0404

NOT FOR PUBLIC USE

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 93/8

3:00 p.m., January 15, 1993

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-Tuwaijri
G. K. Arora	L. E. N. Fernando
	Wei B.
T. C. Dawson	
J. de Groote	J. Prader
E. A. Evans	
I. Fridriksson	J. A. Solheim
H. Fukui	N. Tabata
J. E. Ismael	K.-T. Hetrakul
D. Kaeser	K. Link
A. Kafka	J. C. Jaramillo
	G. Y. Glazkov, Temporary
	J. Papadakis
	E. Quattrociocche, Temporary
J.-P. Landau	I. Martel
R. Marino	G. Torres
	O. Kabbaj
	M. J. Mojarrad, Temporary
	B. S. Dlamini
D. Peretz	J. Dorrington
	R. K. W. Powell, Temporary
G. A. Posthumus	O. Havrylyshyn
	R. Meron, Temporary
C. V. Santos	
S. Schoenberg	B. Esdar
A. S. Shaalan	Y. Y. Mohammed
D. E. Smee	G. F. Murphy
	G. Lindsay-Nanton, Temporary
A. G. Zoccali	

L. Van Houtven, Secretary and Counsellor
C. P. Clarke, Assistant
S. Yeager, Assistant

1. Croatia and Slovenia - Succession to Membership . . . . Page 3

2. Administrative and Capital Budgets - Medium-Term Outlook; Administrative Budget, FY 1993 and Capital Budgets, FY 1989, FY 1992, and FY 1993 - Supplementary Appropriations and Transfer of Appropriations; and Increase in Personnel Ceiling . . . . Page 4
3. Viet Nam - 1992 Article IV Consultation; and Overdue Financial Obligations - Review Following Declaration of Ineligibility . . . . Page 4
4. Executive Board Travel . . . . Page 39

Also Present

IBRD: D. Dollar, D. Leipziger, East Asia and Pacific Regional Office. Administration Department: G. Rea, Director; H. J. O. Struckmeyer, Deputy Director; T. Cole, A. D. Goltz, W. B. Hobbs, R. Ramaciotti. Central Asia Department: H. Neiss, Director; B. B. Aghevli, Deputy Director; M. Bell, M. Braulke, Y. Horiguchi, I.-S. Kim, G. Y. Meredith. European I Department: M. Russo, Director; J. Artus, Deputy Director; A.-M. Gulde, L. J. Lipschitz, S. G. Lipworth, S. Nolan, P. M. Thomsen, C. M. Watson. External Relations Department: G. P. Newman, M. Seeger. Fiscal Affairs Department: M. A. Tazi. Legal Department: F. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; P. De Boeck, R. B. Leckow. Policy Development and Review Department: T. Leddy, Deputy Director; V. Galbis, G. R. Kincaid, E. van der Mensbrugghe. Secretary's Department: J. W. Lang, Deputy Secretary; A. Jbili, A. Leipold, A. Mountford. Treasurer's Department: D. Williams, Treasurer; G. Wittich, Deputy Treasurer; L. Aylward, J. Corr, Z. Farhadian-Lorie, P. R. Menon, M. B. O'Brien. Office of the Managing Director: P. R. Narvekar, Special Advisor to the Managing Director; R. Saunders, Personal Assistant to the Managing Director. Office of the Deputy Managing Director: A. Wright, Special Advisor to the Deputy Managing Director; J. Hicklin. Office of Budget and Planning: L. A. Wolfe, Director; T. U. Diamond, N. S. Jackson, P. J. McClellan, P. J. McPhillips, M. Oka, H. Wiesner. Advisors to Executive Directors: M. B. Chatah, S. K. Fayyad, B. R. Fuleihan, Hon C.-W., W. Laux, M. Nakagawa, Y. Patel, B. A. Sarr, A. Törnqvist. Assistants to Executive Directors: S. Al-Huseini, D. A. Barr, G. M. Blome, Chen M., S. B. Creane, C. D. Cuong, D. Desruelle, A. Galicia, C. Gaseltine, A. Giustiniani, M. A. Hammoudi, M. E. Hansen, G. A. Heinen, O. A. Himani, C. J. Jarvis, J. Jonas, K. J. Langdon, J. Mafararikwa, G. J. Matthews, F. Moss, S. Narube, S. del C. Olgiati, J. K. Orleans-Lindsay, P. Rubianes, F. A. Sorokos, T. P. Thomas.

1. CROATIA AND SLOVENIA - SUCCESSION TO MEMBERSHIP

The Chairman noted that the Executive Board had already been informed that both Croatia and Slovenia had accepted their respective shares in the assets and liabilities of the former Socialist Federal Republic of Yugoslavia (SFRY) in the Fund. Croatia and Slovenia had subsequently notified the Fund that they agreed, in accordance with their laws, to succeed to the membership of the former SFRY, including participation in the SDR Department, on the terms and conditions specified by the Fund, and that they had adopted the necessary legislation to enable them to succeed to such membership. They had also eliminated their respective arrears to the Fund and in the SDR Department; confirmation of the necessary financial transactions had been received from the interested central banks. Therefore, the only condition that remained to be fulfilled before Croatia and Slovenia could succeed to membership was a finding by the Executive Board that each country was able to meet its obligations under the Articles.

The Fund's experience with each of the two countries, in terms of communications, provision of information, and settlement of arrears, had not shown any inability on their part to perform their membership obligations, the Chairman remarked. Moreover, neither of them was subject to UN sanctions. As prescribed in the Board decision of December 14, 1992, it was for the Executive Board to determine whether Croatia and Slovenia, respectively, were able to meet their obligations under the Articles.

The General Counsel noted that if a positive finding on the ability of either or both countries to meet the obligations under the Articles was made by the Executive Board, that country would immediately be a member of the Fund, effective December 14, 1992, the date on which the Board had found that the SFRY had ceased to exist and, therefore, had ceased to be a member of the Fund.

Mr. Dawson stated that his chair believed that both countries had met the conditions for succession to membership.

The Chairman, noting the agreement of other Directors, said that it was his understanding that the Executive Board found that both Croatia and Slovenia were able to meet their obligations under the Articles. That finding completed the succession to membership process for those two countries. Accordingly, they were members of the Fund, with effect as of December 14, 1992, the date of the Fund's finding of dissolution of the SFRY. In accordance with the Fund's established practice, a statement that Croatia and Slovenia had become members of the Fund would be communicated to all members of the Fund, all Governors, as well as the UN and the Specialized Agencies. A press release would also be issued.

2. ADMINISTRATIVE AND CAPITAL BUDGETS - MEDIUM-TERM OUTLOOK; ADMINISTRATIVE BUDGET, FY 1993 AND CAPITAL BUDGETS, FY 1989, FY 1992, AND FY 1993 - SUPPLEMENTARY APPROPRIATIONS AND TRANSFER OF APPROPRIATIONS; AND INCREASE IN PERSONNEL CEILING

The Executive Directors continued from the previous meeting (EBM/93/7, 1/15/93) their consideration, in restricted session, of a memorandum by the Managing Director on the budgetary outlook in the medium term (EBAP/92/167, 12/24/92; and Sup. 1, 12/24/92) and a background paper on activities and resource utilization in financial years (FY) 1992-94 (EBAP/92/168, 12/28/92); a memorandum by the Managing Director on a request for supplementary budget appropriations for FY 1993, including an increase in the staff ceiling under the FY 1993 Administrative Budget, and on the midyear review of administrative and capital expenses for FY 1993 (EBAP/92/169, 12/28/92); and a memorandum by the Deputy Managing Director on the Fund's personnel policies and objectives (EBAP/93/1, 1/5/93).

The Executive Board took the following decisions:

Administrative Budget, FY 1993 and Capital Budgets, FY 1989, FY 1992, and FY 1993 - Supplementary Appropriations and Transfer of Appropriations

The Executive Board approves the supplementary appropriations and transfer of appropriations as set forth in the memorandum attached to EBAP/92/169 (12/28/92).

Adopted January 15, 1993

Administrative Budget, FY 1993 - Increase in Personnel Ceiling

The Executive Board approves the staffing increases and related supplementary budget appropriations as set forth in the memorandum attached to EBAP/92/169 (12/28/92).

Adopted January 15, 1993

3. VIET NAM - 1992 ARTICLE IV CONSULTATION; AND OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors considered the staff report for the 1992 Article IV consultation with Viet Nam (EBS/92/214, 12/18/92; Cor. 1, 12/28/92; and Sup. 1, 12/29/92), together with a staff paper on the further review of Viet Nam's overdue financial obligations to the Fund following the declaration of its ineligibility to use the general resources of the Fund, effective January 15, 1985 (EBS/93/5, 1/7/93).

The Deputy Director of the Central Asia Department made the following statement:

> Following the National Assembly meeting in early January 1993, the Vietnamese authorities have released updated economic data for 1992 as well as an outline of the 1993 budget. This information does not significantly change the picture of developments in 1992 provided in EBS/92/214. However, the provisional budget for 1993, if implemented as it stands, would imply a more expansionary fiscal policy than discussed during the consultation mission.
>
> New estimates for 1992 indicate economic growth of about 8 1/4 percent, compared with the earlier projection of 7 1/2 percent. This revision is associated with stronger than expected growth in agricultural and services output. In line with seasonal patterns, inflation rose somewhat to an average monthly rate of 1 3/4 percent during November-December 1992, implying a rate through the year as a whole in line with the earlier estimate of 18 percent. The exchange rate continued to strengthen in late 1992, leading to an appreciation of the dong of about 13 percent against the U.S. dollar through the year; the gap with the parallel market rate has remained small in recent months.
>
> Revised data on external developments during 1992 indicate higher values of both imports and exports. Exports of crude oil reached 5.4 million metric tons (MT) compared with the earlier estimate of 5.2 million MT, while rice exports stood at 2 million MT compared with the earlier estimate of 1.5 million MT. The value of imports is now estimated to have risen by 7 percent, in contrast with the earlier projection of an 8 percent contraction. Correspondingly, the large negative value for errors and omissions in the balance of payments shown earlier, which was believed to represent, in part, unrecorded imports, has been reduced substantially. The revised higher imports are more consistent with other developments in the economy, in particular the strong growth in domestic activity and the appreciation of the real exchange rate. The estimated trade surplus now stands at 2 1/2 percent of GDP, compared with the initial projection of 4 1/2 percent of GDP. Other adjustments to services and transfers imply that the current account surplus of 3 1/4 percent of GDP remains similar to the earlier estimate. New data for foreign direct investment are higher than previous figures, and the overall external payments position is likely to have been in broad balance compared with the earlier projection of a $180 million deficit. In terms of trade policy, it has been reported that 7 of the 17 items added to the list of prohibited imports in September 1992 were removed in December 1992.

Revised budgetary data for 1992 do not differ significantly from those in EBS/92/214. Minor reclassifications have resulted in a slightly greater contribution of state enterprises to total government revenues. Data on monetary developments show that credit policies have remained tight, with no bank financing of the budget.

The 1993 budget outline, however, portrays a different picture from that discussed with the staff in October 1992. While revenues are projected to increase significantly in real terms, this increase would be outweighed by the planned rise in both current and capital expenditures. If implemented, the increased expenditures would lead to a widening of the budget deficit to about 6 percent of GDP from 2 1/4 percent of GDP in 1992. The rise in the deficit assumes the increased availability of foreign resources, as domestic financing is projected to remain close to the 1992 level of 1/2 of 1 percent of GDP. The staff has not yet been able to analyze and discuss with the authorities the budget outline in detail. The prospects for a rise in foreign financing remain uncertain, and the spending increase may not materialize. Nevertheless, the staff would caution against a sharp increase in the fiscal deficit, which could jeopardize macroeconomic stability.

The National Assembly approved in December 1992 various amendments to Viet Nam's Foreign Investment Law that allow private firms to enter into joint ventures with foreign companies and provide further tax and operating concessions to foreign investors. In particular, the maximum duration of joint ventures has been extended from 20 to 70 years, and tax incentives now apply to wholly owned foreign investment projects.

Mr. Ismael made the following statement:

During the past year, Viet Nam was able, once again, to sustain its efforts in an impressive manner toward further economic adjustment and the establishment of a market economy. These efforts were again made without the needed financial assistance from the international financial community, and with both the continued imposition of U.S. trade and financial embargoes and the loss of substantial aid from traditional sources. No doubt, the absence of financing has impeded Viet Nam's economic progress and augmented the pain of adjustment, thus hampering its ability to sustain the momentum of the ongoing reform process.

The important policy measures that were taken by the authorities in 1989, such as price liberalization and elimination of subsidies, were expanded in 1992 to correct the structural imbalances further and to stabilize the economy. Credit to the state enterprises was severely tightened, and a firm brake was put on the use of money creation by the central bank to finance budget deficits, which were financed instead by the issuance of treasury bills for current expenditure needs, and government bonds for capital investment purposes. At the same time, current expenditures--especially administrative spending--were drastically curtailed, while tax revenues were increased. In July 1992, a positive interest rate structure was put in place.

As a result, real GDP growth was estimated to have reached 7.4 percent at the end of 1992, compared with 4.7 percent of GDP in 1991, and inflation fell to an annual rate of 18 percent, compared with 67 percent earlier. On the financial front, credit expansion decelerated from 42 percent in 1991 to 23 percent in 1992. Total liquidity, likewise, slowed down from 79 percent in 1991 to 23 percent in 1992, and the overall fiscal deficit--albeit up from 0.2 percent in 1991 to 2.3 percent in 1992--has remained small, compared with 6.4 percent in 1990 and 8.6 percent in 1989. On the external front, the trade balance moved into surplus for the first time, with oil sales and sharp increases in rice production boosting exports to $2.3 billion against $1.9 billion in imports; international reserves increased from $91 million in 1991 to $165 million in 1992, and the exchange rate strengthened from D 11,975 per U.S. dollar in 1991 to D 10,840 per U.S. dollar in 1992.

As in many of the Central and Eastern European countries, the privatization of state enterprises has encountered many complications. Initially, the least efficient of the state enterprises were to be privatized; however, few survived, and most had to be abandoned or returned to the state. State enterprises are now categorized as: "losers"--about 40 percent--which will be liquidated eventually; "needing some help but viable"--about 30 percent; and "most efficient and able to operate under market conditions"--20 percent. Priority is to be given to the latter category, with the state rescuing or disposing of the rest. Because of lack of available investment capital and managerial experience in the private sector, most privatization has taken place in relatively small enterprises or, in the case of larger enterprises, in joint ventures with foreign investors. The best results have been in the agricultural sector, where most state farms have been dismantled and farmers are permitted to own land and market their own produce without interference.

While the strength of the economy has been attributed to the policy of renovation, the authorities acknowledge that much more will need to be done--especially when external financing becomes available--in order to ensure that Viet Nam can be integrated quickly into the international community. In the meantime, the major policy stance to be pursued in 1993 is basically to build on the progress achieved in 1992, consolidate gains, and move the economy forward. In this connection, the following essential targets are to be achieved: GDP is to grow at about 7 percent, inflation is to be kept below 15 percent, the exchange rate is to be stabilized around the prevailing rate, and exports are to increase by about 8 percent.

To achieve these targets, the authorities intend to focus on the following efforts, among others. On the fiscal front, the level of the budget deficit and the positive real interest rates achieved in 1992 will be maintained; last year's policy of no bank financing of the budget deficit will be continued; civil service wage reform will be introduced; and the settlement of foreign debt arrears will be initiated, with the use of foreign borrowing to be limited to financing the rehabilitation of infrastructure rather than routine expenditures. On monetary policy, greater access to bank credit will be given to the private sector. On foreign investment, non-debt-creating capital inflows in the form of joint ventures, or even 100 percent foreign investment, will be further facilitated by the wide-ranging amendments to the Foreign Investment Law recently approved by the National Assembly. With regard to state enterprises, their reform will be intensified by means of the so-called corporatization of profitable state enterprises through the sale of 50 percent to 100 percent of their shares to the workers, the public at large, and foreign investors; and legislation on property ownership and bankruptcy of enterprises will be introduced.

With regard to Viet Nam's arrears to the Fund, Viet Nam has continued to make payments to the Fund equivalent to its maturing obligations. In the process, Viet Nam also became current in the SDR Department on August 26, 1992, and, as a consequence, the suspension of Viet Nam's right to use SDRs was terminated on September 8, 1992. Moreover, since January 6, 1993, Viet Nam has been able to further reduce its outstanding arrears to the Fund to SDR 100.1 million, or SDR 1.1 million below the end-1988 level to which it was initially committed.

The Vietnamese authorities reiterate their commitment to continue to make payments equivalent to obligations falling due, pending full settlement of Viet Nam's overdue obligations to the Fund. In order to fully settle its arrears to the Fund, however, Viet Nam needs international support. It continues to look in good faith to the intensified collaborative approach as the appropriate means of solving its arrears problem with the Fund. In a recent message, the Governor of the Fund for Viet Nam conveyed the Prime Minister's appeal to Fund management that a Support Group meeting for Viet Nam be convened again as soon as possible. Indeed, in light of recent developments, the bilateral issue between the United States and Viet Nam should no longer stand in the way of international cooperation in helping Viet Nam eliminate its arrears to the Fund.

Viet Nam has been able to traverse some distance along the road of transition to a market economy. Whether the remaining portion of that road can be traversed soon depends on whether the international constraints on Viet Nam's economy can be removed. The country should not continue to be hampered by uncertainty with regard to the timeliness and completeness of international support for its endeavors. The time has come for us to realize that the gross unfairness experienced by Viet Nam should be removed.

Extending his remarks, Mr. Ismael said that he had been informed by his Vietnamese authorities that morning that the monetary authorities shared the staff's concerns about the expansionary stance of the fiscal policy program for 1993. Those concerns were still being debated in the Cabinet, with the major objective of reining in the deficit for 1993. In the view of the monetary authorities, corrective action was called for both on the revenue and the expenditure sides of the budget. Steps in that direction had been taken. In a policy meeting the previous day, targets had been agreed to improve tax collection at the local level. Local authorities would have to shore up their finances across the board. Localities in surplus would have to increase their surplus positions; localities in deficit would have to balance their books.

On the expenditure side, Mr. Ismael continued, action would be conditioned by the success of efforts to enhance tax collection. While the cost of the salary reform was put at D 4 trillion, restraints were in order on the additional incomes that civil servants received through various budgetary channels. Those payments, which should be included in the government wage bill, needed to be made transparent, regularized, and more tightly controlled. In the implementation of the salary reform, there would be two phases. The experience in the first phase, scheduled to last through April 1993, would be the basis from which to start the second phase, which was to begin in October 1993. In the second phase, adjustments would be made as needed in the light of the earlier experience. In the area of capital investment, budgeted outlays remained well below needs. Nevertheless, actual outlays would have to respond to the availability of foreign financing.

The monetary authorities emphasized that there would continue to be no central bank financing of the Government in 1993, Mr. Ismael stated. They were aware that the financial policy mix needed to be improved. Efforts aimed at budgetary restraint should be complemented by a cautious adjustment in monetary policy, while preserving its overall restrictive stance. After the early part of the year, when inflation tended to be seasonally high, nominal interest rates could be lowered, bringing them more closely in line with prevailing inflation rates. This should help facilitate the stabilization of the exchange rate at about D 10,000 per U.S. dollar.

The Chairman remarked that Mr. Ismael's remarks were very important, especially the indication that there would be no central bank financing of the budget in 1993.

Mr. Landau made the following statement:

Despite virtually no external assistance, a trade embargo, and the collapse of trading arrangements with the former Council for Mutual Economic Assistance (CMEA), the very courageous reforms undertaken by the Vietnamese authorities since 1989 aimed at changing Viet Nam from a centrally planned economy to a market-based one have borne fruit. The results attained so far are remarkable.

Real GDP growth has risen from 5.1 percent in 1990 to 7.4 percent in 1992, or 8.25 percent according to the latest estimate. The deceleration of inflation is a spectacular achievement. Compared with rates on the order of 70 percent in 1990-91, inflation dropped to less than 20 percent in 1992. This is all the more impressive since the initial objective of the authorities was to bring inflation down to 30 percent. Such progress is not the fruit of hazard; it is strongly correlated to the drastic tightening of financial policies.

An important contribution to the deceleration of inflation was the authorities' determination in putting in place a more restrictive monetary policy than officially announced. In 1992, credit growth was held below initial targets. This chair welcomes the intention of the authorities to continue their policy of restricting credit to loss-making state enterprises so as to let credit available to profitable state enterprises and the private sector grow.

It is also worth underlining the rationalization of the interest rate structure and the shift to positive levels of real interest rates. At the same time, the authorities' plan to reduce nominal interest rates gradually as inflation expectations subside seems appropriate.

Another important factor in the reduction of inflation was the sharp appreciation of the dong in 1992, after its strong depreciation from 1989 to 1991. I agree with the staff that, should the external balance continue to improve and foreign capital inflows rise, a further liberalization of the trade environment should have a beneficial impact on reducing upward pressure on the exchange rate.

The overall fiscal deficit has increased in 1992 to 2.3 percent of GDP from 0.2 percent of GDP in 1991. This is due partly to severance payments to laid off public sector employees and a large increase in capital spending, notably the construction of an electric power line between the north and south of the country.

Particularly important will be the pursuit of the authorities' welcome policy of refraining from any monetary financing of the deficit and trying to contain current expenditures. Of course, should a higher than anticipated level of foreign financing materialize, raising spending on productive infrastructure investment will prove a necessity.

Concerning structural policy, the momentum and consistency of the reform of the transforming economy are commendable and need to be pursued actively. Let me emphasize only two areas where further reform is central to the consolidation of gains already achieved in macroeconomic stabilization and to the pursuit of strong growth.

On state enterprises, much remains to be done. An auditing of state enterprises is certainly a welcome development. But the formulation of a plan for closing nonviable enterprises, divesting some, and restructuring others should be a high priority. In this context, a resolution of the bad debt problem is crucial to both a restructuring of state enterprises and the strengthening of the financial sector. In the financial sector, new steps have to be taken to eliminate existing distortions in financial intermediation.

Let me now turn to the question of Viet Nam's overdue obligations. 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 share the staff's view that the authorities are continuing to cooperate actively with the Fund within the context of the collaborative approach. The arrears strategy approved by the Board is clearly 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.

As I said, the second condition has, I feel, been fully satisfied. Moreover, on the first condition, it is clear that the country has demonstrated its commitment to cooperate with the Fund. Since 1988, Viet Nam has made payments more than sufficient to meet its obligations to the Fund that have fallen due since then. It has, thereby, reduced the level of outstanding arrears below the end-1988 level. What is particularly striking in this performance is that Viet Nam succeeded in reducing the 1988 level of arrears by paying more than was strictly necessary to meet new maturities falling due, and not only through its burden sharing refunds. In the same vein, since the last review, Viet Nam has made payments to the Fund equivalent to 117 percent of obligations falling due in this period. In the process, Viet Nam also became current in the SDR Department in August 1992, and, as a consequence, the suspension of Viet Nam's right to use SDRs was terminated in September 1992.

It is the feeling of my authorities that an additional step forward should be accomplished by our institution. By indicating, in our decision of today, our willingness to engage in substantial discussions aimed at building up a full-fledged stand-by arrangement or ESAF arrangement, we would go a long way toward signaling Viet Nam that it is worth, for this country, pursuing its effort and that there is indeed a light at the end of this long tunnel. Accordingly, I will propose an amendment to the draft decision later in the discussion.

We certainly realize the political situation that some other chairs are facing, which restricts their ability to support such an additional step forward. We know what the constraints are. For those reasons, we do not expect to get their approval, nor are we trying to complicate the already difficult bilateral dialogue. But we would hope that they would not oppose what is, after all, only a small incremental step, which, in many respects, falls far below what has already been decided on a bilateral basis. I would add that such a step would go some way toward restoring the ability and credibility of our institution to treat all of its members on a fair and equitable basis.

Mr. Fukui made the following statement:

Viet Nam's economy performed remarkably well last year. Major achievements include a sharp reduction in inflation, a strong recovery in growth, and a substantial improvement in the external position. These improvements are well described in the staff paper.

These remarkable achievements are, without doubt, the result of the authorities' efforts since 1991 to improve the fiscal balance, mainly through expenditure cuts and much tighter monetary policy, which have been in place since the beginning of 1992. Mindful of this, the authorities should maintain their tight financial policies in the period ahead in order to consolidate these achievements. A stable macroeconomic environment, supported by tight financial policies, would enable the authorities to intensify their efforts on the structural front, where much remains to be done.

In this connection, I am worried about the expansionary stance of the 1993 budget, which could widen the budget deficit from 2 1/4 percent of GDP in 1992 to about 6 percent of GDP in

1993. I would caution the authorities not to lessen their adjustment efforts prematurely, and I would advise them to maintain their tight policy stance so that they can achieve more progress on the structural side with less pain than otherwise. Having said this, I generally endorse the staff's assessment and would like to stress only a couple of points.

On fiscal policy, I welcome the fact that the deficit was financed entirely outside the banking system last year. Clearly, this resulted in a sharp reduction in the inflation rate. The authorities should adhere to the same stance in the coming year. On the expenditure side, I agree that a major item on the 1993 agenda is the completion of the wage reform for civil servants and state enterprise employees. Further cuts in employment are also needed, especially in the number of military personnel. Since no new revenue sources are anticipated in 1993, for the time being the authorities should strengthen tax administration. Technical assistance from the Fund would be helpful in this regard. However, the authorities also need to take bolder steps in tax reform, to streamline the complicated tax structure and widen the tax basis. Fiscal revenue should be strengthened to finance the much-needed investment expenditures.

On monetary policy, I would advise the authorities to maintain their current tight stance. However, depending on the developments on the inflation front, the authorities may have more room to lower nominal interest rates to support activities in the private sector. I also would like to stress the need to develop indirect measures to control liquidity. Given that the strong pressure for an appreciation of the exchange rate is expected to continue and that the authorities will need a strong device to sterilize the injected domestic liquidity through market intervention, the authorities need to accelerate their efforts to establish indirect monetary control measures. I would like to know the authorities' views on how they plan to prepare for the possible strong need in the near future to effectively sterilize excess domestic liquidity.

Structural reforms need to be accelerated in virtually all areas. I continue to be concerned about the slow progress in state enterprise reform. The need to create a strategy or timetable in this regard has been stressed several times in the Board. But we have not received any response. I am also worried about the strengthening of import restrictions last year, although I note that some of the additional restrictions have already been reversed. Trade restrictions should be used only on a temporary basis and eliminated as soon as possible. I welcome the recent amendments to the Foreign Investment Law that allow stronger ties between Viet Nam's capital and foreign capital.

Let me comment briefly on Viet Nam's arrears to the Fund. It is encouraging that the authorities have continued to make payments to the Fund on a timely basis and have further reduced their arrears. The authorities meet the criteria for cooperation with the Fund. In light of this, my authorities strongly hope that Viet Nam's relations with the Fund will be normalized as soon as possible once a consensus on this has been achieved in the international community.

With these comments, I support the proposed decision.

Mr. Quattrociocche made the following statement:

In trying to assess the performance of the Vietnamese economy, due regard has to be given to the fact that all the progress achieved so far by the authorities has materialized in the context of an almost absolute lack of external financing. The demonstrated determination to come to grips with the many and complex economic problems of the country has proven to be the most valuable asset of the Government thus far. On the other hand, valuable as it is, this asset by itself cannot be expected to overcome all the obstacles. This is why it is this chair's conviction that, in dealing with Viet Nam, this institution should follow its usual approach of catalyzing financial support, as it always does to help countries solve their arrears problems.

A great deal of success has characterized the action taken by the authorities toward reducing the macroeconomic imbalances that affect the country, thanks in particular to the adoption of firm financial policies. In the fiscal area, the restraint in the support extended to state enterprises and the compression of current and capital expenditures of the Central Government have considerably helped to reduce the budget deficit. Yet, most recently the situation has deteriorated somewhat, and a deficit of 3 percent of GDP is expected in 1993; according to the latest information provided by the staff, this figure could even be on the order of 6 percent of GDP, although the news communicated by Mr. Ismael is somewhat reassuring in this respect.

Notwithstanding the virtual elimination of monetary financing of the budget deficit that has been successfully pursued thus far, the risks entailed in a premature relaxation of the fiscal stance do not appear worth taking at this stage, even assuming that the expected increase in foreign resources would materialize. On the overall strategy to keep budgetary developments under control, we fully share and endorse the recommendations made by the staff.

In the monetary field, remarkable success was recorded in fighting inflation, but once again the opportunity should not be missed to build upon this accomplishment if long-lasting results are to be achieved in curbing inflation rates. This is why we strongly recommend that the Vietnamese Government follow the advice of the staff to continue the process of disinflation through 1993. The most urgent need seems to be a comprehensive reform of the financial system, to take the central bank out of the quicksand of an inefficient and undercapitalized banking sector that, together with the presence of nonviable state enterprises, makes it impossible for the central bank to run an independent monetary policy.

While concurring with the staff on the advisability of sticking to direct controls on credit expansion--at least for the time being--we consider it vital to take substantial steps to develop a well-functioning financial system for two reasons. First, this would allow an optimal channeling of scarce domestic savings to more profitable opportunities. Second, the parallel development of financial instruments would allow the central bank to improve its control of monetary developments. In the present situation, in fact, the lack of adequate tools means that the ongoing increase in foreign reserves potentially conflicts with the achievement of stable domestic monetary conditions, even though at the same time the staff emphasizes the desirability of a further increase in the level of foreign exchange reserves in relation to imports. In this respect, I fully share the comments made by Mr. Fukui.

Major structural difficulties still require long-term and intense policy efforts for the country to be able to step onto a self-propelling development path. A comprehensive program of structural reforms is to be given absolute priority, including the establishment of a legal framework for a market-oriented economy. In this connection, it is unfortunate that the Vietnamese Constitution still holds the principle that the state owns all property, thus certainly not contributing to the introduction of a clear legal basis for investors. The two scenarios envisaged by the staff for medium-term prospects for the country clearly show how dependent the future of the Vietnamese economy is upon a clear resolution of legal issues like this one.

Turning to payments performance, we note that the authorities remain committed to a prompt clearance of arrears to the Fund. Their undiminished efforts produced better results in the past semester than those recorded between October 1991 and June 1992--namely, payment of 117 percent of obligations falling due, compared with 94 percent. Once again, this is something that should be judged not only in comparison with the performance of other countries in protracted arrears, but also as taking place in a context that can only be defined as one of the least favorable. The extremely tight foreign assistance situation the country is facing is, in fact, imposing a burden that, in the light of the serious distortions affecting the economy, might eventually prove to be unbearable.

For these reasons, on behalf of this chair, I support the proposed decision.

Mr. Esdar made the following statement:

Like previous speakers, I would like to commend the Vietnamese authorities for the impressive progress that has been achieved toward macroeconomic stabilization. It is remarkable that this progress has been achieved without--or with only small--external financial support. This confirms and demonstrates that it is possible to adjust an economy while maintaining admirable growth performance without making reform efforts conditional on financial support.

Given the magnitude of the imbalances and the structural rigidities that the Vietnamese authorities were confronted with, however, it can be no surprise that the country is only in the beginning of the process of reforming its economy. Further progress is certainly needed, especially in the structural area. A quick transition to a market economy has to remain the key objective in future adjustment programs. The staff has pointed out in detail which concrete measures have to be given priority in this regard, and I fully support its proposals.

I would like to emphasize especially the need to expedite the setting up of a framework for divesting or liquidating inefficient state enterprises. At present, the necessary reform measures seem to be hampered by ideological reservations. It is necessary that the authorities strengthen their commitment to reform in this area.

I also want to encourage the authorities to facilitate the inflow of foreign investment by streamlining and adjusting the legal and institutional framework. Therefore, I welcome the amendments to the Foreign Investment Law approved by the National Assembly in December 1992. It is somewhat disappointing to note that only one fourth of the requested foreign investment licenses have led to actual investments, obviously due to numerous legal and bureaucratic impediments and obstacles. For example, I wonder whether it is compatible with the need to encourage foreign investment to maintain taxes on profit remittances from foreign direct investment.

With regard to macroeconomic policies, I am concerned about the increase in the fiscal deficit from 0.2 percent of GDP in 1991 to 2.3 percent of GDP in 1992, and to the further dramatic deterioration expected for 1993 of up to 6 percent of GDP. In view of the existing imbalances, a more cautious fiscal approach is urgently needed to meet the inflation targets. While agreeing that a limited increase in public sector wages, and especially a certain expansion of public investment in order to overcome infrastructural bottlenecks, may be necessary and unavoidable, I still wonder whether these measures could not be offset by consolidation efforts in other areas. For example, the civil service still seems to be relatively large. Perhaps the increase in wages could be offset by streamlining the structure of, and reducing the number of employees in, the public sector. In addition, tax revenues are still relatively low in spite of the booming private sector, which indicates some tax evasion. This calls for an improvement in tax administration and, as already mentioned by Mr. Fukui, may indicate the need to reform the tax system more generally. I welcome the fact that the monetary authorities generally share these concerns, as indicated by Mr. Ismael, and I hope that they will convince the other members of the Cabinet to follow their policy recommendations.

On monetary policy, the envisaged domestic liquidity expansion of 20-25 percent in 1993 seems to be rather high. A more cautious approach would certainly support a more ambitious reduction of the inflation rate. In addition, there remain doubts with regard to the adequacy of interest rate levels and the spreads between deposit and lending rates. The need to subsidize commercial banks for unfavorable interest rate spreads on some activities by the State Bank, as indicated on page 12 of the staff report, supports the impression that the efficiency of the financial sector remains hampered by structural rigidities and a lack of competitiveness.

With these observations, I can support the proposed decision.

Mr. Dawson made the following statement:

We welcome the steps Viet Nam has taken over the past year toward macroeconomic stabilization. Tighter financial policies have resulted in stronger growth, decelerating inflation, and a turnaround in the current account balance. We join others in welcoming the steps that led to these improvements, including the termination of government financing through money creation, the reigning in of credit expansion to state enterprises, and the realization of positive real interest rates. At the same time, we concur that much remains to be done to move forward with the structural reform of the economy.

On the fiscal side, despite some recent improvement in revenue collection, further tax administration reform and simplification will be needed to generate the levels of revenue required for Viet Nam's investment needs. We noted with interest the staff's recommendation that a phased reduction in military personnel could be one viable source of budget relief. Given Viet Nam's progress on the fiscal accounts, we were surprised that the provisional 1993 budget proposes a return to deficits of a size last seen three years ago. We are encouraged by Mr. Ismael's report, because, otherwise, it also calls into question the authorities' stated objective of avoiding recourse to monetary financing.

Moving to monetary considerations, we had hoped that by this time the State Bank would have the complete ability to decide and implement monetary policy. Until the State Bank's autonomy is fully realized, the achievement of monetary goals will be treated by state financing demands. The tightening of credit policies is commendable, especially the shift to a positive spread between lending and deposit rates and the establishment of positive real interest rates. We would urge the authorities to move forward now with full liberalization of all interest rates, which would go far toward enhancing efficient intermediation between savers and borrowers and would facilitate the use of more indirect means of monetary control.

We are also concerned about Viet Nam's increased intervention in the foreign exchange market to contain the appreciation of the dong, as well as the maintenance of a separate exchange rate for valuing foreign aid. We urge the authorities to move away from these practices, which, in conjunction with the restrictive system of foreign exchange allocation, distort pricing and allocation of foreign exchange and inhibit the overall development of a market-based economy.

It appears that little has been accomplished in the way of clear-cut state enterprise rationalization. The delay in action and the apparent absence of policy direction call into question Viet Nam's commitment to reform in this vital area. As we emphasized at the previous discussion on Viet Nam, state enterprise reform is the key to other necessary policy adjustments, such as controlling the fiscal deficit and developing an independent monetary policy.

Much remains to be done on other structural reforms that would improve performance in the nonstate industrial sector, including the introduction of bankruptcy laws as well as of clear and strong property rights.

Further progress needs to be made in implementing market-oriented reform of the financial sector. Specifically, we had hoped that more would have been accomplished to allow state-owned banks greater autonomy in their business practices. Public banks must be prepared to compete with newly introduced foreign banks by basing their decisions on commercial principles rather than state directives. Furthermore, we would urge the authorities to move away from State Bank subsidization of funds to public banks, and from the extension of new loans and transfers to cover non-performing loans. We noted the staff's observation that such practices distort the financial accounts and give an inaccurate view of the tightness of Viet Nam's fiscal policy. An efficient, market-based financial infrastructure will be a key component to support the high level of savings and investment necessary for Viet Nam's continued growth.

In recent months, there has been an increased level of cooperation between the United States and Viet Nam toward resolving long-standing bilateral issues. In response, the United States has taken additional steps, in keeping with phased normalization of relations. These steps taken by Viet Nam and the United States demonstrate that our relations are improving. My authorities hope to continue making such progress, and we appreciate the patience and cooperation of others as the process moves forward.

We found the historical background paper on reform and stabilization in Viet Nam interesting, as it put the stabilization and reform efforts of recent years in useful perspective both for Viet Nam itself and in relation to other transforming economies. As far as possible, we would encourage similar endeavors for other countries.

Regarding arrears to the Fund, we must note Viet Nam's much-improved payments performance since the previous review, with payments that have exceeded those falling due a welcome development.

Regarding normalization, and turning to the proposed decision, we approve it as it stands.

Ms. Lindsay-Nanton made the following statement:

The Vietnamese authorities continue to make substantial progress under their reform strategy in the areas of both economic stabilization and structural reforms. This progress is all the more remarkable given the lack of financial support from the industrial countries and international financial institutions, the existence of trade embargoes, the loss of substantial Soviet aid, and the collapse of CMEA trading arrangements. Indeed, the staff report notes that progress would have been less difficult if timely international support had been forthcoming and that future progress will depend on the availability of foreign expertise and investment, as well as unimpeded access to world markets.

In the area of fiscal policy, the staff noted that the overall deficit is estimated to widen in 1992 owing largely to expenditures on severance payments to laid-off public sector employees and higher social and infrastructural costs. In my view, these are unavoidable expenditures, and I welcomed the fact that the deficit was financed entirely outside the banking system. However, given the low level of domestic savings in Viet Nam, I concur with the staff that serious efforts at broadening the tax base should be made in order to maximize the benefits from a rapidly growing private sector. In this regard, I particularly welcome the news conveyed by Mr. Ismael on the steps being taken to boost revenues in 1993.

On the expenditure side, the staff quite rightly points out that the wage reform process for civil servants currently taking place does present a risk to the fragile budgetary balance. Indeed, I was troubled by the statement by the Deputy Director at the beginning of the discussion, which indicated that notwithstanding a significant rise in revenues in 1993, this is expected to be outweighed by a planned rise in both current and capital expenditures. However, my concerns have been somewhat allayed by Mr. Ismael's comments, in that actual capital outlays will be conditioned by the availability of foreign financing. I, like the staff, would underscore the need to contain the fiscal deficit within manageable proportions so as not to compromise macroeconomic stability.

Turning to monetary policy, substantial progress in banking sector reform has led to a significant reduction in inflation. The authorities recognize the need to build on this success and intend to tighten credit further to loss-making state enterprises. I note the progress that has been made in directing bank credit to the private sector in 1992, although it accounts for a mere 10 percent of total credit outstanding, well below its share in the economy. However, further progress toward achieving the authorities' objectives would only be possible when the independence of the State Bank to fully control the design and implementation of monetary policy is completed. Furthermore, the authorities should seek to put in place the necessary financial reforms that would eliminate the need for the State Bank to subsidize commercial banks. In this regard, I hope that the implementation of recommendations coming out of the first phase of the recently completed government study will lead to a further strengthening of the financial sector.

Economic developments and the near-term outlook in Viet Nam will continue to be affected by several key structural factors, including the progress made toward restructuring the dominant state enterprise sector. It is in this area that progress has been difficult and incomplete. The staff points out that reform of the state enterprise sector has been delayed because of a failure to resolve several outstanding issues. I agree with the staff that the authorities should conduct an independent audit of all state enterprises, making the results available to the public. I welcome the World Bank's technical assistance in state enterprise reform, and I would like to ask the staff what is the time frame for the completion of this exercise. A comprehensive policy framework for dealing with the problem of state enterprises is essential if greater financial stability is to be achieved and strong growth sustained.

As regards Viet Nam's overdue financial obligations to the Fund, the authorities continue to make payments equivalent to obligations falling due, thus reducing arrears pending full settlement of their overdue obligations. Indeed, the continuing active cooperation on the part of the Vietnamese authorities is further demonstrated by the good progress made in the implementation of their macroeconomic and structural adjustment program. I support the draft decision, but I would be interested in hearing Mr. Landau's amendment.

Looking ahead, I have some unease with regard to the economic outlook for Viet Nam, as the hard-won gains that have been realized to date could well be compromised if support from the international community is not forthcoming. Indeed, the staff has pointed out that even under the most optimistic of assumptions, including rapid normalization of relations with creditors--including the clearance of arrears to the Fund and the Asian Development Bank, as well as Paris Club rescheduling on concessional terms in 1993--Viet Nam would still require exceptional external financing rising to about $500-600 million per year during 1995-97.

In our view, Viet Nam has demonstrated convincingly that it is committed to implementing major structural and stabilization measures, the results of which have been self-evident. We believe that the time is at hand to assist the authorities in completing this transition. The international community has an obligation to provide the needed support to assist Viet Nam in accomplishing this goal.

The Deputy Director of the Central Asia Department said that the initial budget for 1993, which had been approved by the National Assembly, reflected a large degree of political pressure. The budget would not be finalized until March or April 1993, so there was still room for adjustment. The staff was also encouraged by Mr. Ismael's remarks; clearly, the authorities were aware of the need to avoid an increase in the deficit. Nevertheless, it would be useful to underscore that point so that, in due course, both the monetary authorities and the Finance Ministry would have more leverage in making sure that the budget deficit did not widen significantly.

As was the case in other countries in the region, Viet Nam had experienced some difficulty in sterilizing capital inflows, the Deputy Director remarked. The dilemma facing the authorities, of course, stemmed from the fact that policy credibility had been established and inflation had been reduced. The freedom of the exchange rate to adjust provided some flexibility in dealing with capital inflows, and, once the exchange rate stabilized, those capital movements should subside. In addition, to the extent that inflation had been reduced and would continue to fall, there would be further room for reducing interest rates, which would also help to stem capital inflows. Notwithstanding the progress in trade liberalization, the authorities still retained a large degree of administrative controls; a relaxation of those controls would also provide room for maneuver in dampening upward pressures on the exchange rate.

The monetary instruments available to the authorities were still very limited, the Deputy Director of the Central Asia Department stated. The State Bank was in the process of developing instruments that could be issued by the State Bank for the purpose of conducting open market operations. Some government paper had already been issued, but there was still little scope for open market operations.

The staff representative from the World Bank remarked that the World Bank, under the auspices of the UNDP, was providing technical assistance to the authorities with the aim of helping their enterprise reform program. To date, that assistance had involved legal assistance in the redrafting of legislation. In addition, seminars aimed at providing the authorities with a better understanding of their options had been organized in Hanoi, with experts from other countries explaining how enterprise reform, privatization, and liquidation activities had been undertaken in their own countries. It was expected that the level of the Bank's assistance under the auspices of the UNDP would intensify in 1993.

Mr. Mojarrad made the following statement:

> The staff should be complimented for providing a comprehensive overview of reform and stabilization programs implemented in Viet Nam during 1986-92. The authorities deserve credit for their sustained efforts at economic reform and policy initiatives in achieving high economic growth, rapid disinflation, and an improved external position over the past year. To date, remarkable progress has been made not only in economic stabilization but also in the areas of land reform, price and exchange liberalization, tax reform, rationalization of the interest rate structure, and expansion of private sector activities, all without financial support from the international financial community and despite continued embargoes and the loss of substantial foreign aid.
>
> Notwithstanding the significant progress made so far, much remains to be done in the area of structural reforms, as is reflected in the agenda for the future put forth by the staff.

Since the proposed measures for the future are so well formulated in the staff report, I do not have anything to add to the staff's policy recommendations. Therefore, I endorse the main thrust of the staff report. I would like to confine my remarks to a few observations.

Regarding state enterprise reform, the authorities are facing an urgent task on further reform of state enterprises in order to consolidate progress toward financial stability needed to maintain the momentum for a robust and sustainable economic growth over the medium term. We are pleased to learn from Mr. Ismael's helpful statement that the authorities intend to intensify their reform by means of corporatization of profitable state enterprises in 1993. We agree with the staff that state enterprise reform is of crucial importance, and a political willingness to proceed with reform is prerequisite for the successful divestiture of nonessential state enterprises.

On the medium-term prospects, the staff should be commended for presenting very useful exercises in terms of alternative scenarios, involving domestic policies that encompass both stabilization and structural reform as well as the external environment. The results of these two scenarios clearly confirm that it is indeed the interaction between domestic policies and the external environment that results in highly different outcomes of the viability of the reform program and the sustainability of noninflationary growth over the medium term. As Viet Nam has been able to regain buoyant economic growth in the context of rapid disinflation without external support, it would be interesting to consider an alternative scenario; such a scenario would estimate the impact of the unfavorable external environment together with the assumption that reforms are to be sustained and strengthened along the lines suggested by the staff under the heading of "Agenda for the Future" on pages 18-20 of EBS/92/214, Supplement 1. The outcome of this alternative scenario, if assessed against the results of the first scenario, could determine the relative influence of each factor in fostering capital formation and growth in a developing country like Viet Nam. In my view, Viet Nam can be cited as an interesting case study, since it has been able to restore growth largely through domestic policy, with minimal external support.

Concerning Viet Nam's arrears, I welcome the authorities' continuing efforts toward full settlement of arrears to the Fund. I am particularly encouraged by the recent full settlement of Viet Nam's overdue obligations in the SDR Department. For Viet Nam, the result of the first scenario indicates the need for substantial amounts of concessional external financing owing to the projected current account deficit over the medium term. We hope that the authorities' efforts will soon be complemented by an early resumption of international technical and financial support so as to pave the way for the implementation of the first scenario and, therefore, the full settlement of arrears to the Fund.

Mr. de Groote made the following statement:

Like my colleagues, I find the situation in Viet Nam all the more remarkable because the improvement has taken place despite the collapse of trade and credit relations with the former Soviet bloc and in the absence of any assistance from the West. With the success in the fight against inflation, improvements in the budget and the management of money flows, and the clear movement in the direction of a market economy, one almost has the impression that Viet Nam lives under a Fund shadow program.

I can limit my observations to three points, relating to state economic enterprises, trade policies, and Viet Nam's relations with the Fund.

On state economic enterprises, I wholly agree with the staff that the process of dismantling inefficient enterprises and rehabilitating the others has to be accelerated. Other countries in transition present many examples that Viet Nam could study with profit. I would have thought that the example of the Treuhand in Germany in particular deserves consideration, for the emphasis given to the selection of viable enterprises and the efforts made to attract joint ventures. Such consideration might even be facilitated by the fact that relations between the former German Democratic Republic and Viet Nam were very close, and that many of today's leaders in Viet Nam in fact use the German language. I also thought I detected some positive German influence in the interesting remarks about the independence of the State Bank made at the beginning of the meeting by Mr. Ismael.

On trade policies, the staff report, of course, criticizes the list of prohibited imports, and says--in aggrieved tones--that the authorities are using trade policy as a tool of economic management. If this is the case, then certainly the Vietnamese authorities do not seem to be alone. Of course, along with the staff, we are all in favor of free trade. But I wonder whether this applies to two particular restrictions. First, those who have been exposed to the pollution and the traffic risks in Ho Chi Minh City might find reasons other than economic management to support restrictions on the importation of motor vehicles. Second, as far as the restrictions on the import of tobacco materials are concerned, does the staff favor opening Viet Nam's market completely to the exports of the large tobacco companies, which are trying to compensate for the losses of their markets in the West by seeking new markets in less health-conscious developing countries?

Finally, on the more fundamental issue of relations with the Fund, several colleagues observed that progress in Viet Nam is possible only if the country receives assistance from the rest of the world. If this is true, we should certainly find it very welcome that the World Bank is now getting more actively involved in Viet Nam; but I would have thought that there is also room for the Fund's involvement in that country. It is the role of the Fund to establish the broad framework within which all macroeconomic policy decisions are assessed, and also, I think, to give appropriate financial assistance. In refusing to enter into a dialogue with a member, when that member wishes such a dialogue and has taken appropriate steps to show that it has, indeed, moved in the direction of improving its situation along the lines recommended by the institution, I believe that the Fund repudiates its obligations under the Articles of Agreement. I was particularly heartened by the fact that Mr. Dawson has stressed the progress made in the relations between the United States and Viet Nam, which gives us a good basis to hope for an early restoration of an active dialogue between the institution and Viet Nam.

In conclusion, we would like to congratulate the Vietnamese authorities for implementing wide-ranging reforms and achieving such impressive results despite the various embargoes they have encountered, as convincingly argued in the staff report. However, a full and timely economic restructuring can only be achieved by a large input of foreign expertise and capital. This input, based on Viet Nam's recent track record, would surely be forthcoming if it were not for continued restrictions motivated by noneconomic considerations. I fully agree with Mr. Landau that the time has come to start negotiations with the Vietnamese authorities on a comprehensive Fund-supported program, especially since it has recently been reported that the Fund's sister organization, the World Bank, has already begun talks with Viet Nam on a structural adjustment program. I am, therefore, particularly interested by the French proposal, and I would be grateful if we could study it in greater detail before approving it.

Of course, the restoration of relations between Viet Nam and the Fund depends on a settlement of its arrears. With that in mind, I think it would be extremely useful if friendly countries could indicate their possible readiness to provide bridge financing to help Viet Nam start negotiating a full-fledged program from a position of certainty that it will be able to reimburse the Fund just before the program enters into operation.

Mr. Dawson suggested that the issues that Mr. de Groote had raised concerning car and cigarette imports could usefully be examined by the Fund's environmental unit. He would also note that Mr. Esdar's comments regarding Viet Nam's achievements in the absence of external financing and a

Fund-supported program were consistent with that chair's view that such an approach to adjustment was appropriate for most Fund members.

Mr. Esdar remarked that it was sometimes argued in the Board that it was impossible to adjust without financing. Therefore, he had been pleased to find in Viet Nam a case where it had been clearly demonstrated that it was possible to have adjustment without financing.

Mr. Landau said that he shared Mr. Esdar's satisfaction with Viet Nam's performance in the absence of external financing, with the qualification that had been made by the Canadian chair that the situation might not be sustainable.

Mr. Santos made the following statement:

> I would like to associate myself with previous speakers in commending the Vietnamese authorities for the considerable progress they have made since the launching of their comprehensive economic and structural adjustment program in 1986, aimed at establishing a market-oriented economy. The international environment in which their adjustment efforts have been pursued in order to stabilize the economy has not been an easy one. Despite this, it is encouraging to note that over the past year a substantial reduction in the inflation rate was achieved, economic growth continued its recovery, and the external position strengthened considerably.
>
> Notwithstanding the progress made thus far, it is clear that the economy's prospects for 1993 and beyond will hinge critically on the response of the international community to the needs of the Vietnamese authorities for financial and technical assistance to sustain their adjustment efforts and build on the progress achieved. Indeed, more remains to be done to overcome the general weaknesses in economic data and information systems, continue with wide-ranging structural reforms, including the restructuring of the public enterprise sector, the modernization of the financial system, and the establishment of the legal framework essential for the working of a market-oriented economy. In this connection, I am in broad agreement with the staff appraisal and can endorse the thrust of the policy recommendations, especially on the 1993 budget. I share the staff's view that the authorities need to avoid a sharp increase in the fiscal deficit while the prospects for foreign financing remain uncertain, so as not to jeopardize macroeconomic stability.
>
> Turning to Vietnam's arrears to the Fund, it is encouraging to note that Viet Nam satisfies the two criteria for judging the extent to which a member with long overdue payments is cooperating with the Fund under the intensified collaborative approach. On both criteria, Viet Nam's record is satisfactory, and we agree

with the staff recommendation that no remedial measures need to be taken. Viet Nam needs technical assistance in order to pursue its program of stabilization and structural reform; the country could normalize its relations with, and integrate itself into, the international community if such assistance were forthcoming not only from the donor community but also from the multilateral financial institutions.

In this context, we support the draft decision with the amendment proposed by Mr. Landau.

Mr. Kaeser made the following statement:

I want to join other Directors in commending the authorities of Viet Nam for the progress made in the macroeconomic stabilization of their economy. The substantial GDP growth rate, the redirection of trade while increasing exports, and the steps taken toward a market economy are impressive achievements, especially if we consider that they have been obtained under severe external shocks and with limited help from the industrial world. Of course, much remains to be done, and Viet Nam should be encouraged to pursue actively the structural reform it has undertaken, aiming in particular at the provision of a more friendly environment for the private sector and foreign investment.

In this respect, let me briefly enumerate some priorities. First, a further reduction in exchange and trade restrictions, among which I could mention taxes on profit remittances, import restrictions, and the engagement of private trading houses in import-export activities. Second, a more active pursuit of reforms in the financial sector. Particular emphasis should be given to the elimination of the remaining distortions in interest rates policies, the application of sound market principles in lending activities, and the provision of better access of private enterprises to bank credit. Third, the removal of bottlenecks in foreign direct investment. According to the staff report, only about one fourth of granted licenses have materialized in past years. Fourth, a better streamlining of responsibilities among government ministries and agencies in coordinating and allocating external aid. Fifth, an improvement in the taxation system. Sixth, the strengthening of the legal framework compatible with a market economy, which would strongly increase the willingness of domestic and foreign investors to invest in Viet Nam.

A rapid normalization of relations with the international financial community is of paramount importance for Viet Nam to gain access to external resources needed to accelerate the pace of investment and reform. In this context, the efforts made by Viet Nam to reduce some of its overdue financial obligations to the Fund must be pointed out as a positive development. This effort should be pursued further, and Switzerland is prepared to consider participation in an aid group set up to assist Viet Nam in the settlement of its arrears vis-à-vis the Fund. This, of course, would have to be on a proper burden sharing basis and would need large participation of the donor community, including that of the United States.

Mr. Solheim made the following statement:

Like previous speakers, I want to commend the authorities of Viet Nam for their continued efforts to transform the country into a market economy. The results they have achieved during the past year are impressive, particularly when one takes into account that the support from the international community, including the Fund, continues to be limited. Firm macroeconomic policies have led to a dramatic reduction in inflation, and growth has increased sharply.

As to structural reforms, the results have been more mixed. Reform of the state enterprise sector, which plays a large role in Viet Nam, has been held back due to indecision and lack of policy direction. In order to strengthen international confidence in the reform process, it is important to have progress in the privatization area. In trade policy, some measures of liberalization have been taken, but steps have also been taken in the opposite direction. I welcome the recent amendments to the Foreign Investment Law, aimed at encouraging foreign investors. Increased foreign investments are of crucial importance to the country.

In spite of the indisputable progress, much remains to be done, and there are some areas where one has to feel concern. One of them is the reversal of the positive trend in the fiscal deficit projected for 1993. According to the recently announced budget, the fiscal deficit will increase to about 6 percent of GDP in 1993, or about the same level as in 1990, a level that must be regarded as too high. I urge the authorities to take steps to at least prevent the deficit from rising compared with 1992, as recommended by the staff. Mr. Ismael's comments at the outset of this meeting indicate, however, that the authorities are in the process of undertaking restrictive measures.

As stated in the staff report and by previous speakers, Viet Nam has not only continued to make payments to the Fund equivalent to its maturing obligations, it has also become current in the SDR Department and has managed to reduce its arrears to the Fund. These facts demonstrate that Viet Nam is making strong efforts to cooperate with the Fund. To have a reasonable chance to succeed, Viet Nam deserves support from the international community in order to settle its arrears, thus making it able to negotiate a Fund arrangement. Therefore, I welcome the comments of a number of previous speakers on the importance of improved relations with the Fund.

Finally, I support the proposed decision.

Mr. Torres made the following statement:

This chair is in broad agreement with the staff report and the very useful supplement on the reform and stabilization program in Viet Nam during the period 1986-92. Both documents coincide on the areas in which the Vietnamese authorities should focus their effort to address some of their most important structural problems, particularly in the fields of budgetary revenue, banking and enterprise reform, and the legal and institutional framework. We share the concerns about these well-defined areas of malfunction, although we recognize and applaud, as Mr. Ismael has pointed out in his statement, the impressive way in which the authorities persevered in their effort to achieve a market economy, notwithstanding the limited external financial support.

Most of the relevant macroeconomic indicators of Viet Nam show a path toward a more stable economy with ample potential for sustained growth. Looking at the composition of GDP, growth in the industrial sector overperformed that in the agricultural sector by almost four times during 1992. On the other hand, the monthly rate of inflation shows the consistent signs of a very sound abatement in prices, contributing favorably to the process of shaping better expectations for the future. The fiscal and the external sectors also show encouraging evidence of improvement.

Although recent progress has taken place in the Vietnamese economy, the country remains in a fragile situation, subject to the scarcity of external resources and investment embargoes. A country that finances two thirds of its fiscal requirements from foreign loans and grants could easily face problems, given the probability that those resources could stop flowing to the economy. Therefore, it is extremely important to establish normal relations with the international community. We hope this goal can be achieved in the near future.

Concerning the arrears of Viet Nam, they stand at almost the same level as they did at end-1988. This is explained by the fact the country is covering basically what is due in each year without making significant contributions to clear overdue obligations. Only in 1991 was there a 4 percent decrease in the outstanding arrears to the fund. Due to its isolation, it cannot be expected to generate a secure balance of payments if there is no comprehensive external debt relief from all of its main creditors. Again, only with the understanding of the international community will

Viet Nam be able to leave behind its precarious stage of development.

Concerning external trade, we want to recommend that the authorities go further in the rationalization of the trade system. In the short run, licensing requirements plus a wide range of tariffs create more distortions in the economy, the cost of which is greater than the expected benefits. In the particular case of import smuggling, we share the staff's view that the appropriate solution lies in strengthening customs enforcement and in rationalizing tax rates and customs duties. We would go even further in saying that prohibiting the legal import of some goods not only does little to stop smuggling but also contributes to accelerating the process, since there is no legal alternative. In addition, a well-managed tariff collection system could bear more fruit than prohibitions based on criteria different than those of trade policies.

Finally, we commend the Vietnamese authorities for their remarkable achievements under the present situation. We are confident that, in the light of the positive reaction of the economy of Viet Nam, the badly needed financial support will be provided and trade and investment embargoes will be removed.

It is clear that the authorities have a long way to go, especially in the well-defined areas mentioned above. Probably this is the right time to go further and with more decisiveness toward determined structural reforms needed to strengthen the Vietnamese economy. With these comments, this chair supports the proposed decision. This is also the right time for the international community to provide the extremely needed support for the Vietnamese authorities.

Mr. Powell said that the Vietnamese authorities should be congratulated for their impressive overall economic performance in 1992; the list of things that they seemed to be doing right was a long one.

The lower inflation rate reflected primarily the elimination of monetary financing of the fiscal deficit and the welcome shift to positive real interest rates, Mr. Powell considered. The continuation of those policies should make a single-digit rate of inflation achievable in 1993. Like the staff, he would caution against a sharp increase in the fiscal deficit in 1993, and he welcomed the comments of Mr. Ismael in that respect. He would also stress the need for further financial sector reform, so as to encourage financial reintermediation and, thus, enhance the effectiveness of monetary policy tools in the future.

The two other areas of concern he had were privatization and trade liberalization, Mr. Powell remarked. He agreed with the staff that reform of state enterprises would be a pivotal element of the growth strategy. In that context, there was a need for a coherent framework for the privatization of nonstrategic enterprises and a clearly defined and workable timetable for divestment. In view of the shortage of skills and technology, encouraging foreign participation would enhance the options open to the authorities; the recent amendments to the Foreign Investment Law were, therefore, welcome. He would also support calls for further liberalization of trade restrictions. Some currency appreciation was, perhaps, to be expected after the large depreciation in 1989-91 and the strong performance in 1992. However, while the appreciation of 1992 was unlikely to prove harmful, further liberalization of trade restrictions would reduce the risk of further upward pressure, which could undermine medium-term prospects.

The clearance of all of Viet Nam's arrears in the SDR Department was welcome, Mr. Powell said. It was to be hoped that there would be a further normalization of Viet Nam's relations with the Fund and other external creditors in the very near future.

He agreed with the staff's recommendation not to approve the exchange restrictions and multiple currency practices, and he urged the authorities to adopt a timetable for their elimination.

Mr. Arora remarked that the Vietnamese authorities had proven to be admirable students of the doctrines and ideas that the Fund held dear, without, however, earning the grade that a good teacher should have given to them, namely, a Fund-supported program. They had not been able to earn that grade because there had been some problems, which the Vietnamese authorities and other countries had been proposing to solve. He was encouraged by Mr. Dawson's comments about the improvement in relations between Viet Nam and the United States, and the hope that in the near future some positive developments might take place. In light of the stress that Viet Nam had gone through in the previous three to four years of its reform process, however, he was concerned that an undue delay in improving relations between those two countries could lead to a very difficult situation for the Vietnamese authorities, who were determined to take the necessary steps to create a market economy. Therefore, he could support in principle the point that Mr. Landau had made about the need to demonstrate at least an incremental step forward toward an ESAF arrangement for Viet Nam. He hoped that it would be possible for all Directors to support such an approach.

Mr. Evans said that he supported the staff appraisal and wished only to note his appreciation for the staff's work on Viet Nam, to commend the Vietnamese authorities for their perseverance with impressive policy reform, and to record his regret that the United States and other major industrial countries continued to prevent Viet Nam from clearing its arrears to the Fund. Nevertheless, the Board should be wary of taking the Vietnamese experience, impressive as it was, as evidence that a Fund-type program with Fund-type policies could be implemented without external assistance, including from the Fund. The staff report noted that the achievements in Viet Nam involved the use of external restrictions, including an increase in external arrears in both 1991 and 1992, which were the very practices that the Fund had been created to avoid. The Board should be very careful, therefore, in endorsing those types of practices and policies, which made it quite clear that Viet Nam was very much in need of a full-fledged Fund-supported program and should be assisted in clearing its arrears to the Fund.

Mr. Glazkov remarked that he was in broad agreement with the staff appraisal, particularly with one of its central points regarding the delays in structural reform, especially in comparison with the significant progress toward macroeconomic stabilization. Speeding up structural reform would provide the necessary background for a further improvement in Viet Nam's fiscal position. At the same time, the statement by the staff representative on the prospects for an increase in the budget deficit was a cause for concern, although Mr. Ismael's report at the beginning of the meeting on the views of the monetary authorities was encouraging. Even more encouraging was the comment of the authorities that they wished to enforce their cooperation with the Fund, which had been demonstrated recently by the reduction of Viet Nam's outstanding arrears to the Fund. He fully concurred with the staff appraisal and Mr. Ismael's statement that the future progress of the Vietnamese economy, as well as in the settlement of arrears to the Fund, would depend strongly on the availability of foreign, technical, and financial assistance and unimpeded access to world markets. He supported the proposed decision.

Mr. Mohammed said that he was in broad agreement with the staff appraisal. He joined previous speakers in commending the Vietnamese authorities for the impressive performance of the economy over the previous year, as well as their efforts toward the settlement of Viet Nam's overdue financial obligations to the Fund. To be sure, there remained a long list of measures that needed to be implemented to restore efficiency to the economy. In particular, he would stress the urgent need for greater autonomy for domestic financial institutions to allow them to compete with the newly introduced foreign banks. It was to be hoped that recent developments would allow the settlement of the bilateral issues that had stood in the way of international assistance to Viet Nam. He supported the proposed decision.

Mr. Meron commented that for some considerable time, Viet Nam had met the criteria for cooperation with the Fund. Furthermore, Viet Nam had already established an impressive track record in the implementation of economic reform and adjustment policies. The time had come to take the final steps toward the normalization of Viet Nam's relations with the international financial community and to support Viet Nam in the clearing of its arrears to the Fund. In his view, it would also be desirable to start preparations for a stand-by arrangement for Viet Nam.

Mr. Wei made the following statement:

> Viet Nam has done extremely well in 1992 in many aspects of the economy. Indeed, I am pleased to learn from the staff report that the enhanced reform efforts by the Vietnamese authorities over recent years have turned out to be so fruitful and

successful. Therefore, I commend the Vietnamese authorities for these remarkable achievements, which have also contributed to the dynamic growth in the region.

Two major contributing factors should be highlighted. First, the Vietnamese authorities have adopted the right economic reform strategy to build the country into a market-based economy. Second, the authorities have persevered with such a strategy and consistently made wise policy choices to consolidate the gains achieved in the process.

Nevertheless, like many previous speakers, I remain worried by two major impediments to Viet Nam's medium-term development. First, due to obvious external constraints, Viet Nam still could not maximize the gains from the current reform process. In this respect, we are following closely the positive developments and hope that Viet Nam's international relations will be normalized as soon as possible. Also, the Support Group needs to take further initiatives in order to help Viet Nam quicken the normalization process with the Fund. Second, loss-making state enterprises, which comprise 40 percent of all such enterprises, remain great obstacles to improving efficiency and constitute a severe challenge to the authorities. So far, reform in this area has had only limited success. The authorities need to strengthen their efforts on this point of vital importance.

I have only three specific additional points. In the fiscal area, the revenue position, in particular the revenue from state enterprises, has improved considerably; I assume that this revenue performance refers mainly to the state enterprises described in the report as efficient. If so, this is a welcome development. However, the staff still seems to be dissatisfied with the current revenue base as well as the revenue structure. It expects that the share of revenue contributed by the private sector will be raised if efforts are reinforced. Several questions on this matter can be asked. What is the potential? Is the current lower share due mainly to poor collection performance in the private sector or is it merely constrained by the still small share of private sector activity in GDP? In this regard, I would like to know what share of GDP now comes from the private sector. In addition, the staff seems to complain about some aspects of the new tax system. Regarding the private sector, I wonder whether, in the staff's view, the new system was designed so that it would not tax the rapidly growing private sector fairly or if the private sector is accorded any new preferential tax treatment, making its share of revenue incompatible with its present status.

On the two scenarios for medium-term prospects, while I am in broad agreement with the main thrust of the staff analysis and recognize the external constraints on Viet Nam's potential growth, I still feel that the second scenario is suspect. The two principal conditions or assumptions in the second scenario are limited structural reforms and the absence of normal external relations, as a result of which Viet Nam's economy is expected to get worse in many respects. However, it is interesting to note that, even though the basic external conditions for Viet Nam remained more or less the same during 1992, Viet Nam still performed much better than most of the projections, including the staff's. In other words, is the staff too pessimistic in its projection for the performance of the Viet Nam economy under the second scenario? My slightly different view is that, with the effects of the previous enhanced reforms fully reflected in Viet Nam's growth performance, the economy may not necessarily deteriorate, even though no dramatic actions are foreseen in the short run, as long as the present reform momentum and policy mix are credibly maintained.

On the trade issue, I understand that Viet Nam's border trade with China has been growing rapidly, which certainly is beneficial to both economies. I am interested in knowing more from the staff about the present status and trend of that trade.

Finally, I note that the authorities have made great efforts in reducing their arrears to the Fund and are committed to continuing to do so. I support the proposed decision.

The Deputy Director of the Central Asia Department remarked that several Directors had asked whether Viet Nam could have sustained equally high growth rates in recent years in the absence of Fund support in the design and implementation of a program. He would make three observations in that regard. First, Viet Nam's impressive growth performance was the result of very strong policies, which, as Mr. de Groote had mentioned, could be considered as a shadow program. Second, Viet Nam continued to have a large amount of arrears, although it had remained current on its obligations to the Fund since 1989. Moreover, the country had had access to short-term external finance for trade, because the expectation had been that Viet Nam's problems would be resolved and its debt would be rescheduled. Thus, Viet Nam had avoided facing a serious liquidity problem. Third, notwithstanding its rapid growth rate, Viet Nam was still operating at a very low level of per capita income, currently only about $200. In many respects, Viet Nam's current situation was comparable to that of many Asian countries in the 1960s: it had a very hard-working, disciplined, and well-educated labor force. Viet Nam's economy was many years behind that of other countries in the region, and it had to make up for lost time. In the short term, it had been able to generate rapid growth by removing some of the inefficiencies in the economy, supported in part by oil revenues. Over the medium term, however, such an approach would not be possible; Viet Nam would need to follow the model of most of the other countries in the region, namely, greater reliance on foreign savings to complement domestic efforts to increase investment.

The medium-term scenarios set out in the staff report were intended to be illustrative, the Deputy Director noted. They pointed to the importance of increasing investment, which currently comprised only 10 percent of GDP. Viet Nam would not be able to sustain growth rates of 8 percent to 10 percent over the medium term without substantially increasing its level of investment as a percentage of GDP. Such an increase could not be achieved, however, without access to significant foreign savings, not only in terms of resources but also in terms of technical assistance and advice.

The staff representative from the Central Asia Department said that the second medium-term scenario in the staff report was based not only on an absence of external financial support but also on a slowdown of progress in the structural reform that had taken place over the previous few years. The 2 percent annual growth path mentioned in the staff report referred to the per capita growth rate; as Viet Nam's population growth was estimated to be about 2 percent per year, those figures suggested 4 percent annual growth in GDP over the medium term, which was consistent with the assumption of no increase in the ratio of investment to GDP from the current level. Under the first scenario, which assumed both further structural reform and a normalization of external financial relations, the investment to GDP ratio would rise to over 20 percent--more than double its current level--which translated to real GDP growth of about 8 1/2 percent.

Mr. Ismael commented that he fully agreed with the remarks of the Deputy Director of the Central Asia Department, as well as those of Executive Directors. It was clear that the Board's advice was highly appreciated by the Vietnamese authorities and was reflected in the policies that they had pursued thus far.

The Chairman made the following summing up:

> Directors commended the Vietnamese authorities on the favorable performance of the economy in 1992: both aggregate output and exports had increased rapidly, inflation had continued to decline, and the external position had strengthened considerably. This success was remarkable, as it entailed adjustment to a loss of traditional export markets and of sizable aid from the former Soviet Union, and was accomplished without major financial support from industrial countries and international organizations. Directors encouraged the authorities to persevere with their efforts toward restoring macroeconomic stability and effecting structural reforms. The policies to reduce the budget deficit and to tighten monetary policy had gained public confidence and contributed to the recent strengthening of the dong. Directors underscored, however, that to achieve sustained noninflationary growth, the authorities needed to persevere with prudent financial policies and to accelerate structural reforms toward a market-oriented economy with substantially higher rates of domestic savings and investment.

In the fiscal area, Directors urged the authorities to continue strengthening the revenue base by simplifying the system, widening the tax base to better cover the private sector, and improving tax administration. Larger revenues were essential in view of the costs of the ongoing public sector wage reform, restructuring of the state enterprise sector, and the need for improvement of infrastructure. In that connection, Directors noted that the planned increase in government expenditure in 1993 would substantially increase the budget deficit. Directors cautioned that such a widening of the budget deficit would be detrimental to macroeconomic stability. They therefore welcomed the indications just received that the authorities were taking steps to strengthen government revenue and to contain outlays, and that there would be no central bank financing of the Government in 1993.

Directors welcomed the authorities' efforts to curb credit to public enterprises, particularly to those that were not viable, while increasing private sector access to bank credit. They stressed the importance of encouraging commercial banks to apply commercial principles and the need to strengthen the legal framework for more effective financial intermediation. Directors commended the rationalization of the interest rate structure that had led to positive real interest rates and encouraged the introduction of greater flexibility in interest rate determination.

Directors stressed the need to accelerate the restructuring of the state enterprise sector. While the plan to corporatize several profitable state enterprises was a step in the right direction, Directors recommended the development of a comprehensive framework to cover the divestiture process. Some Directors encouraged continued action to eliminate remaining legal and administrative obstacles for foreign investors.

Directors welcomed Viet Nam's good record of payments to the Fund. A number of speakers observed that, in view of its sustained good performance, Viet Nam was deserving support from the international community. They looked forward to the full settlement of Viet Nam's arrears to the Fund and the early formulation of a comprehensive program deserving Fund support as key steps in the normalization of Viet Nam's external economic relations.

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

The Executive Directors then turned to the draft decision on Viet Nam's overdue financial obligations to the Fund.

Mr. Landau said that the text of the draft decision appeared to be exactly the same as the decision that had been adopted at the previous review of Viet Nam's overdue obligations. In the circumstances, the decision should reflect the fact that some incremental progress had been made in resolving the problem of Viet Nam's arrears to the Fund. He would, therefore, propose to insert a new sentence at the end of paragraph 3 of the draft decision, which would read: "The Fund stands ready, when appropriate conditions are met, to work with the Vietnamese authorities, with a view to agreeing on a program that would allow, once arrears are cleared, for access of Viet Nam to Fund resources." In drafting his amendment to the draft decision, however, he had tried to minimize the inconvenience for other chairs that could result from its adoption.

The Chairman suggested that the final sentence of paragraph 2, which reflected in part the sense of the proposed new sentence, could be deleted if the Board agreed to accept Mr. Landau's proposal.

Mr. Landau remarked that he could agree with the Chairman's suggestion; alternatively, the sentence that he had proposed could replace the final sentence in paragraph 2.

Mr. Ismael said that he wondered what was meant by the phrase "when appropriate conditions are met" in the sentence proposed by Mr. Landau, and whether it differed from the phrase "once arrears are cleared."

Mr. Landau replied that he would have preferred not to include the phrase that Mr. Ismael had mentioned, but he had done so in an effort to help those Directors who would have difficulties with more dynamic language. Moreover, that phrase was also a recognition of the fact that the Vietnamese authorities might have their own ideas about whether and when they would want to start negotiating a Fund-supported program.

Mr. Dawson stated that his chair could not support the proposed amendment.

Mr. Arora commented that Mr. Landau's amendment met the concerns that some countries had about not being able to move forward too rapidly and the Fund's obligation to assure the Vietnamese authorities that the conditions were ripening for an early movement. With that in mind, he could support the proposed amendment.

Mr. Evans said that while he supported the objective underlying the proposed amendment to the draft decision, he was not particularly attracted to its formulation. He agreed with the Chairman that the sentiment of the proposed new sentence was implicit in the final sentence of paragraph 2. He wondered whether, as an alternative, the final sentence of paragraph 2 could be extended by inserting the phrase "including, once arrears are cleared, by access to Fund resources."

Mr. Landau observed that he and Mr. Evans appeared to be in complete agreement on the substance of the amendment. His concern was only whether

Mr. Evans's alternative formulation would make it possible for Mr. Dawson to support the decision as amended.

Mr. Dawson said that he would not be able to support the proposed amendment in either formulation.

Mr. Fukui commented that he had some sympathy for the spirit of Mr. Landau's proposal. The situation was rather complicated, however, and the Board should proceed with great care. He was concerned that the proposed amendment might further complicate, rather than ease, the situation. At the present stage, therefore, a more general statement would be preferable, and he would suggest retaining the final sentence of paragraph 2 rather than adding the sentence that Mr. Landau had proposed.

The Chairman noted that a majority of Directors favored the amendment proposed by Mr. Landau while retaining the final sentence of paragraph 2.

The Executive Board adopted the following decision, with one objection:

1. The Fund has reviewed further the matter of Viet Nam's overdue financial obligations to the Fund in the light of facts and developments described in EBS/93/5 (1/7/93).

2. The Fund welcomes the continuing active cooperation of the Vietnamese authorities with respect to the adoption and implementation of a comprehensive program of macroeconomic and structural adjustment. In this context, the Fund welcomes the considerable progress made by Viet Nam toward macroeconomic stabilization and urges the authorities to continue to pursue comprehensive economic adjustment policies aimed at sustaining economic growth and achieving financial stability and balance of payments viability. In this regard, the Fund stresses the need to accelerate the pace of structural reforms. The Fund intends to continue to consult and collaborate actively with Viet Nam and stands 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, pending full settlement of Viet Nam's overdue financial obligations to the Fund. 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 Viet Nam's arrears 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. The Fund stands ready, when appropriate conditions are met, to work with the Vietnamese authorities, with a view to agreeing on a program that would allow, once arrears are cleared, for access of Viet Nam to Fund resources.

4. The Fund will review the matter of Viet Nam's overdue financial obligations to the Fund again within six months from the date of this decision 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. 10269-(93/8), adopted
January 15, 1993

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/93/7 (1/15/93) and EBM/93/8 (1/15/93).

4. EXECUTIVE BOARD TRAVEL

Travel by an Assistant to Executive Director as set forth in EBAM/93/15 (1/14/93) is approved.

APPROVED: August 26, 1993

LEO VAN HOUTVEN
Secretary