

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/113

3:00 p.m., July 11, 1986

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

Executive Directors

A. Alfidja
C. H. Dallara

J. E. Ismael

H. Lundstrom

F. L. Nebbia

H. Ploix
J. J. Polak

G. Salehkhoul
A. K. Sengupta

Alternate Executive Directors

Mawakani Samba

H. G. Schneider
M. B. Chatah, Temporary
M. Sugita

W.-R. Bengs, Temporary

Wang X., Temporary

Jaafar A.

J. Hospedales, Temporary

S. King, Temporary

L. Leonard

A. Abdallah

J. E. Suraisry

J. de la Herrán, Temporary

A. V. Romuáldez

O. Kabbaj

N. Kyriazidis

L. Van Houtven, Secretary
A. Akanda, Assistant

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Also Present

Le Hoang, Alternate Governor of the Fund for Viet Nam. Le Van Chau, Director; Cao Dac Cuong, State Bank of Viet Nam. Asian Department: H. Neiss, Deputy Director; W. G. L. Evers, S. Kohsaka, D. A. Scott. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director. Legal Department: F. Gianviti, Director; P. L. Francotte, A. O. Liuksila. Secretary's Department: P. D. Péroz. Treasurer's Department: D. Williams, Deputy Treasurer; J. E. Blalock, J. C. Corr. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: A. A. Agah, P. E. Archibong, L. P. Ebrill, S. Ganjarerndee, G. Nguyen, A. Ouanes, A. Vasudevan. Assistants to Executive Directors: J. de La Herrán, J. J. Dreizzen, W. N. Engert, Z. b. Ismail, T. Morita, M. Rasyid, J. Reddy, H. van der Burg, E. L. Walker.

1. VIET NAM - 1986 ARTICLE IV CONSULTATION; AND OVERDUE FINANCIAL
OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors considered the restricted staff report for the 1986 Article IV consultation with Viet Nam (EBS/86/133, 7/20/86; and Cor. 1, 7/9/86), together with a staff paper on the second review of Viet Nam's continued arrears to the Fund following the declaration of its ineligibility to use the Fund's general resources and suspension of its right to use SDRs effective January 15, 1986 (EBS/86/14, 7/7/86). They also had before them a report on recent economic developments in Viet Nam (SM/86/155, 7/30/86).

The Hon. Le Hoang, Alternate Governor of the Fund, represented Viet Nam, and Mr. Le Van Chau, Director of the State Bank of Viet Nam, was also present.

The Chairman made the following summing up:

Directors expressed broad agreement with the thrust of the appraisal in the staff report for the 1986 Article IV consultation with Viet Nam. They commended the authorities for the comprehensive price and wage reforms of 1985, which had aimed at a substantial reduction of price distortions, and a closer link between wages and productivity. In an important departure from past policies, the price setting authority for many products had been delegated to managers of individual production units. However, the implementation of these reforms had been beset by many problems, and a significant gap had re-emerged between prices that remained under government control and free market prices. Directors noted that, with increasing decentralization in decision making, appropriate pricing had become an essential guide for economic decisions; therefore, they considered it important that the authorities adjust prices promptly to reflect relative scarcities as well as developments in cost.

Directors noted that, in view of the continued unfavorable outlook for the balance of payments, and the strength of inflationary pressures, comprehensive adjustment measures were essential, including measures to reduce the unsustainably large public sector deficit through additional taxes, tariff reform, expenditure restraint, and civil service reform.

Directors welcomed the intention of the authorities to reorganize the banking system to facilitate the use of indirect monetary instruments, but stressed that, pending the completion of the reorganization, credit allocation should be improved and the growth of monetary aggregates be more restrained; higher interest rates would facilitate attaining the desired moderation.

Noting that autonomy in decision making granted to locally controlled enterprises had contributed to rapid expansion of output and exports in recent years, Directors welcomed the intention of the authorities to extend such autonomy to centrally controlled enterprises, and to introduce profitability as a major criterion of their performance. Directors agreed with the staff that the Government should attach high priority to the adoption of a consistent set of macroeconomic and financial policies.

Directors noted with concern that external payments arrears had continued to rise and that, despite the substantial devaluation of the dong in 1985, the balance of payments would remain unsustainable in the medium term. They agreed with the staff that the objectives of export promotion and balance of payments improvement would be better served with lower retention rates for export earnings and greater emphasis on exchange rate changes to restore the profitability of the export sector. In this regard, they strongly recommended the early implementation of a flexible exchange rate policy to make sure that the exchange rate would reflect relative price movements. Directors also felt that a more depreciated rate would help channel a greater share of inward private remittances through the banking system and restrain imports, particularly luxury goods.

Directors noted that Viet Nam was in the process of paying SDR 0.9 million toward the outstanding overdue obligations to the Fund, but expressed grave concern that the authorities had provided indications of only partial further payments, and that they did not envisage the elimination of overdue financial obligations to the Fund in the foreseeable future.

The Vietnamese authorities were urged to reconsider their proposed timetable, which was not considered acceptable by the Executive Board in view of the rules of the Fund, its cooperative character, and the revolving nature of its resources. Directors stressed that the authorities should attach the highest priority to the early elimination of the arrears to the Fund, which would place Viet Nam in a better position to attract needed financial resources and debt relief from abroad to assist in the country's adjustment and development efforts. In this context, Directors noted Viet Nam's interest in the use of Fund resources under the structural adjustment facility. However, they observed that Viet Nam could qualify for the use of the facility only after it had become current in its obligations to the Fund, its eligibility to use Fund resources had been restored, and agreement had been reached on appropriate structural adjustment policies.

Directors supported the proposed staff visit to Viet Nam in September 1986 to discuss practical ways and techniques to

facilitate the early elimination of arrears and to assist the authorities in the development of a consistent set of financial and structural adjustment policies.

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

The Executive Board then took the following decisions:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision relating to Viet Nam's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1986 Article XIV consultation with Viet Nam, in the light of the 1986 Article IV consultation with Viet Nam conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Viet Nam maintains restrictions on payments and transfers for current international transactions and multiple currency practices, as described in EBS/86/133 and SM/86/155. The Fund continues to urge Viet Nam to abolish these exchange restrictions, including those arising from bilateral payments arrangements with Fund members, and multiple currency practices as soon as possible.

Decision No. 8327-(86/113), adopted
July 11, 1986

Overdue Financial Obligations - Review Following Declaration of Ineligibility

1. The Fund has reviewed further the matter of Viet Nam's continuing failure to fulfill its financial obligations to the Fund.

2. The Fund deeply regrets the continuing failure by Viet Nam to fulfill its financial obligations to the Fund, welcomes the intention of the authorities to resume payments to the Fund as reflected in the timetable proposed by the authorities, but notes that the Fund cannot accept any such timetable and again urges Viet Nam to make full and prompt settlement of its overdue financial obligations.

3. The Fund calls on Viet Nam to adopt as a matter of urgency a comprehensive economic adjustment program and accepts the authorities' request for a staff assessment of their planned adjustment measures.

4. The Fund will review the matter of Viet Nam's overdue financial obligations to the Fund again within six months of the date of this decision.

Decision No. 8328-(86/113), adopted
July 11, 1986

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/86/112 (7/11/86) and EBM/86/113 (7/11/86).

2. KIRIBATI - DESIGNATION OF DEPOSITORY

The Fund accepts the Bank of Kiribati Ltd., as the depository, under Article XIII, Section 2(a), for all the Fund's holdings of the currency of Kiribati. (EBD/86/186, 7/8/86; and Cor. 1, 7/8/86).

Decision No. 8329-(86/113), adopted
July 11, 1986

3. KIRIBATI - REPRESENTATIVE RATE FOR KIRIBATI-AUSTRALIAN DOLLAR

The Fund finds, after consultation with the authorities of Kiribati, that the representative rate under Rule 0-2(b)(i) for the Kiribati-Australian dollar against the U.S. dollar is the rate obtained on the basis of the official relationship between the Kiribati-Australian dollar and the Australian dollar and the representative rate for the Australian dollar. Kiribati will immediately inform the Fund of any change in the representative rate. (EBD/86/187, 7/8/86; and Cor. 1, 7/8/86).

Decision No. 8330-(86/113) G/S, adopted
July 11, 1986

4. AUDIT REPORT, 1986 - TRANSMITTAL TO BOARD OF GOVERNORS

The Executive Board approves the proposed letter set forth in EBAP/86/162 (7/8/86) and Correction 1 (7/9/86) transmitting, for consideration by the Board of Governors, the Report of the External Audit Committee for the financial year ended April 30, 1986.

Adopted July 11, 1986

APPROVED: April 3, 1987

LEO VAN HOUTVEN
Secretary

