

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/115

10:00 a.m., July 27, 1984

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors

B. de Maulde

J. E. Ismael
R. K. Joyce

R. N. Malhotra
Y. A. Nimatallah
J. J. Polak
A. R. G. Prowse

M. A. Senior
J. Tvedt

Alternate Executive Directors

w. B. Tshishimbi
P. Péterfalvy, Temporary

M. Teijeiro
M. K. Bush
M. B. Chatah, Temporary
T. Yamashita
Jaafar A.

H. A. Arias, Temporary
G. Grosche
N. Coumbis

A. Yasseri, Temporary
E. I. M. Mtei

T. A. Clark
Wang E.

J. W. Lang, Jr., Acting Secretary
K. S. Friedman, Assistant

1. Chad - Overdue Financial Obligations - Report and Complaint Under Rule K-1 and Notice of Failure to Repay Trust Fund Loans Page 3
2. Viet Nam - Overdue Financial Obligations - Report and Complaints Under Rules K-1 and S-1 and Notice of Failure to Repay a Trust Fund Loan Page 12
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make an ostensible appropriation at any time, financed by a loan from the regional central bank out of the resources that that particular country had placed with the bank. The country would then be in a position to make its required payment to the Fund.

Mr. Alfidja agreed that the staff mission to Chad should, among other things, discuss Chad's overdue payments with BEAC officials, and that the particular problem facing Chad and other member countries, owing to their participation in regional arrangements, should be studied by the staff. The further examination of Chad's problem and the discussion with both the Chadian and BEAC authorities underscored the need for a sufficiently long period between the present discussion and the formal consideration of the Managing Director's complaint under Rule K-1.

The Chairman remarked that the present case was the first one since the introduction of the regional banking arrangements in the French franc zone in which a country's obligations as a member of such an arrangement had kept it from meeting its financial obligations to the Fund. The constraint on a member country's access to foreign assets held by a regional central bank was, as a general rule, a useful and commendable discipline, but it was keeping Chad from meeting its obligations to the Fund. As a result, the discipline required of BEAC members was having an impact not on Chad, but on the Fund. The Council of Administration of the BEAC should be aware of that outcome, especially as it had always attached great importance to having its members remain current in their obligations to the international community.

Mr. de Maulde remarked that he was worried that the kind of mechanism that Mr. Nimatallah had recommended might be inflationary.

Mr. Nimatallah responded that the mechanism would not be used continually. It would be resorted to only when a member of a regional central bank had to meet financial obligations to the Fund.

Mr. Polak remarked that the BEAC limited the access of its members to foreign assets that it held, in order to encourage monetary discipline. As a result, however, member countries could find it impossible to meet their financial obligations to the Fund. The present case raised the question whether a country that was unable to borrow from a regional central bank like the BEAC on the argument of "discipline" should then use the resources of the Fund to escape from the same "discipline."

The Chairman remarked that the staff mission to Chad should explore all aspects of the issues that had been raised during the present discussion, including the international consequences of the arrangements between BEAC and its members. Executive Directors had stressed that the staff should discuss possible ways of enabling Chad to repay the Fund as quickly as possible. The mission would not discuss any use of Fund resources by Chad. The staff and the authorities would explore the consequences for the budget of making the overdue payments to the Fund, and the staff should meet with BEAC officials to clarify the issues that

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Also Present

African Department: J. B. Zulu, Director; O. B. Makalou, Deputy Director; N. Abu-zobaa, F. d'A. Collings, S. M. Nsouli, M. Sidibé, A. Tahari. Asian Department: Tun Thin, Director; S. Kohsaka, L. Mendras, G. Szapary. Exchange and Trade Relations Department: E. H. Brau. Fiscal Affairs Department: M. Schulze-Ghattas. Legal Department: G. P. Nicoletopoulos, Director; G. F. Rea, Deputy General Counsel; A. O. Liuksila, J. K. Oh. Treasurer's Department: D. Williams, Deputy Treasurer; W. L. Coats, N. Hayashi, W. E. Hermann, T. Leddy, B. B. Zavoico. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, W. Moerke, G. E. L. Nguyen, I. R. Panday, A. Vasudevan. Assistants to Executive Directors: H. Alaoui-Abdallaoui, J. Bulloch, M. Camara, C. Flamant, V. Govindarajan, L. Ionescu, H. Kobayashi, M. Lundsager, K. Murakami, G. W. K. Pickering, T. Ramtoolah, J. Reddy, J. E. Rodríguez, C. A. Salinas, S. Sornyanontr, A. J. Tregilgas.

1. CHAD - OVERDUE FINANCIAL OBLIGATIONS - REPORT AND COMPLAINT
UNDER RULE K-1 AND NOTICE OF FAILURE TO REPAY TRUST FUND LOANS

The Executive Directors considered a staff paper on Chad's overdue financial obligations to the Fund, together with a communication from the Managing Director containing a report and complaint under Rule K-1 and a notice of Chad's failure to repay Trust Fund loans (EBS/84/141, 6/29/84; Sup. 1, 7/25/84; and Sup. 2, 7/26/84).

The Deputy Treasurer noted that two additional Trust Fund repayments, for SDR 224,900 and SDR 313,917, had fallen due on July 25 and July 26, respectively, bringing Chad's total overdue obligations to the Fund to SDR 3,098,706. They had not been mentioned in the present staff paper but would be included in subsequent reports.

Mr. Alfidja made the following statement:

The present predicament of Chad with respect to its overdue payments to the Fund is, from the standpoint of my Chadian authorities, both unfortunate and unpleasant. It is unfortunate because, since becoming a member of the Fund in 1963, Chad was always current in its obligations to the Fund until the end of 1983. It is unpleasant because Chad has always been supportive of international organizations, including the Fund, and would not like to be seen as undermining the fundamental rules of the institution. Indeed, Chad is anxious to safeguard its relations of trust with the Fund, as the authorities have repeatedly indicated.

However, disheartening circumstances compel Chad to request the understanding of management and the Board in its attempts to find a solution to the problem. The circumstances presently facing this country, one of the poorest in the world, are, by any standard, exceptionally hard. The authorities have inherited an economy almost on the verge of collapse and characterized by the virtual nonexistence of a basic administrative financial structure in the provinces, and the absence of indispensable minimum facilities required for government services to function. As one of many manifestations of this exceptional hardship, civil servants have had to accept only half of their salaries since 1983.

Such a severe lack of the most elementary governmental machinery has greatly hampered the control of the sources of the Government's budget revenues. The staff has amply described these conditions in the report for the latest Article IV consultation with Chad. Moreover, natural disasters, such as drought, prevailing in the area and the closure of borders between Chad and some of its major trading partners have exacerbated the situation.

The above-mentioned factors and the approval of the recent request made to management by the authorities to send a mission to N'Djaména, are compelling reasons to allow a reasonable period before the final consideration of the complaint by the Board. It is the view of my authorities that this mission is needed to discuss with the staff ways and means available to Chad to meet its obligations to the Fund. The mission could receive and update information on the real and potential financial and economic situation and make the necessary recommendations to the authorities for settling their obligations to the Fund, both overdue and to come.

The problem of communications with Chad is such that the proposal for fixing a date "toward the end of August" contained in paragraph 6 of page 8 of Attachment V of EBS/84/141, Supplement 1, will, in all likelihood, prove to be unattainable, especially in the light of the above-mentioned request for a Fund mission. Final consideration of the complaint by the Board immediately after the Annual Meetings would definitely be the most promising date.

To conclude, my authorities have instructed me to reiterate to the management and the Executive Board their full commitment to do their best to fulfill their obligations vis-à-vis the Fund.

Mr. Grosche said he understood that the Executive Board was being asked merely to take note of the Managing Director's complaint under Rule K-1 and to agree on a date on which the complaint would be formally considered by the Executive Board. The main question at hand was how much time the authorities should be given to make arrangements to eliminate the overdue obligations to the Fund, or to prepare for the Executive Board discussion of the Managing Director's complaint.

During the discussion on the overdue financial obligations of Guyana and Nicaragua (EBM/84/54 and EBM/84/55, 4/5/84), Mr. Grosche recalled, a number of Executive Directors had emphasized that the eight-week period that the two countries had finally been given to eliminate their obligations was exceptionally long, and that the period in any future cases should be shorter. It was certainly preferable to allow no more than six months between the date when a payment became overdue and the Executive Board discussion of the Managing Director's complaint under Rule K-1, but adherence to that practice would give Chad only an additional week to eliminate its overdue payments; that period was clearly too short. He had initially been prepared to accept the Chairman's proposal to place the complaint against Chad on the Executive Board's agenda for end-August, but, given the information in EBS/84/141, Supplement 2, he doubted whether a period of about four weeks would be sufficient. Although eliminating Chad's overdue financial obligations seemed essentially a technical problem, it might take some time to solve.

He wondered whether the Banque des Etats de l'Afrique Centrale (BEAC) could advance some of the profits due to Chad to enable it to settle its overdue obligations; alternatively, or in addition, Chad could use its SDR holdings and reserve tranche to make its overdue repayments promptly, Mr. Grosche continued. If the Executive Board were to agree that a staff mission should be sent to Chad, he wondered how much time the mission would require to complete its work, and also how much time the authorities should be given to meet their overdue financial obligations.

Mr. Nimatallah noted that the 1984 Annual Meetings were to be held in just about two months. It seemed best to place the Managing Director's complaint on the Executive Board's agenda for September 14, probably the last day of Board meetings before the 1984 Annual Meetings. That schedule would give the staff sufficient time to visit Chad and prepare a report for the Executive Board, including recommendations for eliminating Chad's overdue financial obligations. The authorities' positive response to the problem of their overdue payments was encouraging.

Mr. Joyce remarked that, while it was important to bear in mind the particular circumstances of a country with overdue financial obligations, Mr. Grosche had usefully recalled that there had been a widespread feeling among Executive Directors that eight weeks was an excessively long time to give a member country to make overdue repayments and should not become the normal practice. It had also been felt that the staff should not wait as long as six months after payments became overdue before notifying the Executive Board, especially if there were indications that a member country would have difficulty in eliminating its overdue payments within a six-month period.

Before the Managing Director's complaint was formally discussed by the Executive Board, Mr. Joyce went on, the authorities should be given sufficient time to prepare their presentation to the Board, including a description of the steps that they hoped to take to eliminate their overdue financial obligations. Four weeks would probably be sufficient for that purpose, but more time might well be needed to work out arrangements for actually making the overdue repayments; it was not clear to him precisely how much extra time would likely be needed.

In the circumstances, Mr. Joyce went on, the best solution might be to ask the staff to visit Chad and prepare a report for discussion by the Executive Board toward the end of August or early in September, on the understanding that the problem of Chad's overdue financial obligations probably could not be fully eliminated by then. The Executive Board could decide at that preliminary meeting what steps it ought to take thenceforth in order to deal with the problem.

Mr. Mtei considered that the conditions in Chad were unique: the country had suffered from internal disruptions and a long, devastating drought; the authorities had shown they were keen to honor their obligations to the Fund. Their request for a staff mission to assess possible solutions to the problem of the overdue payments should be accepted.

Some time would be needed for the mission to complete its work, and the next Executive Board discussion on Chad should not take place until after the 1984 Annual Meetings.

The Deputy Treasurer explained that Chad's total reserves were SDR 41.5 million, including its reserve tranche position and SDR holdings, which together amounted to SDR 3.6 million. Chad was eligible for an advance of SDR 1.6 million on its share of BEAC profits. The profits could be transferred to Chad once the authorities had made the appropriate arrangements, a matter that did not technically involve the Fund. The proceeds of the advance from the BEAC could be used by Chad to acquire from the BEAC reserve assets that could be used to pay the Fund. At present, however, Chad apparently did not have the domestic currency counterpart to acquire reserve assets from the BEAC. As a result of domestic budget difficulties, Chad's reserve tranche in the Fund and its SDRs were technically immobilized until domestic currency could be acquired to buy those assets.

The staff representative from the African Department commented that the purpose of the staff mission to Chad would be to examine budgetary measures that might be taken to enable the authorities to purchase from the BEAC foreign assets that could be used to repay the Fund. The requisite preparations for the mission would not be lengthy.

Mr. de Maulde considered that, as the solution to the problem of Chad's overdue payments seemed to require budgetary action, it would be appropriate to send a staff mission to the country.

Mr. Malhotra remarked that the problem of Chad's overdue payments seemed unique: the authorities had sufficient foreign assets to make the payments but were unable to use them because of the requirements of its membership in a regional central bank. The Fund should concentrate its efforts on finding an appropriate solution to the problem, rather than on acting quickly within a specified period. It was also important to take into account the unusually difficult conditions in Chad, which, according to the World Bank, had the lowest per capita income among member countries and had recently been able to pay government officials only half their salaries.

It seemed best to send a staff mission to Chad and to hold a further discussion after the staff report was circulated in order to find a solution to the problem of the country's overdue financial obligations to the Fund, Mr. Malhotra concluded. The Fund had already been assured that the money needed to make the repayments was in a way available.

Mr. Polak remarked that there were two separate periods to keep in mind: the one between the present discussion and the formal consideration of the Managing Director's complaint under Rule K-1, and the period in which the Executive Board hoped the authorities could eliminate all overdue payments to the Fund. For the former, it seemed best to adhere to the principle that the period between the notification to the Executive

Board of an overdue payment by a member country, and the formal discussion of the complaint under Rule K-1, should be no more than eight weeks, even if another staff mission were sent to Chad. The complaint under Rule K-1 should be brought to the Executive Board's agenda for, say, September 7 or September 14, 1984. He hoped that considerable progress toward solving the problem of Chad's overdue payments would have been made by then, and that the problem could be fully solved shortly after the 1984 Annual Meetings.

Mr. Prowse suggested that it might be useful to have an intermediate, less formal, stage in the process of dealing with the problem of Chad's overdue obligations. Accordingly, the staff could visit Chad in the immediate future and prepare a report that could be discussed in the Executive Board or merely circulated for its information. Under his approach, the Executive Board could meet in about six weeks to consider the Managing Director's complaint under Rule K-1.

Mr. de Maulde said that he basically agreed with Mr. Prowse. It seemed best to ask the staff to visit Chad, circulate a report for the informal consideration of Executive Directors, and then agree on the date on which the Managing Director's complaint under Rule K-1 should be discussed by the Board.

Mr. Grosche considered that the Managing Director's complaint should be placed on the Executive Board's agenda for September 14, 1984.

Mr. Clark remarked that he could go along with Mr. Prowse's proposal. In passing, he noted that the rules of one institution--the BEAC--seemed to be limiting Chad's capacity to comply with the rules of another institution, the Fund.

The Director of the Legal Department noted that membership in the BEAC offered certain advantages for Chad, but also resulted in some constraints, including a constraint on the use of its reserve position and SDR holdings. However, other members had also voluntarily entered into similar arrangements that could result in a similar restriction on the exercise of their rights to use the Fund's resources.

The Chairman commented that the legal questions raised by Chad's particular situation could usefully be further examined by the staff. At the same time, it was important to bear in mind that the local currency counterpart of the assets that the authorities needed to purchase from the BEAC in order to cover payments to the Fund in 1984 would amount to a substantial portion--about 30 percent--of total budgetary revenues and would require stringent budgetary action by the authorities. The problem should be thoroughly discussed with the Chadian authorities and BEAC officials in the coming weeks.

Mr. Nimatallah remarked that the BEAC officials should appreciate the importance of establishing a mechanism enabling a member country participating in a regional arrangement to settle its financial obligations to the Fund. For instance, a member country should be permitted to

make an ostensible appropriation at any time, financed by a loan from the regional central bank out of the resources that that particular country had placed with the bank. The country would then be in a position to make its required payment to the Fund.

Mr. Alfidja agreed that the staff mission to Chad should, among other things, discuss Chad's overdue payments with BEAC officials, and that the particular problem facing Chad and other member countries, owing to their participation in regional arrangements, should be studied by the staff. The further examination of Chad's problem and the discussion with both the Chadian and BEAC authorities underscored the need for a sufficiently long period between the present discussion and the formal consideration of the Managing Director's complaint under Rule K-1.

The Chairman remarked that the present case was the first one since the introduction of the regional banking arrangements in the French franc zone in which a country's obligations as a member of such an arrangement had kept it from meeting its financial obligations to the Fund. The constraint on a member country's access to foreign assets held by a regional central bank was, as a general rule, a useful and commendable discipline, but it was keeping Chad from meeting its obligations to the Fund. As a result, the discipline required of BEAC members was having an impact not on Chad, but on the Fund. The Council of Administration of the BEAC should be aware of that outcome, especially as it had always attached great importance to having its members remain current in their obligations to the international community.

Mr. de Maulde remarked that he was worried that the kind of mechanism that Mr. Nimatallah had recommended might be inflationary.

Mr. Nimatallah responded that the mechanism would not be used continually. It would be resorted to only when a member of a regional central bank had to meet financial obligations to the Fund.

Mr. Polak remarked that the BEAC limited the access of its members to foreign assets that it held, in order to encourage monetary discipline. As a result, however, member countries could find it impossible to meet their financial obligations to the Fund. The present case raised the question whether a country that was unable to borrow from a regional central bank like the BEAC on the argument of "discipline" should then use the resources of the Fund to escape from the same "discipline."

The Chairman remarked that the staff mission to Chad should explore all aspects of the issues that had been raised during the present discussion, including the international consequences of the arrangements between BEAC and its members. Executive Directors had stressed that the staff should discuss possible ways of enabling Chad to repay the Fund as quickly as possible. The mission would not discuss any use of Fund resources by Chad. The staff and the authorities would explore the consequences for the budget of making the overdue payments to the Fund, and the staff should meet with BEAC officials to clarify the issues that

had been raised at the present meeting. The parties concerned should be urged to proceed with the advance of profits from the BEAC to Chad. The Executive Board would then hold another discussion on Chad no later than, say, September 12, when it could decide what steps should be taken next. However, it should be clearly understood that the Executive Board expected the overdue payments to the Fund to be made before September 12. He strongly hoped that a formal consideration of his complaint under Rule K-1 could be avoided.

Mr. Nimatallah considered that the discussion between the staff mission and BEAC officials should deal with two distinct matters. First, a way should be found to settle Chad's overdue financial obligations to the Fund as quickly as possible, so that all the overdue payments would be eliminated by September 12. Second, the BEAC officials should appreciate the need for a mechanism enabling all BEAC members to remain current in their financial obligations to the Fund. That matter might well not be completely dealt with by September 12. Unless all the repayments had been made by then, the Executive Board could meet on that date to discuss that particular problem and to decide, on the basis of the discussion and the staff report, what the Board should do next.

Mr. Joyce agreed with Mr. Nimatallah that it would be useful to distinguish between the problem of Chad's overdue payments, and the broader question of future relations between the Fund and a currency union and its members. The Executive Board could discuss the situation in Chad on September 12, by which time the report of the new staff mission would be available and, he strongly hoped, the problem of Chad's overdue financial obligations to the Fund would have been solved. The Chadian authorities might wish to have a representative at that meeting to answer questions and to make a statement if not all the overdue payments had been made by then.

Ms. Bush agreed with Mr. Joyce that a representative of Chad should be invited to the meeting on September 12. If the problem of Chad's overdue payments to the Fund had not been solved by then, the Executive Board should have the option at that meeting of proceeding with the complaint under Rule K-1.

Mr. Malhotra considered that the staff mission should hold discussions with both the Chadian and BEAC authorities to prepare a report that would be considered by the Executive Board on September 12. At present, the Executive Board should not serve notice that it intended to take up the Managing Director's complaint under Rule K-1. The Executive Directors should take into account the special circumstances of Chad, particularly the technical nature of the authorities' difficulty in making the overdue payments to the Fund. The Executive Board could decide on September 12, if necessary, when to consider the complaint formally.

The Chairman remarked that the problem of Chad's overdue payments to the Fund was not merely technical. The authorities were fully aware of the rules of the BEAC and had not made the necessary budgetary provisions to meet their obligations to the Fund. Hence, the overdue payments were essentially a policy matter.

Mr. Polak said that the proposed decision should be adopted with the date of September 12, 1984. Of course, if the overdue payments problem were solved before then, there would be no need to hold a discussion on Chad on that day. It would be a mistake to decide at the present meeting that the case of Chad was so special that the Executive Board should follow some procedure other than the one already established, with some difficulty, for dealing with such matters.

Mr. Clark considered that the complaint under Rule K-1 should be considered by the Executive Board on September 12.

Mr. Prowse said that he, too, agreed with Mr. Polak that the complaint should be considered on September 12. In addition, the main objective of the staff mission to Chad should be to solve the problem of the country's overdue payments to the Fund. It should in no sense be a kind of review mission.

Mr. Alfidja remarked that it was of course important to find a realistic approach to dealing with Chad's overdue payments. The Executive Board should not decide at the present meeting to place the Managing Director's complaint under Rule K-1 on the Executive Board's agenda for September 12. Executive Directors seemed agreed that a staff mission should visit Chad as soon as possible and should report to the Executive Board. The Executive Directors could study the views of the authorities reflected in the staff report and hold a discussion on September 12, which a representative of the Chadian Government could be invited to attend if the overdue payments problem had not yet been solved. Of course, he strongly hoped that the problem would be solved before September 12.

Mr. de Maulde commented that, if the problem of the overdue payments to the Fund were not solved by September 12, it could be discussed by the members of BEAC at the meeting that they intended to hold just prior to the 1984 Annual Meetings. It would perhaps be discourteous for the Executive Board to take a final position on Chad's overdue payments problem just prior to a meeting of the BEAC membership. It seemed best to follow the procedure recommended by Mr. Prowse.

The Chairman suggested that the Executive Board should hold a preliminary discussion not later than September 12 on the report of the staff mission to Chad. Unless all the overdue payments had been made by then, the Executive Board would agree on the date--some time in late September or early October 1984--on which to formally consider the complaint under Rule K-1.

Mr. Alfidja, responding to a question, explained that the 14 members of the franc zone and a representative of France met twice a year to exchange views on problems facing the group and to prepare for the discussions at the Annual Meetings of the Fund. The group occasionally took a close look at problems facing individual members, and it was in that context that he and Mr. de Maulde felt that it would be useful for the

Executive Board to wait until after the group's mid-September meeting before formally considering the Managing Director's complaint under Rule K-1. The Chairman's proposal for handling Chad seemed realistic.

The Chairman suggested that the draft decision could be changed to say that the Executive Board had agreed to hold a preliminary discussion on Chad on September 12. Executive Directors would approve the decision on the expectation that Chad's overdue payments would be eliminated by September 12, and that if they still remained by then, the Executive Board would formally consider his complaint under Rule K-1 on October 1.

Mr. Tvedt said that it was important to treat countries with overdue payments to the Fund in an evenhanded manner. Accordingly, he doubted whether the proposed preliminary discussion on September 12 should be held. It seemed best to decide at the present meeting to hold the next, and final, discussion on Chad's overdue payments toward the end of September. That approach would be consistent with recent treatment of other countries with overdue payments to the Fund.

Mr. Prowse considered that the momentum in dealing with Chad should be maintained. The Executive Board had to show that the problem of the overdue payments was serious and warranted further discussion in the near future. That purpose would be served by the preliminary discussion that the Chairman had proposed and by a statement at the present meeting that Executive Directors expected that the problem of Chad's overdue financial obligations would be solved in time to obviate the need for such a discussion.

Mr. de Maulde agreed with Mr. Prowse. The problem of the overdue payments should be solved as soon as possible. The Director of the Legal Department remarked that, as he understood it, the proposed decision would be revised to state that the Executive Board would meet on September 12 to review the report of the staff mission to Chad and developments regarding the country's discharge of its financial obligations to the Fund. The decision would also state that the Managing Director's complaint under Rule K-1 would be placed on the agenda of the Executive Board for October 1, 1984.

The Chairman said that it seemed best to provide at the present stage for two possible Executive Board discussions on Chad, rather than one, in order to review the report of the next staff mission, including the progress that the authorities might have made in discharging Chad's financial obligations to the Fund.

Mr. Joyce remarked that he could go along with the two-stage process proposed by the Chairman. However, it should be clearly understood that that process was not designed to prolong the period in which Chad would be given to discharge its financial obligations to the Fund; the Executive Board was not assuming that a solution to the problem of the overdue payments would be postponed until the mid-September meeting of the BEAC.

Executive Directors had stressed that the solution to the problem of its overdue payments was up to Chad and should be found promptly and, preferably, before the BEAC meeting in mid-September.

The Deputy Treasurer noted that, under the Chairman's proposal, the period between the Executive Board's initial discussion and its formal consideration of the complaint was virtually the same as the one for the recent cases of Guyana and Nicaragua.

Mr. Grosche said that he strongly agreed with Mr. Joyce.

The Chairman stated that it should be clearly understood that Chad would be expected to discharge its overdue financial obligations to the Fund before September 12, 1984.

The Executive Board agreed to consider a revised draft decision on a lapse-of-time basis. 1/

2. VIET NAM - OVERDUE FINANCIAL OBLIGATIONS - REPORT AND COMPLAINTS UNDER RULES K-1 AND S-1 AND NOTICE OF FAILURE TO REPAY A TRUST FUND LOAN

The Executive Directors considered a staff paper on Viet Nam's overdue financial obligations to the Fund, together with a communication from the Managing Director containing a report and complaints under Rules K-1 and S-1 and a notice of Viet Nam's failure to repay a Trust Fund loan (EBS/84/142, 6/29/84; and Sup. 1, 7/25/84).

Mr. Ismael made the following statement:

I wish to inform Executive Directors that, on more than one occasion, I have communicated to my Vietnamese authorities the seriousness with which the Executive Board views the existence of overdue obligations to the Fund, for the reasons stated in the Managing Director's summing up of the Board discussion on overdue payments to the Fund (EBM/84/55, 4/5/84). The Vietnamese authorities are fully aware of the seriousness of the situation and would like the problem to be amicably settled as soon as possible. However, they hope that, in reaching a decision, the Fund will take into account the exceptional hardship of Viet Nam.

It is well known that Viet Nam's experience in this century has been unique among countries. It has just emerged from a bitter experience of a 30-year war and a series of national calamities. The situation in Indochina remains volatile, and Viet Nam is understandably concerned about consolidating its economy. In addition, the country faces political and economic

1/ The decision was subsequently circulated in EBS/84/141, Supplement 3 (7/30/84) and approved by the Board on July 31, 1984, without meeting.

isolationism that few other countries have experienced. The limitations on foreign technical and financial assistance to Viet Nam, as well as restrictions on its market access, have inhibited the country's reconstruction and development. For instance, foreign loans and grants declined from 2.1 percent of GDP in 1980 to 0.7 percent in 1983. Gross foreign exchange reserves are equivalent to about \$60 million, far below the minimum that many countries would consider tolerable. The present level of reserves is the equivalent of \$0.27 per person, and, if Viet Nam were to eliminate its arrears to the Fund, it would be left with reserves equivalent to \$0.03 per person. Such a level for a country whose per capita income in 1983 was just \$42 would undoubtedly create exceptional hardship and bring external trade in convertible currencies to a halt.

It is therefore clear that Viet Nam's reserve position is such that the country does not have the resources to repay the Fund at present. If Viet Nam were forced to settle its overdue obligations, its reserve position would become untenable. At the same time, it is clear from the communications received by management and myself that the Vietnamese authorities wish to maintain communications and establish good relations with the Fund. The communications confirm the authorities' willingness and desire to resolve the issue of their overdue obligations to the Fund. Given the difficult external situation, the authorities initially asked for a rescheduling of the arrears. After this proposal was rejected by management, attempts were made to release the \$163 million held in blocked accounts in U.S. banks, thus far with no success.

The authorities' most recent communication to the Managing Director indicates that, following the 1984 Article IV consultation, they introduced a number of reforms that will, however, take time to bear fruit. They have requested a staff mission to discuss the newly introduced policies and to provide the staff with an opportunity to give the authorities a more precise indication of the Fund's expectations, so that the problem of the overdue payments to the Fund could be solved. If a mission were not possible, the authorities would be willing to send representatives to Fund headquarters. The question of further discussion between the authorities and the staff has been addressed in the most recent telex from the Managing Director to Viet Nam. I will be discussing the matter further with the authorities at the South-East Asia Voting Group meeting in early August, and I hope that the problem of the overdue payments can be solved in the near future and in a manner acceptable to all parties.

Mr. Yamashita commented that overdue payments to the Fund undermined the revolving character of the Fund's resources, affected its liquidity, and could hurt its credibility in the long run. Hence, the authorities'

conclusion that they were unable at present to discharge their overdue financial obligations to the Fund in a timely manner was a cause for concern.

He fully appreciated that the economic situation in Viet Nam was difficult, Mr. Yamashita continued. The authorities were in the process of rehabilitating the economy after the prolonged, destructive wars and a series of natural calamities. However, many other member countries in difficult situations had made strenuous efforts to remain current in their obligations to the Fund, and he hoped that the Vietnamese authorities would make every effort to discharge their overdue obligations as promptly as possible. In that connection, Mr. Ismael's statement reiterating the authorities' willingness to resolve the issue of their overdue payments was certainly welcome. The proposed decision was acceptable.

Mr. Yasserli said that he fully agreed with Mr. Ismael's comments on the deterioration in the overall economic situation, the precariously low level of convertible foreign exchange holdings, the pressure on the balance of convertible payments, and the limited prospects for improvement in the coming period. The same points had been made during the Board discussion of the staff report for the 1984 Article IV consultation with Viet Nam, when Executive Directors had stressed the need for comprehensive adjustment measures and the staff had emphasized that, given the heavy debt service burden, the authorities should continue to seek debt rescheduling. Viet Nam was an exceptional case that in no way undermined the general principles governing the use of Fund resources, which the Managing Director had mentioned in his correspondence with the authorities and which the Executive Board had consistently endorsed. However, in the light of the cooperative nature of the Fund, efforts should be made to alleviate Viet Nam's financial problems, especially as the country had been making every effort to make the necessary payments to the Fund. It was in that context that the Vietnamese authorities had formally requested the Fund to intervene with regard to their blocked accounts in U.S. banks. In view of the recent discussion of the Fund's role in the settlement of disputes between member countries, including the provision of good offices, a further comment on the procedural and legal issues involved in Viet Nam's request would be welcome.

Mr. Clark noted that Viet Nam's reserves included nearly 400,000 ounces of unpledged gold with an estimated value of \$100-200 million. The country's arrears were roughly 10 percent of that estimated value, and he wondered whether there were any constraints on using the gold to discharge Viet Nam's overdue financial obligations to the Fund.

Mr. Nimatallah remarked that Mr. Ismael's statement was disappointing, as it did not clearly give the impression that the authorities had responded positively to the Fund's request to discharge the country's overdue financial obligations. He doubted whether the blocked deposits and low level of reserves were adequate reasons for the continued existence of the overdue financial obligations, and he hoped that a more

positive response by the Vietnamese authorities would be forthcoming. Therefore, he could not agree to give Viet Nam a period beyond August 31 to try to settle its arrears to the Fund.

The Deputy Treasurer commented that Viet Nam had 735,000 ounces of gold, of which 321,000 ounces had been pledged as collateral for a loan of \$102 million. Presumably, the remainder of the gold holdings was not encumbered and could be used by the authorities. However, the country had only \$16 million in foreign exchange reserves, suggesting that it had a substantial problem in mobilizing liquid reserves. Of course, the figure of \$16 million excluded Viet Nam's gold holdings; its SDR holdings and reserve tranche position had been fully utilized by the authorities.

The Director of the Legal Department remarked that all the information available to the staff on Viet Nam's blocked accounts in U.S. banks was in the staff paper. The matter had been raised with the U.S. authorities, and they had not given any indication that the accounts could be unblocked for the purpose of making payments to the Fund. The staff position was that the overdue payments to the Fund must be made even if the accounts continued to be blocked.

The Executive Directors then turned to the proposed decision.

Mr. Clark said that he preferred to place the complaints on the agenda of the Executive Board in about one month's time.

After a further brief discussion, the Executive Board agreed that the complaints should be placed on the agenda of the Executive Board for August 29, 1984, and approved the proposed decision.

The decision was:

1. The complaints of the Managing Director dated July 25, 1984 on Viet Nam, in EBS/84/142, Supplement 1, are noted. The complaints shall be placed on the agenda of the Executive Board for August 29, 1984.
2. The notice of the Managing Director in EBS/84/142, Supplement 1, dated July 25, 1984 on the failure by Viet Nam to fulfill obligations under Decision No. 5069-(76/72) on the Trust Fund, is noted. The notice shall be placed on the agenda of the Executive Board for August 29, 1984.
3. Consideration of the complaints in accordance with Rule K-1, Rule S-1, and of the notice particularly affects Viet Nam. The member shall be informed by rapid means of communication of these matters and of its right to present its views through an appropriately authorized representative.

Decision No. 7765-(84/115), adopted
July 27, 1984

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/114 (7/25/84) and EBM/84/115 (7/27/84).

3. ZAMBIA - STAND-BY ARRANGEMENT - EFFECTIVE DATE

1. The Fund notes the arrangements described in EBS/84/135, Supplement 3 (7/24/84), with respect to the financing of Zambia's estimated balance of payments deficit in 1984 and finds that the arrangements are satisfactory.

2. Accordingly, the stand-by arrangement for Zambia in EBS/84/135 shall enter into effect at noon on July 26, 1984.

Decision No. 7766-(84/115), adopted
July 26, 1984

4. JOINT COMMITTEE ON REMUNERATION OF EXECUTIVE DIRECTORS -
GOVERNORS' VOTE

The Executive Board approves the report of the Acting Secretary (EBAP/84/120, Sup. 3, 7/26/84) on the canvass of votes of the Governors on a Resolution with respect to remuneration of Executive Directors and their Alternates, which is recorded as follows:

Total affirmative votes		403,718
Total negative votes		435,276
Total votes cast		838,994
Abstentions recorded <u>1/</u>	9,520	
Other replies	0	
Total replies		848,514
Votes of members that did not reply <u>2/</u>		80,349
Total votes of members		928,863

1/ New Zealand, Philippines.

2/ Antigua and Barbuda, Argentina, Belize, Bolivia, Costa Rica, El Salvador, Ethiopia, Ghana, Grenada, India, Islamic Republic of Iran, Jordan, Liberia, Mexico, Nigeria, Oman, Papua New Guinea, Qatar, Somalia, Trinidad and Tobago, Uganda, Viet Nam. The Secretary's communication was not sent to Democratic Kampuchea.

Decision No. 7767-(84/115), adopted
July 26, 1984

5. APPROVAL OF MINUTES

The minutes of Executive Board Meeting 84/21 (2/10/84) are approved. (EBD/84/201, 7/20/84)

Adopted July 26, 1984

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/158 (7/24/84) and EBAP/84/159 (7/25/84), and by Advisors to Executive Directors as set forth in EBAP/84/156 (7/24/84) and EBAP/84/159 (7/25/84), is approved.

APPROVED: April 17, 1985

LEO VAN HOUTVEN
Secretary

