the increase in consumer prices had declined to an estimated 55 percent from 80 percent a year earlier. At the same time, both agricultural and industrial output had increased, so that real GDP had been estimated to have grown at the satisfactory rate of 6 percent in 1983. Despite such gains, however, the situation remained difficult, especially in the external sector.

Although the current account deficit as a percentage of GDP had declined in 1983, Mr. Ramtoolah continued, the high and increasing level of external indebtedness--the debt service ratio was expected to remain between 80 and 100 percent until 1987--called for the implementation of urgent adjustment measures. Certain measures had already been adopted in various sectors; therefore, the situation should improve somewhat in the period ahead. In 1984, real GDP was estimated to grow by 7 percent, while the increase in the consumer price index, the overall budget deficit, and the external current account deficit were all expected to be lower than in previous years.

In the area of production, the authorities should be commended for their intention to continue policies that would emphasize decentralization of decision making and reliance on the free market so long as the latter remained within their chosen institutional framework, Mr. Ramtoolah stated. The expansion of the total area under cultivation and the introduction of new rubber, coffee, and tea plantations, as well as attempts at double cropping and efforts to increase yield, were steps in the right direction, as were similar efforts to expand industrial output.

Commenting on fiscal policy, Mr. Ramtoolah said that the authorities' attempt to increase domestic revenue and to contain current expenditure were also commendable, although there was room for improvement. He agreed with the staff that serious consideration should be given to further reduction in the item "other expenditures," which amounted to 10 percent of GDP. The authorities' intention to slow the growth of total liquidity in 1984 by encouraging enterprises to use their deposits was welcome. The rapid increase in savings deposits recently was also encouraging, as it reflected, among other factors, an appropriate interest rate policy.

The fact that very few foreign investments had occurred so far in Viet Nam despite the introduction of a new foreign investment code in 1977 was to be deplored, Mr. Ramtoolah considered. In the external debt area, the authorities had no choice but to continue to seek debt rescheduling. He encouraged them in their efforts. Finally, as Mr. Ismael pointed out, Viet Nam was going through a difficult phase in dealing with various political problems and bringing about the economic integration of the North and South. The country required the sympathetic consideration of its creditors and potential aid donors.

Mr. Templeman commented that, although overall performance of the Vietnamese economy in 1983 had shown signs of improvement in the form of a deceleration of inflation in line with a lower rate of monetary expansion and a small budget deficit, a somewhat reduced ratio of the current account deficit to GDP, and a satisfactory rate of real growth of GDP, the longer-term outlook was decidedly less favorable. The investment rate was not high, labor productivity growth was low, and management efficiency, particularly in heavy industry, was inadequate. Furthermore, the balance of payments and foreign debt prospects in the medium term were unfavorable, given the inadequacy of the economic adjustment effort to date. The continuation of the external constraints risked jeopardizing future growth by increasingly isolating Viet Nam from the beneficial effects of world trade, including access to foreign capital and technology.

The authorities appeared to be following a somewhat mixed overall strategy for macroeconomic management and economic development, Mr. Templeman continued. While some steps had been taken to allow a greater role for market forces and the price mechanism in allocating resources, such as in the decentralization of management in light industry and the pay-according-to-work system of wage determination in public enterprises and cooperatives, the return to greater control over foreign trade and the planned increased involvement of the Government in retail trade pulled in opposing directions. Given the acknowledged limitations of economic data and trained administrative personnel in government, the excessive reliance on direct controls surely meant that inefficiencies, such as those already apparent throughout the economy, were inevitable. Yet, where experiments had been tried, with apparent success, to allow market forces to have an influence, the tendency had been to retreat promptly at any sign of trouble, rather than to develop some market-related tools to influence the direction of those developments. For example, the introduction of a tax on some private sector transactions had not yet been extended to similar areas of activity by public enterprises and the marginal rate of tax had apparently been set at an excessive level. He supported the staff's suggestion that those problems should be resolved.

Similarly, if the long-term growth and inflation performance of the economy was to improve, Mr. Templeman remarked, a number of fiscal and monetary policy measures would need to be taken. The staff listed some structural weaknesses on the revenue side of the budget on page 11 of SM/84/114, and it referred to some revenue and expenditure measures that could contribute to the needed reduction in the overall budget deficit and in the rate of monetary expansion. He urged the authorities to consider those possibilities.

In the convertible currency external sector, Mr. Templeman observed, the persistent insufficiency of export growth, the prospect of further current account deficits, and the prolonged accumulation of debt and payments arrears, were likely to continue if prompt efforts were not undertaken to accelerate the pace of adjustment. All three of the staff's medium-term scenarios for the balance of payments, including the most favorable in terms of relative export and import growth, would result in accumulation of arrears, to between $0.8 and $1.3 billion by 1990. In reality, that outcome was not likely to occur because Viet Nam's access to convertible currency trade would surely contract to prevent such a development. On the other hand, movement of the exchange rate, with a corresponding pass-through to the prices of imports and exports, would be an important step forward. Such action would correct the present anomalous situation in which export losses were being made up by profits on imports, thereby creating an incentive to import at a time of balance of payments problems. Finally, he urged the Vietnamese authorities to improve the adequacy and timeliness of their statistical reports to the Fund.

Mr. Nguyen said that Mr. Ismael's statement had been most interesting, particularly his remarks on the centrally planned nature of the Vietnamese economy. It was well known that traditional economic remedies that might work in a market economy might not be implemented as efficiently in a country like Viet Nam. Nevertheless, successful experience in other centrally planned countries demonstrated that a flexible approach from the Fund, associated with a firm commitment by the authorities, could prove helpful in some cases.

The staff had correctly addressed the main issues to be dealt with in a country that, despite some real progress, continued to encounter serious difficulties and faced cumbersome constraints on the external side, Mr. Nguyen continued. There were a number of encouraging factors, and the authorities should be commended for the results achieved so far. Although 1983 had clearly been a year of hardship, the adjustment had been conducted within a framework of reasonable growth. Inflation had slowed from 80 percent to 55 percent, the current account deficit had been reduced from 7.1 percent of GDP to 5.7 percent, and the overall balance of payments deficit had decreased by 0.6 percent. On the other hand, despite the reduction, the balance of payments deficit remained large and overdue payments had accumulated. Moreover, the outlook for the balance of payments was unsustainable, given the heavy debt burden and the limited inflows from capital markets.

There were a number of underlying factors that could explain the weakness of the economy, Mr. Nguyen noted. They raised issues for future policy about which the Vietnamese authorities appeared to be partly aware. Three areas in particular deserved greater attention. On the fiscal side, expenditures had been reduced in 1983 and the budget deficit had been kept below 10 percent of GDP. However, it was surprising that, although the authorities agreed on the need to increase revenues and to reduce outlays, they had not indicated their policy course for 1984. He agreed with the staff that there was room for an increase in revenues, especially in the area of the agricultural tax. According to the information in Table 6 of SM/84/124, that tax would remain at the same level in 1984 as in 1983, while its share in GDP would decrease by 0.7 percent. He invited the staff or Mr. Ismael to explain that development, particularly in light of the good harvest of 1983. In conjunction with a reduction in the fiscal deficit, a strict monetary policy should be implemented in order to contain the growth of monetary aggregates and to reduce credits to enterprises.

Second, with regard to the external sector, the prospects for the balance of payments were worrisome, Mr. Nguyen went on. The three scenarios developed by the staff implied a rate of growth of exports of more than 15 percent. Considering that the increase in exports in 1983 had been 10 percent, it was not certain that the outcome of any of those scenarios could be realized. He agreed with the staff that reinforcement of central control on exports might be partly responsible for that uncertainty, and that a more flexible exchange rate policy should be implemented.

Third, the results were clearest in the area of agriculture, Mr. Nguyen said. The country had attained self-sufficiency in food grains; nevertheless, it continued to remain vulnerable to food shortages, which could not be explained totally by bad weather conditions. Higher imports of fertilizers had partially offset the advantages of lower grain imports in 1983. In view of the country's potential, which was mainly agricultural, more incentives and greater attention should be given to programs of irrigation and production of industrial crops, such as coffee, tea, and rubber, that had good export growth prospects in international markets.

In sum, the present consultation with Viet Nam was not easy, Mr. Nguyen stated. The Fund was dealing with a member that was trying to find its own way toward improving the well-being of its population. The Fund had a role to play in helping that member, for example, by providing technical assistance in the field of information and statistics. On the other hand, the Fund was perfectly justified in expecting from the member the fulfillment of its obligations, particularly with regard to clearing its overdue payments. He could support the proposed decision.

Mr. Clark observed that Viet Nam's external balance with the convertible currency area was clearly unsustainable. Although commendable progress had been made in 1983 in many areas of domestic policy, such as public savings, inflation, and industrial production, and although the trade balance with the convertible currency area had improved, for the second year in succession the overall balance of payments deficit had been wholly financed by a substantial buildup of arrears. At the end of 1983, those arrears had amounted to much more than twice annual exports to the convertible currency area. It was also disturbing that in 1984 Viet Nam had incurred substantial overdue payments to the Fund, some of which had persisted since February. He urged the authorities to give priority to eliminating those overdue payments as soon as possible.

Given the present level of arrears, Mr. Clark continued, it was clear that dealing with them would be a long-term task. It was, therefore, particularly worrying that, even on optimistic assumptions of continuing annual export growth of 20 percent in dollar terms and relatively low growth in imports, the staff's projections indicated that arrears would continue to increase in absolute terms until the end of the decade. He agreed with the staff that the situation underlined the need for early and comprehensive adjustment measures.

The adjustment measures would have to be aimed particularly at improving exports, Mr. Clark considered. He agreed with the suggestions that the staff had made in that regard. However, it would be interesting if the staff could comment further on the extent to which its recommended pricing policies were feasible in a centrally planned economy such as that of Viet Nam without major changes in the planning system itself. He agreed with Mr. Nguyen that Mr. Ismael had made an important point in that regard. It would also be useful if the staff could comment further on the prospects for improving the institutional arrangements for foreign trade. For example, were the incentive systems for local producers, which were presumably based largely on physical targets, compatible with those in the foreign trade organizations? Did the two systems combine to promote export efficiency and effective use of foreign exchange even in the context of planned targets for exports and imports? Perhaps such institutional issues could be taken up in the next Article IV consultation, as an appendix to the report on economic developments.

Mr. Okubo stated that he agreed with the broad thrust of the staff's appraisal. Despite progress in some important areas, the Vietnamese economy had continued to show considerable weakness. While the government deficit had been reduced and monetary expansion had decelerated, contributing to a substantial decline in inflation, the balance of payments had remained weak, and there had been a further accumulation of arrears on debt service payments. The staff made a convincing case that the outlook for the balance of payments pointed to the urgent need for comprehensive adjustment measures on all policy fronts.

The fiscal position had improved in 1983, Mr. Okubo continued, largely due to expenditure restraints. Government borrowing from the State Bank had fallen significantly and the growth in total liquidity had decelerated. However, revenue in 1983 had remained at about the same level as in 1982 in relation to GDP, so that the overall deficit had continued to be high. In 1984, the overall deficit was projected to remain at about 10 percent of GDP. Despite the authorities' intention to issue bonds to finance part of the deficit, government borrowing from the banking system was projected to increase. The government budget would continue to be subject to various structural weaknesses. In those circumstances, domestic resource mobilization and additional expenditure restraint should receive high priority in 1984 and beyond. Because the operation of public enterprises appeared to have been affected by the delay in adjusting official sales prices, more flexible pricing policies would seem to be essential. Other measures to introduce greater discipline in public enterprises, along the lines suggested by the staff, would require further attention by the authorities.

Turning to monetary policy, Mr. Okubo noted that the authorities intended to slow the growth of total liquidity in 1984 by encouraging enterprises to use their deposits. However, the growth of credit to the Government and public enterprises was projected to accelerate. He shared the staff's view that further abatement of inflation would be contingent not only on a reduction of the financial deficit of the public sector as a whole, but also on monetary policy designed to limit the growth of cash in circulation. A policy stance conducive to reducing inflationary pressures further would be of great importance.

With regard to production policies, the authorities would continue to emphasize decentralized decision making and to improve the utilization of existing plant capacity, Mr. Okubo observed. Greater decentralization would help to enhance efficiency in resource allocation. On the external side, he joined the staff in urging the authorities to undertake comprehensive measures to strengthen the balance of payments in order to eliminate restrictive practices, including external arrears, at the earliest opportunity. Cumbersome administrative procedures had often discouraged inflows of foreign investment. A more open stance toward obtaining foreign capital might alleviate bottlenecks in the economy. Since the beginning of 1983, Viet Nam had frequently been late in discharging its financial obligations to the Fund. He hoped that the authorities would take all possible measures so that the overdue obligations could be discharged as promptly as possible. Finally, it was a matter of concern that the scope, quality, and timeliness of Viet Nam's economic and financial statistics remained weak. The lack of adequate and timely statistics would hamper effective economic management. He hoped that the authorities would provide statistics to the Fund on a more frequent and consistent basis. Technical assistance by the staff in those areas might prove particularly helpful.

The staff representative from the Asian Department noted that one Director had referred to the stability of the yield of the agricultural tax in 1984. The reason for the projection of unchanged yield was that the tax was calculated on potential yield, which was established every seven years. Because the potential yield had been established in 1983 with the introduction of the new tax system, it would probably not be changed for another six years. Another reason for the projected stability of the yield was that the Government expected a larger proportion of its total procurement of foodgrains in the year ahead to occur at official prices and a lesser proportion at negotiated prices. The staff's recommendation that the yield could be increased was aimed more at the level of the rates and was based on the view that the agricultural sector, which had benefited from substantial price increases and from increased investment, could contribute more to the government budget, a view shared fully by the Vietnamese authorities. However, they were hampered by certain institutional difficulties.

The questions whether the staff recommendations with regard to pricing policy were feasible without changing the planning system, and whether institutional bottlenecks were particularly strong in the external trade sector, were related, the staff representative continued. It should be borne in mind that Viet Nam was not only a country with a centrally planned economy, it was also very much a developing country facing severe manpower constraints, particularly at the management level. The lack of managerial skills was a major reason why the plan did not work. Other reasons were the problems relating to integration of the North and South and the difficult communications and information system. A large segment of the economy in the South continued to be private; in the North, since 1979, there had been greater experience with market-oriented policies and they had been successful, particularly with regard to the rapid growth of light industry. On the other hand, the external sector was an area in which the Vietnamese economy had not been successful, despite repeated efforts by the authorities. It was against that background that the staff had recommended a liberalization of the system in conjunction with a sizable adjustment in the exchange rate. Such measures would have to be accompanied by a further decentralization of decision making, thereby reducing the role of the plan. The prospects for improving the situation through establishment of a better information system or by upgrading manpower were poor; such an approach would probably take five to ten years, whereas greater liberalization would have immediate benefits. Indeed, the Vietnamese authorities had experimented with policies along those lines in 1982 when they had liberalized a large segment of the external trade sector, but they had reversed policy in 1983 because the outcome had been a rapid rise in domestic prices for some export commodities. However, such an outcome was precisely what was needed in order to improve the relative price structure of domestic products and exports.

In sum, the staff believed that an improved price policy was feasible, but that it would reduce the importance of the planning system in the Vietnamese economy, the staff representative from the Asian Department stated. Apart from ideological and political constraints, a major question that concerned the staff was the speed with which the economy could be expected to adjust following a devaluation, adoption of more flexible pricing policies, and introduction of further decentralization in decision making. Many managers were used to a totally different system and they would probably need considerable encouragement from the political level to adapt to the new policy environment. While adjustment might therefore take longer than in market economies, it was not sufficient justification for delaying the implementation of the needed policies.

Mr. Ismael said that the Vietnamese authorities regretted the existence of the arrears to the Fund, which had been incurred since February 1984. They wished to eliminate those arrears, but the balance of payments position and the low level of reserves did not allow them to do so at present. In March 1984 the authorities had approached the Fund for a possible rescheduling of the overdue obligations and the payments coming due. However, their request had not been acceptable to Fund management. Therefore, in May the Vietnamese authorities had advised the Fund that they had instructed their American depository banks to pay the overdue amounts to the Fund from the blocked accounts in those banks, and they had suggested that the Fund should exert its efforts to secure execution of those payment instructions. He hoped that it would be possible to make appropriate arrangements with the U.S. authorities as soon as possible.

The Acting Chairman made the following summing up:

Executive Directors noted the relatively favorable trend in output in recent years as well as the significant reduction in inflation, in the budget deficit, and in the external accounts in 1983. Directors welcomed the shift in emphasis from heavy to light industry and agro-based production in order to increase the availability of both consumer goods and exports. Nevertheless, despite recent reschedulings of some external debt obligations, the balance of payments outlook remained unsustainable, several Directors emphasized. Directors welcomed the intention of the authorities to seek further consolidation of external debt service payments, but they believed that those efforts should not divert attention from the urgent need for strong and comprehensive adjustment measures aimed at redressing the balance of payments and at reducing payments arrears promptly. A substantial correction of the exchange rate, accompanied by greater price flexibility in the export- and import-competing sectors, should therefore no longer be delayed. Other measures to reduce bottlenecks in foreign trade included a more flexible implementation of the foreign investment code, with the adoption of less cumbersome approval procedures for joint ventures with foreign interests. While acknowledging that Viet Nam was a centrally planned economy, many Directors suggested that, in view of the difficulties in the design and execution of the plan--which were due in large part to the lack of management resources--greater reliance on decentralized management and flexible relative prices reflecting market forces would improve the allocation of resources and the performance of the export sector.

Directors remarked that a slowing in the growth of monetary aggregates was essential for the reduction in inflationary pressures and the achievement of a viable balance of payments. Continued expenditure restraint should be accompanied by additional revenue measures to narrow further the government deficit. Directors welcomed the intention of the authorities to reduce the growth of total liquidity in 1984 to 5 percent. They observed that achievement of that target would be facilitated by measures that would permit enterprises to retain a larger share of their earnings. A restructuring of interest rates would facilitate the implementation of monetary policy and promote a more efficient allocation of scarce capital resources.

Directors advised the authorities to seek technical assistance from the Fund in areas where the compilation of statistical data needed to be improved, and many Directors noted the importance of increasing the scope of the data made available to the Fund.

Directors also expressed concern about the overdue obligations to the Fund, some of which had been outstanding for more than four months, and they urged the authorities to settle those obligations.

It is expected that the next Article IV consultation with Viet Nam will be held on the standard 12-month cycle.

The Executive Directors then took the following decision:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision relating to Viet Nam's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with Viet Nam, in light of the 1984 Article IV consultation with Viet Nam conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Viet Nam maintains restrictions on payments and transfers for current international transactions, including external arrears and multiple currency practices, as described in SM/84/114 and SM/84/124. The Fund urges Viet Nam to take comprehensive measures to improve its balance of payments and to abolish the restrictions and multiple currency practices as soon as possible. The Fund also urges Viet Nam to terminate bilateral payments arrangements with Fund members.

Decision No. 7730-(84/95), adopted
June 18, 1984

2. CAMEROON - 1984 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1984 Article IV consultation with Cameroon (SM/84/83, 4/19/84). They also had before them a report on recent economic developments in Cameroon (SM/84/108, 5/15/84 and Cor. 1, 5/24/84).

Mr. Alfidja stated that developments in the world economy had adversely affected the rapid expansion that the Cameroonian economy had experienced between 1979/80 and 1981/82, when real GDP growth had averaged 9 percent a year and the annual average inflation rate had been 10 percent. Despite the low world prices for the traditional export crops of cocoa, coffee, and wood, and the adverse effects of severe drought on agricultural output, the Cameroonian economy had been able to achieve remarkable growth in real GDP by current standards in 1982/83. The current account balance was estimated to have moved from a deficit of SDR 70.3 million in 1981/82 to a surplus of SDR 132.3 million in 1982/83, and the overall balance of payments position had shifted similarly from a deficit to a surplus. As a result, the foreign exchange position had improved significantly.

As in previous years, Mr. Alfidja continued, the impressive record of achievement was a reflection of the far-sighted economic and financial policies followed by the authorities since independence within the framework of successive five-year development plans. The Fifth Plan, for 1981/82-1985/86, aimed at the orderly exploitation of the economy's diversified natural resources to promote broadly based and regionally balanced economic growth and development that would enable Cameroonians to meet their needs. More specifically, under the Plan, the authorities sought to achieve self-sufficiency in food production, to expand the production of traditional export crops, to increase industrial production based on domestic raw materials, and to develop mining and energy resources. The high social investment and growth targets were a reflection of the increased emphasis that the authorities had now placed on the development of the rural and social sectors, particularly education, health, and housing. A detailed study was being made to assess the implementation of the Plan during its first two years, and the results would guide the authorities on the strategy to be adopted for the rest of the plan period.

During the first two years of the Plan's implementation in 1981/82 and 1982/83, real GDP growth was estimated to have averaged 5 percent a year, Mr. Alfidja noted. Agriculture, which was the dominant activity in the non-oil sector--the most important contributor to GDP as well as the second most important source of export earnings after petroleum, and which supplied the basic inputs of almost all the processing and manufacturing industries and the food requirements of Cameroon--had accounted for about 30 percent of GDP in 1979/80. Because of the rapid expansion of the oil sector, which had increased its share of GDP from 4 percent in 1979/80 to 12 percent in 1981/82, the relative share of agriculture in GDP had declined to 27 percent of GDP in 1981/82. In order to exploit fully Cameroon's enormous agricultural potential, the Government had since 1980/81 implemented various productivity programs, maintained an active producer price policy for export and food crops, and provided various special incentives to farmers to replant aging cocoa and coffee trees and to attract young farmers to new farming areas. It was expected that those measures would lead to increased output and productivity of food and export crops and to the general development and strengthening of the agricultural sector.

As the staff pointed out, Mr. Alfidja went on, the performance of the relatively large and diverse manufacturing sector, whose contribution to GDP had increased from 9 percent in 1978/79 to 11 percent in 1981/82, was estimated to have deteriorated gradually during the past few years, mainly because of a shortage of agricultural inputs arising from the adverse effects of the drought, rising labor costs, increasing debt service payments, the high cost of imported inputs, and the uncertainties in neighboring markets to which part of the industrial output was exported. In addition to those factors, which had exacerbated the financial problems of the manufacturing sector, some of the large enterprises had been experiencing serious structural problems, as the authorities were aware. In order to find a solution to those problems, particularly for enterprises in which there was government participation, a study had been commissioned. As part of its policy to improve the manufacturing sector, the Government was now promoting the development of small and medium-sized manufacturing enterprises and, in that connection, there were plans to rationalize the investment code, to extend the participation of the Government's industrial holding company (SNI) to cover joint ventures in such enterprises, to which the Development Bank would increase its efforts to allocate more credit. The Cameroonian authorities expected that the study under way would assist them in formulating policies aimed at solving the financial and structural problems of the industrial sector and in due course to make it more competitive.

As the Executive Board already knew, Mr. Alfidja remarked, the rapid development of the petroleum industry had provided the Government with the resources to increase its total expenditure to support the agricultural sector, the backbone of the economy, as well as the industrial sector, to establish broadly based growth of the economy with relatively low rates of inflation, and to achieve approximate equilibrium in public finances and in the external payments position. Government participation in the oil industry had been vested in the National Petroleum Company (SNH), which handled all aspects of oil sector operations.

On the occasion of the previous Article IV consultation with Cameroon, Mr. Alfidja recalled, Directors had considered Cameroon's budgetary situation fundamentally strong, attributing it to the authorities' far-sighted traditional policy of fiscal restraint and financial discipline. Following marginal deficits in 1980/81 and 1981/82, the balance of government operations had shown a surplus equivalent to 3 percent of GDP in 1982/83. The most significant contribution to revenue during that period had been from the oil sector, thereby reducing the importance of taxes on international trade in total revenue receipts to a secondary place. However, budgetary revenues from import taxes had increased due to the changes that had been introduced in customs procedures in 1982/83 and the policy of ensuring regular improvements in tax administration. For the financial year 1983/84, revenue prospects had been clouded by the uncertainties that continued to characterize the world economy and by the adverse effects of the drought on agricultural production and exports. Measures had, therefore, been introduced to enhance the revenue position, including higher tax rates on imported beverages, the exclusion of imported beverages from the bonded warehouse system, and the enforcement of controls over the payment of import duties. A study was being planned to assess the feasibility and the impact of introducing a value-added tax in order to make the indirect tax system more responsive to the growth of national income.

With regard to expenditure, Mr. Alfidja added, Directors had suggested at the previous Executive Board discussion of Cameroon (EBM/82/100, 7/16/82) that, because the exceptionally large extrabudgetary outlays financed by oil income retained outside the budget could weaken the implementation and monitoring of a prudent fiscal policy, the authorities should consolidate expenditure and revenue within the budget. The authorities still considered it imprudent to put all petroleum revenues in the national budget because to do so would create a false impression about its size and strength. In that connection, they wished to re-emphasize that the resources of the National Petroleum Company should not be regarded as government revenue, since the company was autonomous, like the other companies involved in petroleum operations. Government revenue from the oil industry was a known factor, whether as royalties included in the budget or as levies raised from SNH. Disbursements of extrabudgetary expenditures would continue to be subject to the same controls as those under the normal budgetary process; the authorities were more committed than ever to continuing to implement a policy of fiscal restraint and financial discipline.

Consistent with that policy, the authorities were also committed to the formulation of monetary and credit policies that would stimulate growth of the economy without endangering monetary stability, Mr. Alfidja said. Regarding the level and structure of interest rates, the authorities had introduced certain changes in January 1983 and January 1984 in order to improve the profitability of the banks. In their view, raising interest rates to mobilize savings should not be considered a panacea; they could not agree to the staff's suggestion to raise interest rates indiscriminately because such an approach could lead to penalizing many sectors of the economy, particularly agriculture. They believed that in present circumstances their interest rate policy was appropriate.

In the external sector, Mr. Alfidja observed, Cameroon's payments position continued to be viable. Despite the low world prices for the traditional export crops of cocoa, coffee, and wood, the current account balance was estimated to have shifted from a deficit equivalent to 1 percent of GDP in 1979/80 to a surplus equivalent to 2 percent of GDP in 1982/83. The sizable accumulation of foreign exchange reserves during the past five years had greatly assisted the authorities in meeting Cameroon's external payments obligations. The authorities would continue to manage those external reserves in their prudent way, bearing in mind that petroleum revenue could decline over the medium term. The liberal exchange and trade system would be maintained. In sum, the authorities would follow their policy of efficient economic and financial management to ensure the development of the productive sectors as delineated in the current investment plan, which aimed at maintaining the positive growth of the economy within the context of an improved external payments position.

Mr. Blandin commented that Cameroon was a rare example in sub-Saharan Africa because it was one of the few countries that had not had recourse to the use of Fund resources, nor should it need to do so in the foreseeable future. Paradoxically, although Cameroon was an oil producing country, its impressive record had not been achieved because of that status but despite it. The difficulties currently being experienced throughout the world, not only in Africa, by a number of oil producing countries, some of them large producers, were persuasive evidence in support of that observation.

The impressive rates of real growth of GDP achieved since 1979 reflected not only the performance of the oil sector, but also a sizable increase in the growth of the non-oil sectors of about 3 percent in real terms in the past few years despite an unfavorable environment, Mr. Blandin continued. It was also worth noting that Cameroon's terms of trade (excluding oil) had declined by 39 percent over the four years 1979/80 to 1982/83, and was beginning to recover only in the past 12 months. Moreover, like many other African countries, Cameroon had suffered from drought. Therefore, the results achieved were not the effect of chance; they reflected the fact that the authorities did not pay lip service to the priority to be given to the agricultural sector but that they designed their policies in order actively to encourage rural producers. It was sufficient to point out that the producer prices of a number of agricultural products were the highest, or among the highest, in sub-Saharan Africa; for example, higher than in Ivory Coast for coffee and cocoa.

With regard to the other sectors, Mr. Blandin remarked, the Cameroonian authorities had never engaged in overambitious infrastructural projects. The two largest investments in infrastructure, for the road and the railway between Douala and Yaoundé, were truly indispensable and they carried a high economic rate of return. One area in which progress could be made was the industrial sector, which should not be developed at a rate that would exceed the absorptive capacity of the country and which undoubtedly needed reform of administrative regulations in order to establish a more liberal environment and a more market-oriented way of operating. The authorities were conscious of those problems, and they were prepared to take steps in that direction based on the results of the thorough study that was currently under way.

Turning to financial policy, Mr. Blandin said that he was impressed by the cautious fiscal policies exercised by the authorities; they had resulted in surpluses that were not adequately reflected by the figures provided by the staff, because only the amount of transfers from SNH were recorded as revenues, while all revenues accruing to SNH but not transferred to the budget were not entered into the Government's accounts. Such procedures could be frustrating for the staff because they did not allow it to gain a full picture of the financial situation. From a legal point of view, he supported the request that all relevant data should be communicated to the staff. However, it was clear that those procedures had permitted the Cameroonian authorities to resist the temptation to embark on an investment program that would rapidly have become overextended and unmanageable. On the contrary, the investment program had remained sound with respect to its sectoral distribution and growth targets and it had, consequently, received the broad endorsement of the World Bank. It was, therefore, not surprising, but commendable that, excluding oil revenues, the domestic fiscal balance had shown a deficit of only 3 percent of GDP in 1983/84. The situation was markedly different from that of other oil producing countries, such as Nigeria.

There was not a great deal to be said about external policies because similar information difficulties arose with regard to the estimation of the overall balance of payments and the amount of official and unofficial reserves, Mr. Blandin commented. Cameroon's membership in the French franc area, despite the constraints it might entail, had had a very beneficial effect. In particular, Cameroon had managed to escape the overvaluation of the exchange rate that had played such an important role in the woes of neighboring Nigeria. Furthermore, external debt was low and declining as a percentage of GDP, and the debt service ratio was also falling, a mark of the caution that had so far characterized external debt management. If international interest rates were to return to more appropriate levels, the decrease in the debt service ratio would be accelerated. On the monetary side, he agreed with the view that there was a need to control more effectively the increase in domestic credit, which otherwise could entail a continuation of inflationary pressures beyond those that had resulted from the drought. A reduction in the rate of inflation should be the primary target; it would facilitate more moderate increases in wages, which, in turn, would have beneficial effects on the budget and on the financial situation of the private sector. In sum, the Cameroonian authorities should be congratulated for the excellent result that they had achieved so far. He was confident that the economic and financial performance of Cameroon would remain exemplary in Africa if the same prudent and wise management continued.

Mr. Grosche said that he was in broad agreement with the staff's appraisal and that he supported the proposed decision. Cameroon seemed to be an exceptional case within the African continent. Economic performance had been much better than that of other major countries in the area. Despite the fact that, like other countries, it had been plagued by drought and other setbacks, Cameroon had benefited from rapidly growing petroleum production. In almost 25 years of existence, it had never used Fund resources in the credit tranches. The authorities should be commended for their prudent policies, which had helped to maintain fiscal and external surpluses. The high priority given to the agricultural sector was also welcome.

Some other developments were a matter for concern, Mr. Grosche continued. The authorities intended not to encourage excessive claims on the income generated by oil revenues, an approach that should be welcomed. However, the staff gave the impression that some developments on the expenditure side of the budget had been set in motion that might be difficult to rectify once the oil revenues began to shrink. According to the staff's forecast, a gradual decline in oil revenues could begin as early as 1985. There were indications that the revenues had been used to a large extent to finance consumption or to delay necessary structural changes, as evidenced by the rising wage bill and by the subsidies to ailing industries.

The generally unsatisfactory performance of the industrial sector was the result of a misguided and exaggerated import substitution policy, Mr. Grosche stated. The authorities would be well advised to reconsider their policies in that respect. He hoped that the review of that sector that was under way would provide solutions. The staff had made some useful suggestions in that regard.

Commenting on monetary policy, Mr. Grosche remarked that the high degree of liquidity in the banking system represented a sizable risk of excessive credit expansion in the future. The risk was underlined by the level of interest rates, which had become increasingly negative in real terms. Positive rates were warranted to mobilize increased domestic savings, which might be needed sooner than expected in view of decreasing oil revenues.

It was a matter for regret, Mr. Grosche went on, that Cameroon, as a member of the French franc system, had had to modify slightly its basically restriction-free exchange and payments system after France had intensified its exchange controls during 1982. The devaluation of the CFA franc, an inevitable consequence of the devaluation of the French franc, had heightened the difficulties of many industrial enterprises because the cost of raw materials and equipment had been increased. Debt service had also increased. A common exchange rate seemed not always to be suitable for each member country. However, the authorities attached great importance to the solidarity of the monetary union.

The way in which the authorities had been providing the staff with statistical information was also a matter for regret, Mr. Grosche added. Despite the reasons given by the authorities, there were many compelling arguments for having a more appropriate and meaningful data base, in particular with regard to the operations of the oil industry and the extrabudgetary component of expenditures. Moreover, it was questionable whether such behavior could be reconciled with Article VIII of the Articles of Agreement.

Mr. Templeman stated that he agreed with the thrust of the staff's appraisal. He noted with satisfaction Cameroon's good economic performance over the past five years. The authorities seemed to have managed well the impact on the economy of increased production in the oil sector in spite of generally adverse worldwide economic conditions. Cameroon had achieved an overall balance of payments surplus, relatively low rates of inflation, high levels of savings and investment, and rather low external debt and debt service. The authorities had also taken measures to preserve Cameroon's traditional agricultural sector in the face of drought and lower world prices for its exports.

However, the recent acceleration of inflation, the high degree of liquidity in the economy, and the growth of public spending could undermine that good record, Mr. Templeman continued. In addition, the staff predicted in its medium-term outlook a slowdown in the oil revenues that had provided the base for Cameroon's successful performance. Consequently, prudent management would require Cameroon to adopt measures that would keep the economy within the bounds of its declining energy resources, curb threatening inflation, and strengthen other productive sectors, such as agriculture and industry. In the latter case, some dismantling of the protective system in order to encourage efficiency seemed warranted.

As regards budgetary measures, Mr. Templeman went on, he supported the staff's recommendation that Cameroon should integrate its budgetary and extrabudgetary operations; the latter amounted to more than 30 percent of total expenditures and almost 70 percent of investment expenditures. He understood the desire of the authorities to avoid false impressions about the extent to which oil income alleviated the problems of economic management. Nevertheless, extrabudgetary expenditures had reached such a dimension as to seriously weaken the budget as an instrument of financial control and economic development unless close fiscal control was exercised over those expenditures and over the corresponding oil income. In the monetary sector, he hoped that the authorities would respond promptly to excessive demand for credit so as to keep money growth within desired limits. A more active interest rate policy should be considered, because of limitations on the use of exchange rate policy and in lieu of capital controls, in order to foster savings and protect the balance of payments. Finally, he joined other Directors in urging Cameroon to improve the availability of economic data, especially for the petroleum sector. Such action would not only contribute to good economic management, it would improve Cameroon's compliance with its obligation to provide data to the Fund. He supported the proposed decision.

Mr. Camara stated that he had no difficulty with the staff's appraisal of the Cameroonian economy and that he could, therefore, support the proposed decision. Economic performance in Cameroon had been generally favorable in the previous two years. Real GDP had averaged 4.7 percent, and both the external current account and the budget had been in surplus. However, inflation had increased sharply in 1983/84 and the agricultural sector had experienced setbacks, mainly as the result of drought. The manufacturing sector had also been affected, since it was dependent on the agricultural sector for its inputs.

The authorities were to be commended for their prudent and cautious approach to economic management, Mr. Camara continued. He welcomed, in particular, the efforts being made to maintain a more balanced growth of the economy. In that respect, the emphasis on development of the agricultural sector under the Fifth Development Plan and the policies adopted by the authorities, including flexible producer prices, to stimulate agricultural production appeared to be steps in the right direction. That approach was necessary, particularly in view of the expected slowdown in oil production in the coming years. With regard to the industrial sector, he urged the authorities to introduce the needed reforms to ensure a more competitive position for that sector and to achieve a better allocation of resources.

Despite the comfortable budgetary position, there was a need to be cautious in view of the expected slowdown in oil production, Mr. Camara considered. He encouraged the authorities to adopt a comprehensive annual expenditure plan to control rapid growth in extrabudgetary expenditure. There was also a clear need to expand the non-oil revenue base. Adoption of the proposed value-added tax recommended by the Fund's technical assistance mission should help in that regard. He understood the authorities' wish to treat part of the oil-related revenues outside the national budget as a form of a stabilization fund.

In the monetary area, Mr. Camara remarked, transfer of treasury deposits to the Central Bank should help to reduce excess liquidity of commercial banks and their ability to expand credit. Given the inflationary situation, efforts should be made to restrain credit and to ensure that resources were channeled to the most productive sectors. As for the mobilization of private savings, in a country like Cameroon, development of banking habits and extension of banking services to rural areas would be more effective than increasing deposit rates.

Cameroon enjoyed a comfortable balance of payments position with a current account surplus, a reasonable level of reserves, and a relatively low debt service ratio, Mr. Camara noted. Nevertheless, the authorities should be more cautious and should monitor the situation closely to avoid deterioration of the external position when oil exports began to decline in the coming years as expected. He commended the authorities for their prudent external borrowing policy. The tightening of the procedures for issuing government guarantees on the parastatals' external borrowing and for matching the maturity of future debt to the gestation period of projects seemed to be appropriate.

Commenting on the staff's remarks with regard to the availability of information on oil sector activities and transactions, Mr. Camara said that, as a general principle, it was necessary to make available information to the staff to facilitate its work. However, he could personally understand the authorities' view on the matter. Indeed, there were many other countries where essential data and basic information were dismissed by lumping them under the heading of "errors and omissions."

Mr. Alfidja remarked that one indication of the success of the Cameroonian economy was the fact that Directors had raised no points requiring further comment by the staff. As he had indicated in his earlier remarks, the authorities attached particular importance to a number of issues, including interest rate policy and the question of treatment of the income of SNH. His authorities wished to emphasize that they had not been unwilling to provide certain data to the staff. Part of the problem had been that the staff had arrived in Cameroon at a time when ministerial responsibilities had changed. Nevertheless, the authorities had tried to provide the staff with the information that they themselves had available. He was confident that there would be no difficulty in dealing with the matter in the years ahead. Meanwhile, it would be inappropriate to attach too much importance to the issue or to take a legal approach. The authorities were willing to fulfill their obligations under the Articles of Agreement.

The Acting Chairman made the following summing up:

Directors noted that, despite the adverse effects of drought, deteriorating terms of trade for non-oil goods, and the world recession on the traditional productive sectors, Cameroon's overall economic and financial performance had been satisfactory. In recent years, rapidly growing oil production and exports had contributed to high overall rates of real growth and had eased the economy's financial constraints. Directors commended the authorities on those remarkable results and on the quality of their financial policies. Some Directors noted that Cameroon had been able to avoid some of the problems that other oil producers had faced in recent years.

While the medium-term growth outlook had improved substantially, the prospect of a gradual decline in petroleum production and revenues after FY 1984/85 forecast by the staff led Directors to stress the need for appropriate policies geared to making optimal use of those temporary resources, especially to strengthen agriculture and, some Directors emphasized, industry. Directors generally believed that policies of a structural nature were needed to strengthen the ailing industrial sector, including progressively opening it up to more competition.

Concern was expressed over the recent acceleration of inflation, and Directors urged the authorities to avoid overexpansionary fiscal and monetary policies. Although the Government's financial situation appeared to be strong, the recent pace of expansion of overall expenditure financed from oil resources was not sustainable in the view of many Directors, and it should be kept in line with the country's financing and absorptive capacity. To that end, it was suggested that there should be greater selectivity in the support provided to various sectors of the economy. In particular, the authorities were urged to reconsider their policy of import substitution. The authorities were also advised to adopt a more comprehensive approach to the budgetary process and planning of government expenditure. The planned introduction of a value-added tax was noted. Directors also advised caution in the policy of accommodating the demand for credit, so as to avoid an accelerated monetary expansion that could exert pressures on prices and the balance of payments. Indeed, the maintenance of policies of financial restraint was seen by Directors to be crucial to the continuation of rapid growth with internal and external equilibrium. While noting the views of the authorities, Directors encouraged them to consider moving toward positive real interest rates, particularly in light of the need to increase savings as oil revenues were projected to moderate in the future.

While also noting the reasons for which the authorities had felt unable to provide the Fund with complete data on petroleum operations and on external reserves, Directors urged them to be open on the subject in the interest of facilitating macroeconomic analysis and planning and to follow a practice that would be more compatible with a member's obligations under the Articles of Agreement.

Directors welcomed Cameroon's continued maintenance of an exchange system free from restrictions on current international transactions.

It is expected that the next Article IV consultation will be held on the standard 12-month cycle.

The Executive Directors then adopted the following decision:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision in concluding the 1984 Article XIV consultation with Cameroon, in the light of the 1984 Article IV consultation with Cameroon, conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Cameroon continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

Decision No. 7731-(84/95), adopted
June 18, 1984

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/94 (6/15/84) and EBM/84/95 (6/18/84).

3. ZAMBIA - 1984 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to extend the period for completing the 1984 Article IV consultation with Zambia to not later than July 20, 1984.

Decision No. 7732-(84/95), adopted
June 15, 1984

4. STAFF TRAVEL

Travel by the Managing Director as set forth in EBAP/84/130 (6/15/84) is approved.

APPROVED: February 1, 1985

LEO VAN HOUTVEN
Secretary