

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 92/71

11:00 a.m., June 3, 1992

R. D. Erb, Acting Chairman

Executive Directors

T. C. Dawson  
  
E. A. Evans  
R. Filosa  
  
I. Fridriksson  
H. Fukui  
  
J. E. Ismael  
  
J.-P. Landau  
  
G. A. Posthumus

Alternate Executive Directors

L. Dicks-Mireaux, Temporary  
L. E. N. Fernando  
Chen M., Temporary  
J. Jamnik, Temporary  
  
B. Szombati, Temporary  
  
M. A. Ahmed, Temporary  
  
B. Esdar  
T. Sirivedhin  
P. L. Rubianes, Temporary  
I. Martel  
O. Kabbaj  
J. M. Jones, Temporary  
P. Wright  
  
D. Saha, Temporary  
R. Marino  
A. G. Zoccali

L. Van Houtven, Secretary and Counsellor  
T. S. Walter, Assistant

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Also Present

IBRD: D. Dollar, East Asia and Pacific Regional Office. Central Asia  
Department: B. B. Aghevli, Deputy Director; U. Baumgartner,  
J. R. Dodsworth, G. M. Meredith, M. B. Rose. Exchange and Trade Relations  
Department: T. Leddy, Deputy Director; R. Moalla-Fetini. Legal Department:  
J. L. Hagan. Secretary's Department: A. Leipold. Treasurer's Department:  
D. Williams, Treasurer; J. C. Corr, Z. Farhadian-Lorie, D. Gupta,  
P. R. Menon. Advisors to Executive Directors: M. B. Chatah, C. D. Cuong,  
H. Dognin, B. R. Fuleihan, M. Nakagawa, A. Raza, S. von Stenglin.  
Assistants to Executive Directors: M. E. Hansen, P. Kafle, K. Langdon,  
R. Meron, F. Moss, M. Mrakovcic, E. H. Pedersen, E. Quattrociocche,  
D. Sparkes, Tin Win.

1. 1992 REGULAR ELECTION OF EXECUTIVE DIRECTORS -  
AD HOC COMMITTEE - ESTABLISHMENT

At IS/92/3 (6/3/92), the Executive Directors accepted the following decision:

A Committee on Rules for the 1992 Regular Election of Executive Directors is established, chaired by Mr. Arora, to propose rules for the conduct of the forthcoming regular election of Executive Directors and to examine and submit recommendations to the Executive Board on any related matters.

Adopted June 3, 1992

2. VIET NAM - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION  
OF INELIGIBILITY

The Executive Directors considered a staff paper on the fifteenth review of Viet Nam's overdue financial obligations to the Fund following the declaration of its ineligibility to use the Fund's general resources, effective January 15, 1985 (EBS/92/94, 5/28/92).

The staff representative from the Treasurer's Department said that a telex had just been received from the Vietnamese authorities indicating that payment instructions for settlement of the special charges of SDR 0.4 million--which had fallen due on May 20, 1992--had been issued.

Mr. Ismael made the following statement:

At the beginning of this fifteenth review of Viet Nam's overdue financial obligations to the Fund, I would reiterate that Viet Nam has responded in good faith to the intensified collaborative approach. The Fund membership, however, has failed to allow the intensified collaborative approach to be implemented effectively. For Viet Nam, this has become a cause for disappointment; for the Fund membership, this has become--as rightly stated by Mr. Wright in his intervention during the completion of the 1991 Article IV consultation (EBM/91/170, 12/18/91)--a cause for increasing embarrassment.

Despite this obstacle and its tight international reserves position, Viet Nam has continued to make payments to the Fund equivalent to its maturing obligations. Because of technical difficulties associated with the embargo, arrangements for payments of \$553,673.59 to cover the special charges to the Trust Fund and the General Resources Account that were due on May 20, 1992 could be finalized only on May 30, 1992 and June 2, 1992, respectively. Notwithstanding this late payment, Viet Nam has,

since October 1991, been able to keep its arrears to the Fund below the end-1988 level.

In addition, Viet Nam has been able to sustain its economic reform efforts in an impressive manner. It deserves to be reiterated that these efforts have been made without the benefit of financial support from industrial countries and multilateral organizations, and with the existence of trade and financial embargoes and the loss of substantial aid from traditional sources.

Therefore, to categorize 1991 as a "lost" year for Viet Nam is a mockery of its remarkable achievements under extremely adverse conditions. On the one hand, one would not even expect a Fund-supported program to be successful without adequate availability of external financing. On the other hand, to use Viet Nam's case as proof that its adjustment endeavors can indeed be self-financed is to deny it a just economic treatment, especially compared with all the efforts that have been and are being made for the Eastern European countries and the states of the former Soviet Union.

Viet Nam needs international support to solve its arrears with the Fund and normalize its relations with the international community, which, in turn, will expedite its economic reform and thereby lay the basis for sustained and stable growth. The mechanism is available; that is what the intensified collaborative approach is for.

If the condition that Viet Nam is in should be treated as the status quo--if only for the time being--we should at least be consistent. As long as the embargo is in force, let us not subject Viet Nam to a real review of its overdue financial obligations to the Fund. To do that is tantamount to subjecting Viet Nam to an Article IV consultation thrice a year instead of once a year. What should be done is to conduct a pro forma six-monthly review to take note that the embargo is still in place, and that the intensified collaborative approach can, therefore, not be implemented effectively, and to adopt appropriate decisions--more or less like the one adopted at the most recent review in October 1991 (EBM/91/144, 10/30/91), or like the one that is being proposed--until the embargo has been lifted.

In conclusion, I repeat my concluding appeal of the previous October: the time has come for the Fund and its membership to translate the promise that they made at that time to assist Viet Nam in "any appropriate way" into concrete terms. Failing to do that is to perpetuate the gross economic injustice inflicted on Viet Nam.

Mr. Landau made the following statement:

As I fully support most of Mr. Ismael's statement, I would like only to elaborate on a few points. First, nothing in Viet Nam's situation now justifies barring this country from benefiting from one or several elements of the Fund's arrears strategy. I fully agree with the staff's view that the authorities are continuing to cooperate actively with the Fund in the context of the collaborative approach. The arrears strategy decided by this Board is based on two main elements: the degree of cooperation demonstrated by countries in arrears and the willingness shown to effectively solve the problem; and the adoption and implementation of appropriate economic policies.

On the first point, it is clear that the country has demonstrated its commitment to cooperate with the Fund. Viet Nam has not only kept current on its obligations since the end of 1988 but also reduced the level of arrears that were outstanding at that time. What is particularly striking in this performance is that Viet Nam reduced the 1988 level of arrears not only by benefiting from the burden-sharing refunds but also by paying more than was strictly necessary to meet the new maturities falling due.

Concerning the economic performance of Viet Nam, the results so far have been remarkable, taking into account the fact that Viet Nam has lost nearly all of its Soviet aid and suffers from a total lack of external financial assistance. For more than three years, Viet Nam has been intensifying its market-oriented reforms. Much has been accomplished by eliminating quantitative planning, decontrolling prices, and establishing a market-oriented system of economic management. It is fair to recognize that the direction of these efforts has not changed--and rightly so--despite the lack of international financial assistance. With respect to macroeconomic stabilization, the results obtained so far--substantial growth and a marked reduction in the inflation rate--have been encouraging.

For further progress, three main areas should be focused on. First, bank financing of the public sector should be further significantly reduced. Accordingly, the tax system should be improved, and much has already been done in this sector. A public investment program should also be formulated. Second, investment and national savings must also be increased. This will require the provision of financial incentives and the completion of the institutional framework in order to strengthen private sector confidence. Third, reform of the state enterprises must be pursued, and financial sector reforms must be implemented.

Obviously, such a strategy calls for the authorities' continued commitment to maintain the right policies; however, it also

calls for more external assistance to back and secure the entirety of the transformation process that the authorities have embarked on.

Clearly, the authorities' track record with respect to policy implementation and payments has been at least as good as that of the other arrears countries that have recently been given favorable treatment under the Fund's intensified collaborative approach; nevertheless, Viet Nam has been accorded less favorable treatment than these countries. Such an attitude can only undermine our institution's credibility.

Therefore, the adoption of the proposed decision would fall short of what the Board could do. In my view, the minimum would be to recognize that, from a technical point of view, the conditions have been met that would allow our institution to move forward. Hence, I propose that one sentence should be added to the end of paragraph 3 of the draft decision: "In this regard, the Fund recognizes that the conditions for the elaboration of a rights accumulation program are today met."

Mr. Jamnik said that it was encouraging that the Vietnamese authorities, despite very difficult circumstances, had largely stuck to their policy and payment commitments. The progress achieved to date was certainly attributable in large part to the fact that, throughout the process, the authorities had maintained close cooperation with the Fund and had continued their dialogue with the staff on appropriate policies.

Admittedly, there had been slippages, Mr. Jamnik continued. On the policy front, the authorities should persevere and intensify their efforts, particularly with respect to state enterprise reform. As regards payments to the Fund, it was unfortunate that Viet Nam's good payments record had on occasion been tarnished by brief delays; the authorities should be more vigilant in ensuring the timely payment of obligations.

The staff had rightly pointed out that the adoption and implementation of appropriate macroeconomic adjustment measures, together with the recent record of payments to the Fund, was evidence of Viet Nam's cooperation with that institution, Mr. Jamnik observed. Given that Viet Nam had clearly demonstrated its determination to normalize its relations with the Fund, his chair could go along with the proposal that no remedial measures should be taken at present.

Viet Nam faced a potential risk that the hard-won gains of over three years of reforms could be compromised, Mr. Jamnik commented--not by a lack of will on the part of the authorities, but by a lack of support on the part of the international community. A normalization of relations with external creditors was essential for the reform process to be sustained and extended; it was also essential to lay the foundation for a comprehensive economic

adjustment program, which, he hoped, would be sufficiently rigorous that it could be supported by Fund resources.

Viet Nam had acted in a manner consistent with the tenets and objectives of the intensified collaborative approach, Mr. Jamnik considered. All Fund members should do likewise; otherwise, the Fund would not only fail to remedy part of the problem of overdue financial obligations but also--and perhaps more important--undermine the principle of uniformity of treatment of member countries. There was nothing to be gained, and possibly much to be lost, if Viet Nam were to continue to be deprived of the support that it merited.

Mr. Fukui said that the staff paper confirmed that the picture of Viet Nam's economy had basically remained the same since the completion of the Article IV consultation in December 1991. The real GDP growth of about 3 percent and the further reduction in the overall fiscal deficit to less than 2 percent of GDP were welcome developments in 1991. However, the annual inflation rate of 67 percent in 1991 exceeded the projection made during that year. That outcome confirmed the urgent need for the authorities to adequately tighten financial policies. In particular, the authorities should tighten monetary policy while reducing the distorted interest rate structure. Stricter controls should also be imposed immediately on credit policy, particularly vis-à-vis the state enterprise sector.

Needless to say, the success of Viet Nam's reform program hinged on the expeditious and ambitious implementation of public enterprise reforms, Mr. Fukui stated. As that point had repeatedly been raised in previous Board discussions on Viet Nam, there was no need to go into the details again.

With respect to the payments situation, Mr. Fukui commented, his chair continued to be encouraged by the good record of cooperation with the Fund that the authorities were compiling. It was gratifying to learn from the staff that the authorities had given notice of the imminent payment of the incremental arrears of SDR 0.4 million that had been incurred since the most recent review. The authorities should continue to make timely payments to the Fund in the coming period.

Undoubtedly, normalization of Viet Nam's relationship with the international community could enhance the prospects for success of the authorities' economic reforms, Mr. Fukui observed. It was evident that the authorities were steadily making efforts to that end. He strongly hoped that the authorities would continue their strong economic adjustment program, and that a consensus among all parties concerned on support of Viet Nam would emerge as quickly as possible. He supported the proposed decision.

Mr. Wright made the following statement:

It is deeply disappointing and unsatisfactory that, at this review, we are no nearer to a comprehensive resolution of Viet Nam's arrears to the Fund than we were six months ago. This is despite the fact that Viet Nam has now met all its obligations falling due since the end of 1988--a longer period of cooperation than any other member with arrears to the Fund. I agree with Mr. Landau that there is no reason why Viet Nam should not be able to benefit from the intensified collaborative strategy; I would certainly consider an amendment to the decision to this effect, and, although I am not sure that a rights program is envisaged for Viet Nam, I certainly agree with the spirit of his amendment.

The reason for this lack of progress is well known. My concern is that no real progress can perhaps now be expected until after November 1992. I would be interested to hear how Mr. Dawson sees the outlook. I think that it is incumbent on those who do not think that Viet Nam should be assisted in normalizing its relations with the international financial community to explain very clearly why they hold this view. One of the more serious consequences of this delay is that Viet Nam may find that it has been prevented from benefiting from a program under the enhanced structural adjustment facility (ESAF). This would further complicate its transition to a market economy.

The Board considered Viet Nam's policies fully at the time of the December 1991 Article IV discussion. It is clear from today's paper that policy problems remain. While progress with structural reform remains encouraging, some serious weaknesses persist in macroeconomic management. It is essential that the authorities do all that they can to tackle these shortcomings immediately, rather than wait for Viet Nam's reintegration into the international financial community.

Viet Nam has experienced frequent short delays in making payments to the Fund. To the extent that these have been largely technical delays, they could be avoided if Viet Nam were able to make advanced acquisitions of SDRs, like several other countries in protracted arrears. I understand that this would first require Viet Nam to clear its modest arrears in the SDR Department. This should be feasible now that Viet Nam's scheduled debt service to the Fund is declining, thanks to the suspension of special charges and the fact that no new trust fund payments are due. Indeed, Viet Nam now has to pay the Fund only SDR 7 million annually to keep its arrears at the agreed level, compared with the payments of over twice that amount that were due a year or two ago. Advanced acquisition of SDRs would improve the punctuality of Viet Nam's payments and represent a further tangible sign of cooperation with the Fund.



Finally, I can say that my own authorities hope very shortly to be able to make an announcement on a bilateral contribution to the financing of a future Fund-supported program in Viet Nam. I can support the draft decision although, as I have said, I would be happy to consider an amendment along the lines suggested by Mr. Landau.

Mrs. Szombati said that Viet Nam's continued reduction of its arrears to the Fund despite the persistently difficult circumstances was welcome. She supported the country's efforts to normalize its relations with the international community. Her chair fully agreed with the staff that those efforts, like the country's adjustment efforts, met the criterion of active cooperation with the Fund, and that it was both justified and urgent to launch a collaborative approach to solve Viet Nam's arrears problem.

Since the most recent review of Viet Nam's overdue obligations to the Fund, the authorities had steadily continued their efforts to stabilize the economy and transform it structurally into a market system, Mrs. Szombati remarked. The success of their policies was clearly visible in the continued 3 percent growth rate and the buoyancy of external trade manifested in 1991. However, as the Board had stressed during the December 1991 Article IV consultation discussion, the high inflation rate, the underlying fiscal weakness, the poor financial situation of state enterprises, and the grim external payments position made it equally clear that the stabilization effort must be intensified and the pace of market reforms accelerated.

The authorities' tightening of financial policies in 1992 seemed to reflect that recognition, Mrs. Szombati observed. Monetary developments, including the slowdown in the growth of credit to state enterprises and the sharp drop in the inflation rate early in the year, had been especially encouraging.

To succeed, however, stabilization policies must be supported by the vigorous pursuit of structural reforms, Mrs. Szombati commented. The authorities should intensify and accelerate the pace of those reforms, especially in the fiscal and monetary areas. In that connection, it should be emphasized that the reform of state enterprises was the key both to stronger financial policies and the generation of the required supply response. As the staff had pointed out, restructuring and privatization had not yet gotten under way to any significant extent, and the creation of a dynamic private sector was still hindered by inefficient resource allocation and the absence of both an appropriate legal framework and developed market institutions. The authorities should move forcefully in those important areas, as appropriate adjustment policies were necessary to build a solid base for growth and stability--especially during the current, difficult period of lack of external support.

Mr. Filosa made the following statement:

If one of the tasks of the Fund is to assist members that are willing to cooperate with it in finding a solution to their protracted arrears, there is no doubt that Viet Nam is among those countries that strongly deserve assistance in their efforts. The achievements of the Vietnamese authorities with respect to both payments performance and the adoption of appropriate economic policies are impressive, especially considering the almost absolute lack of external financing.

Since October 1991, when we most recently met to review Viet Nam's overdue financial obligations, payments made to the Fund have amounted to 94 percent of the obligations falling due, as the Government has given high priority to promptly clearing its arrears to the Fund. The effort of the authorities in that respect is outstanding, both compared with what other countries in protracted arrears have done, and in light of the unfavorable external environment affecting Viet Nam.

A few months have passed since the December 1991 Article IV consultation for Viet Nam, and, obviously, the main economic problems singled out on that occasion have not been solved yet. Nonetheless, many of the measures adopted have gone in the right direction. The strengthening of the tax system and monetary control are welcome steps toward fiscal consolidation, and the further contraction of the fiscal deficit to less than 2 percent of GDP--accomplished mainly as a result of the efforts to contain budgetary expenditure--testifies to the resolve of the authorities with respect to this goal. As to the problem of the highly distorted financial market, some modifications to the interest rate structure have been introduced as a means of narrowing the negative spread between deposit and lending rates; however, it goes without saying that more radical action is warranted.

The efforts of the Vietnamese authorities have taken place in a difficult environment, characterized by the abrupt interruption in aid support from, and trade relations with, the former Council for Mutual Economic Assistance countries. For these reasons, they should be commended for their achievements in both stabilizing the economy and pursuing structural reform. However, it is clear that much needs to be done in order to build up a market economy. First and foremost, the far-reaching restructuring of state-owned enterprises and the reform of the banking sector have to be accorded the highest priority. The lack of financial discipline in the public enterprises has so far imposed the major burden on the authorities and has added inflationary pressures to the already serious situation. Privatization of such enterprises is essential to achieve sustained growth. Unfortunately, the main

obstacle to this seems to be the unavailability of domestic capital.

The major unanswered question seems to be: What should be the right sequencing of actions in the economic adjustment process under way in Viet Nam? Put another way, should the authorities pursue further domestic adjustment in order to obtain the necessary support from the international financial community, or is the attainment of decisive adjustment hampered by the lack of technical and financial assistance from that community?

With no exceptions, we have from the very beginning of the reform process followed the approach of catalyzing financial support in implementing our strategy of assisting formerly planned economies in transition and helping countries to solve their arrears problems with the international financial institutions. From an economic point of view, I do not see any reason to conclude that the case of Viet Nam is different. By treating Viet Nam differently, we would breach the principle of uniformity of treatment.

The outstanding efforts that Viet Nam has made on its own have created the conditions in which its economic situation can be redressed; however, these efforts are unlikely to lead to final success. The agenda for structural reforms is ambitious, and macroeconomic stabilization is still far from being achieved. In these circumstances, unless the necessary technical and financial support is granted by donors and creditors, Viet Nam risks missing the opportunity to repeat the economic miracle accomplished by other countries in its region, including the Republic of Korea. Therefore, while urging the Vietnamese authorities to pursue further domestic adjustment with the same strong determination that they have shown thus far, I hope that much-needed assistance will soon be forthcoming from the international community. In this expectation, I support the amendment to the decision along the lines proposed by Mr. Landau.

Mr. Dawson made the following statement:

As the economic policy situation in Viet Nam is broadly unchanged since the most recent review on that subject, I can be quite brief in my comments. With regard to payments to the Fund, we note and welcome the fact that Viet Nam has basically continued its efforts to keep current; however, we regret--as have other speakers--the recent slippages on payments.

With regard to the economic policy situation, it is clear that Viet Nam is continuing roughly in the right direction. However, in our view, there continues to be a significant need to

tighten financial policies, both fiscal and credit, as well as a need to address promptly the deteriorating financial situation of the public enterprises.

In the view of this chair, the basis for elaborating even a shadow program--not to mention a program that could be supported financially--does not yet exist. This is one of the problems that I have with Mr. Landau's suggested amendment. In the view of my authorities, Viet Nam must do more to demonstrate a willingness to proceed with market-oriented economic reforms than it has to date, and we would thus support the proposed decision in the fashion in which it was originally recommended.

With regard to Viet Nam's relationship with the international financial community, including the Fund, it is quite clear that, not unlike in the Fund itself, there must be a consensus of opinion in support of the effort to clear Viet Nam's arrears. It is clear, however, that there is no such consensus in the international community at present, as the issue was not discussed during the spring 1992 Interim Committee meetings. Although this is not the proper forum to discuss this, I would add that the difficulties that my own authorities, in particular, have with respect to supporting Viet Nam's efforts are well known.

In this respect, I was somewhat curious about Mr. Landau's and Mr. Wright's references to a rights accumulation program. It is my understanding that the conditions for a rights program should include, inter alia, assurances that the financing gap can be closed and indications that a comprehensive economic adjustment program is being implemented; however, in Viet Nam's case, neither of these conditions is present. Therefore, I do not see any need to amend the proposed decision.

However, I do have some sympathy toward Mr. Ismael's suggestion, namely, that, if the current conditions continue to hold, we should not address this issue in quite the same high-keyed fashion as we have in the past. Accordingly, I would be willing to consider the use of a more pro forma review mechanism.

In response to the question that has been raised, I cannot say when the current situation will change. In this respect--and notwithstanding all speculation to the contrary--too much weight should not be given to the assumption that the situation will change after November 1992. Of course, we should not rule out the possibility that the situation will have changed by that time, which, interestingly, is within the six months' deadline for undertaking the next review of Viet Nam's overdue obligations.

Mr. Landau said that the argument employed by Mr. Dawson was circular. If the Fund did not begin to implement the intensified collaborative strategy, Viet Nam would never be able to close its financing gap. Although the exact wording of his proposed amendment was open to change, its intent was to indicate that Viet Nam had met the technical conditions that could allow the implementation of the intensified collaborative approach to begin. In the process of implementing that approach, the question of the adequacy of the financing assurances would be answered; based both on what Mr. Wright had said and the commitments made by other prospective contributors, he was confident that the financing gap could be closed.

Mr. Dawson said that he was not at all certain that the technical conditions for implementing the intensified collaborative approach had been met, given that the Board had not yet reached a consensus on the adequacy of either the financing assurances or the existence of a comprehensive economic adjustment program.

The real reason for the impasse was clear, Mr. Dawson added; in that context, to adopt amendments along the lines proposed by Mr. Landau would only be counterproductive.

Mr. Wright said that his comments on the appropriateness of a rights accumulation program should not be interpreted as an objection in principle to Viet Nam's entering into such a program; rather, it had seemed to him that, in previous discussions, the view had been persuasively put forth that, in light of the nature and size of Viet Nam's arrears, a rights accumulation program might not be the appropriate vehicle for implementing the intensified collaborative approach.

The critical objective was to put in place a Fund-supported program of some kind--whether it be a shadow or a rights accumulation program--in order to effect a solution to Viet Nam's arrears problem, Mr. Wright continued. The difficulties that could arise with respect to financing and policy implementation should not be minimized; however, the decisions that had to be made on financing assurances and program strength in the process of implementing the intensified collaborative strategy were always difficult; by definition, the countries concerned had not compiled an impeccable record of financial and economic management. Other countries with overdue obligations had been required to demonstrate a basic level of cooperation with the Fund, and, as Viet Nam seemed to be in the same starting position, there seemed to be no reason why it should not be allowed on the same level playing field as those other countries and be given the same opportunity to benefit from the intensified collaborative approach.

Mr. Landau said that Viet Nam's economic program was inadequate precisely because the Fund was not working with the authorities to strengthen it. Normally, in those circumstances, the Board would instruct the staff to begin discussions that could lead to the establishment of a Fund-supported program. However, as that option was currently not available, he had proposed merely to amend the decision to recognize that, as Mr. Wright had

noted, Viet Nam had by dint of its own efforts put itself in a position from which it could embark on the intensified collaborative approach.

Mr. Dawson said that, with respect to Mr. Wright's comments about a level playing field, it should be recognized that, because its situation was different, Viet Nam's game was being played on a different playing field from that of the other member countries with overdue obligations to the Fund.

Mr. Posthumus stated that he fully supported Mr. Ismael's statement. In his view, the tone of the decision proposed in the staff paper was very much "business as usual" and thus, in the circumstances, somewhat inappropriate. Mr. Landau's proposed amendment went in the right direction; however, the wording should leave open the possibility that there might be no need for a lengthy rights accumulation program.

The political aspect of the review of Viet Nam's overdue obligations--specifically, the unique involvement of the United States in the matter--was well known, Mr. Posthumus observed. It was not clear to him why that could not be discussed openly at the Board. More to the point, the Board should explore approaches to solving the problem that did not fit precisely into the arrears strategy, such as establishing a program with the authorities that did not involve the United States.

Mr. Esdar said that he supported the proposed decision as it stood. In view of Viet Nam's efforts to meet--as a minimum standard--its current obligations with the Fund, and to pursue a program of structural reform, he agreed with the staff's assessment that the authorities were committed to complying with the cooperation requirement.

However, the stance of monetary policy was a cause for concern, Mr. Esdar continued. A tightening of monetary control and the implementation of reforms in the financial sector, including, inter alia, the establishment of positive real interest rates and the elimination of the adverse interest rate structure--which was characterized by lending rates that were below deposit rates--were essential to bring down the inflation rate. Furthermore, halting the monetary financing of the inefficient state enterprises was a matter of the utmost importance.

The adjustment measures that had been undertaken thus far offered a strong case in support of an effort by the international community in Viet Nam, Mr. Esdar considered. However, a common effort could succeed only if all major countries contributed to it; moreover, the next steps of the arrears strategy could be taken only if that precondition were met.

Mr. Fridriksson said that, despite the unfavorable external environment, Viet Nam had managed to maintain a positive momentum in its economic adjustment and reform efforts. Economic growth had been respectable, and the budget deficit had shrunk further. Owing mainly to inadequate domestic

financial policies, however, the inflation rate remained high; determined efforts should be made to substantially reduce it.

In that regard, Mr. Fridriksson continued, the recent reforms in the monetary area, which had facilitated a strengthening of monetary control, were welcome. However, the poor financial condition of the state enterprises threatened to undermine those efforts, and the restructuring of those enterprises should be given high priority in the period ahead.

In the view of his authorities, Viet Nam was making strong and determined efforts in cooperation with the Fund to correct macroeconomic imbalances and revitalize its economy, Mr. Fridriksson commented. Together with its satisfactory record of payments to the Fund--and, in that context, the information provided by the staff at the beginning of the discussion was welcome--that ought to enable Viet Nam to take full advantage of the collaborative approach in its efforts to clear its overdue obligations. His authorities felt strongly that the international community should make that possible, and, provided that broad international support was mobilized, the members of his constituency were prepared to participate in that effort.

The statement made by Mr. Dawson was disappointing in that regard, Mr. Fridriksson remarked. He associated himself fully with the comments of Mr. Wright and other speakers, who had emphasized the importance of uniformity of treatment. In addition, he supported Mr. Posthumus's suggestion that the Fund should try to find ways to further assist Viet Nam in its adjustment efforts. He could also support the proposed decision, including an amendment that would incorporate the spirit of Mr. Landau's proposal.

Mr. Evans said that he fully supported Mr. Ismael's opening statement. He agreed that, until there was a change of attitude on the part of either the United States or the other major countries that were also declining to participate in the efforts to assist Viet Nam, there was nothing to be gained from further reviews of that country's overdue obligations. That would also be his response--or at least part of it--to Mr. Posthumus's suggestion.

As drafted, the decision suggested that the next review should be held at the time of the 1992 Article IV consultation with Viet Nam or within six months, whichever was earlier, Mr. Evans noted. However, in order to give effect to Mr. Ismael's concern about reviewing Viet Nam's situation too frequently, and in view of the Board's practice of not holding reviews immediately before Article IV consultation discussions, it would be appropriate to hold the review concurrently with the next Article IV consultation discussion, which was due within six months. Accordingly, the phrase "or within six months from the date of this decision, whichever is earlier" should be deleted from paragraph 4.

Mr. Fernando said that his chair would like to know to what extent the delays in Viet Nam's repayment of its overdue obligations were due to the

financial embargo that was in force. Mr. Ismael had indicated that the embargo had played some part in the late receipt of special charges due the Treasurer's Department. It would be particularly interesting to learn from the staff whether, as Mr. Wright had suggested, the frequent short delays in the transmission of Viet Nam's payments to the Fund could be alleviated by allowing the authorities to make advanced purchases of SDRs.

He fully associated himself with the comments made by Mr. Ismael, Mr. Fernando remarked. Furthermore, his chair was prepared to look carefully at the substance of Mr. Landau's proposed amendment. In that respect, it would be helpful to hear the staff's views on the suitability of a rights accumulation program for Viet Nam.

Other speakers had rightly emphasized the shortcomings in the way that the intensified collaborative approach had been applied in some arrears cases--in particular, Viet Nam's, Mr. Fernando added. It was a special cause for concern that the economic adjustment that the authorities were pursuing was not being matched by appropriate financing commitments. For that reason, he was reluctant to take the authorities to task for their apparent policy slippages, as that would reveal an inadequate perspective on the circumstances that prevailed in Viet Nam.

Mr. Ahmed said that he fully supported Mr. Ismael's opening statement, as well as the remarks that Mr. Landau and Mr. Wright had made. In his chair's view, Viet Nam was continuing to cooperate with the Fund and had made considerable progress in difficult circumstances in the areas of both economic stabilization and structural reform. Therefore, Viet Nam not only needed but also deserved the support of the international community. Moreover, his chair agreed with the spirit of Mr. Landau's draft amendment.

Mr. Marino remarked that he also agreed with Mr. Ismael's opening statement and the views expressed by Mr. Landau. In addition, he could support the proposed decision, including the wording suggested by Mr. Landau, which would make more explicit Viet Nam's current standing vis-à-vis the Fund.

The staff representative from the Central Asia Department said that Viet Nam's economic situation would be strong enough to enable the authorities to enter into program discussions with the Fund. Settlement of its overdue obligations through a bridge loan would allow the authorities to begin discussions with the staff on a stand-by arrangement or an arrangement under the ESAF.

It was not clear to what extent the embargo on financial transactions had contributed to the frequent delays in receiving payments from Viet Nam, the staff representative from the Central Asia Department commented.

The staff representative from the Treasurer's Department added that, although, as had been suggested, the advanced acquisition of SDRs by the Vietnamese authorities would help them to overcome some of the technical



delays that had been encountered in making payments, they would not be able to do so until they had settled their arrears in the SDR Department.

Mr. Landau said that, in light of remarks that had been made during the discussion--especially by Mr. Posthumus and the staff--he wished to revise his proposed addition to the end of paragraph 3 of the draft decision. The sentence could read: "The Fund recognizes that Viet Nam has met the economic conditions for a program under the intensified collaborative approach." That reformulation would focus attention on the authorities' economic adjustment efforts, rather than on the more problematic financial conditions.

Mr. Dawson remarked that, although he appreciated the spirit in which Mr. Landau had proposed his amendment, its meaning was not clear to him. His chair could not support the amendment if its thrust was that the only obstacle to a Fund-supported program was the lack of financing assurances. His chair could go along with the addition if its meaning was that the authorities were cooperating with the Fund at a level that, in the absence of the present external problems, could lead to discussions on a Fund-supported program. However, that point of view, was neither new nor controversial, as the staff had initially propounded it--with no disagreement from his chair--at the 1991 Annual Meetings in Bangkok.

Mr. Landau said that he agreed that, at present, it would be premature to suggest that Viet Nam had satisfied all the prerequisites for a Fund-supported program. However, as Mr. Wright had noted, Viet Nam had met the initial conditions of cooperation as manifested in both its economic policy implementation and payments performance. Therefore, the addition to paragraph 3 of the proposed decision could read: "The Fund recognizes that Viet Nam has met the initial conditions for a program under the intensified collaborative approach."

Mr. Esdar said that, although, like Mr. Dawson, he sympathized with the spirit of Mr. Landau's proposal, he did not fully understand what was meant by either "economic conditions" or "initial conditions."

Mr. Evans commented that the consensus of the Board for some time had been that Viet Nam had met the conditions required for a program under the intensified collaborative approach. He, therefore, supported Mr. Landau's proposed amendment.

Mr. Wright said that, as he had already indicated, he broadly supported Mr. Landau's suggestion. However, to preclude the possibility that the wording of the proposed addition would prejudge the nature of the program that should be adopted, the final sentence of paragraph 3 could read: "Viet Nam has met the initial conditions for it to begin to benefit from the intensified collaborative approach."

Mr. Posthumus said that he supported Mr. Wright's proposed amendment.

Mr. Fridriksson remarked that he could also support the amendment as drafted by Mr. Wright.

Mr. Filosa stated that he, too, supported the amendment suggested by Mr. Wright.

Mr. Ismael said that he wondered why Mr. Wright had referred to "initial conditions" in his proposed amendment. Previously, the Fund had not made distinctions between the conditions that countries in arrears to it had to meet. It would seem that either a member country had met all the conditions, or it had not.

Mr. Dawson noted that that was precisely the problem: because of the shortcomings in policy implementation and the lack of financing assurances, Viet Nam could not be said to have met all of the conditions that would enable it to benefit from the intensified collaborative approach. Therefore, he could not support any decision to that effect. He could, however, go along with the formulation that Mr. Wright had suggested.

Mr. Esdar suggested that, alternatively, the amendment could read: "Viet Nam has met the cooperation requirement and would benefit from the intensified collaborative approach."

Mr. Dawson said that, as he was not sure whether the phrase "cooperation requirement" had the same meaning as "initial conditions," he wished to stick with the formulation proposed by Mr. Wright.

Mr. Landau stated that, although, like Mr. Ismael, he would have preferred to have omitted "initial" from the phrase "initial conditions," he could, in the spirit of consensus, support Mr. Wright's draft amendment.

Mrs. Szombati said that she also supported Mr. Wright's proposal.

Mr. Fukui commented that, although he could go along with Mr. Wright's proposed amendment, it was a cause for some concern that the phrase that had been inserted into the text of the decision--"initial conditions"--had not been defined clearly, as, for consistency's sake, other member countries with overdue obligations to the Fund should be evaluated on the basis of those same conditions.

Mr. Posthumus suggested that the word "initial" could be omitted from Mr. Wright's proposed amendment, as the rest of the sentence--"for it to begin to benefit from the intensified collaborative approach"--made it redundant.

Mr. Wright said that, as Mr. Ismael and Mr. Posthumus had rightly noted, to include both "initial" and "begin" in the proposed addition to paragraph 3 was not ideal from a grammatical point of view. However, as Mr. Landau had observed, the sentence should probably be left unchanged if it was broadly acceptable to the Board in that form.

Mr. Dawson said that he preferred to leave Mr. Wright's proposed addition to paragraph 3 in its original form.

The Acting Chairman noted that the consensus of the Board was to append a sentence to paragraph 3 of the decision that would read: "Viet Nam has met the initial conditions for it to begin to benefit from the intensified collaborative approach." The Board had also agreed to delete the phrase "or within six months from the date of this decision, whichever is earlier" from paragraph 4 of the decision.

The Executive Board then took the following decision:

1. The Fund has reviewed further the matter of Viet Nam's overdue financial obligations to the Fund in light of the facts and developments described in EBS/92/94 (5/28/92).

2. The Fund welcomes the continuing cooperation of the Vietnamese authorities in working toward the elaboration and implementation of a comprehensive program of macroeconomic and structural adjustment. The Fund further welcomes the authorities' determination to pursue comprehensive adjustment policies aimed at sustained economic growth, financial stability, and balance of payments viability, and in this regard stresses the need for a strengthening of the adjustment policies to improve tax administration and accelerate the banking and structural reforms. The Fund intends to continue to collaborate actively with Viet Nam and continues to stand ready to assist Viet Nam in any appropriate way.

3. The Fund welcomes the payments made by Viet Nam since the last review. The Fund notes the authorities' intention to continue to make payments equivalent to obligations falling due to the Fund, pending full settlement of Viet Nam's arrears. Nevertheless, the Fund regrets the continued existence of Viet Nam's arrears to the Fund, which places a financial burden upon other members and reduces Fund resources needed to help others. The Fund stresses that full settlement of arrears to the Fund should be given the highest priority, urges Viet Nam to effect their prompt settlement, and notes the authorities' continuing efforts toward settlement. The Fund again calls on the membership to cooperate fully in the implementation of the collaborative approach so as to facilitate a speedy and successful clearance of Viet Nam's overdue obligations to the Fund. Viet Nam has met the initial conditions for it to begin to benefit from the intensified collaborative approach.

4. The Fund will review the matter of Viet Nam's overdue financial obligations to the Fund again at the time of the 1992 Article IV consultation with Viet Nam in the light of actions

taken by Viet Nam in the meantime to settle its arrears to the Fund and to implement a comprehensive adjustment program.

Decision No. 10034-(92/71), adopted  
June 3, 1992

#### DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/92/70 (6/1/92) and EBM/92/71 (6/3/92).

3. OPERATIONAL BUDGET FOR JUNE-AUGUST 1992

The Executive Board approves the list of members considered sufficiently strong as set out in EBS/92/86 (5/19/92), page 2, footnote 1 and the operational budget for the quarterly period beginning June 1, 1992 as set out in EBS/92/86.

Decision No. 10035-(92/71), adopted  
June 1, 1992

4. SDR DEPARTMENT - DESIGNATION PLAN FOR JUNE-AUGUST 1992

The Executive Board approves the designation plan for the quarterly period beginning June 1, 1992 as set out in EBS/92/85 (5/19/92).

Decision No. 10036-(92/71), adopted  
June 1, 1992

5. ADMINISTRATIVE BUDGET, FY 1992 - TRANSFER OF APPROPRIATIONS

The Executive Board approves the proposals set forth in the memorandum attached to EBAP/92/108 (5/26/92).

Adopted June 2, 1992

6. STAFF TRAVEL ALLOWANCES

The Executive Board approves the recommendation relating to staff travel allowances, as set forth in EBAP/92/109 (5/28/92).

Adopted June 1, 1992

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Director as set forth in EBAM/92/15 (5/29/92) is approved.

8. TRAVEL BY MANAGING DIRECTOR

Travel by the Managing Director as set forth in EBAP/92/110 (6/2/92) is approved.

APPROVED: March 3, 1993

LEO VAN HOUTVEN  
Secretary

