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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam *(Biweekly)*

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
27 July 1970

The Economic Situation in South Vietnam

Summary

Loans to farmers by South Vietnam's Agricultural Development Bank in 1969 did not increase above the 1968 level, but lending increased considerably during the first quarter of this year as the bank acquired more funds from the government. Four privately-owned rural banks already have been established in district towns, and government officials expect 20 to be operating by the end of this year.

The Viet Cong increased taxes on the rice crop in the delta in 1970 in order to meet pressing financial needs.

Retail prices in Saigon increased further during the two weeks ending 20 July to a level 31 percent above the average price level for December 1969. Black market currency and gold prices continued to fluctuate during the period.

ANNEX: Monthly and weekly currency and gold prices
(graph)

South Vietnam Economic Indicators
(graph)

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Agricultural Credit

1. The government's Agricultural Development Bank (ADB) failed to meet its 1969 loan goal presumably because of insufficient funds. During 1969 loans to farmers totaled 4.6 billion piasters (\$39 million at the official rate of exchange) -- the same as in 1968 -- whereas the goal had been 5.6 billion piasters. The number of recipients increased, however, from 70,000 to 89,000, three fifths of whom received unsecured loans. The share of funds being used to finance crop production declined slightly during 1969 -- from 83 percent in 1968 to 72 percent in 1969, while the share going to livestock producers and fisheries increased from 14 to 23 percent. The remaining five percent of the funds financed handicraft and forestry operations. Almost all of the loans were short-term, under 18 months, carrying an interest rate of one percent per month. Because the rate of inflation is much higher than the interest rate, farmers who receive ADB loans are in effect being subsidized by the government.

2. The ADB apparently was unable to extend as much credit as planned because repayments were slower than anticipated and the government has been slow in releasing funds to the bank. In mid-1969, however, the government released an additional 1.5 billion piasters to the bank and in April 1970 approved a non-interest bearing one-billion-piaster loan to the ADB. The bank intends to use 40 percent of this recent loan to finance crop loans to tenant farmers who receive title to their land under the land reform program. The bank's lending operations increased substantially during the first quarter of this year when loans were more than double those of the first quarter of 1969.

3. In an effort to strengthen farmers' and fishermen's associations, a special Agri-Business Loan Fund was established in late 1969 by the ADB, the Ministry of Land Reform and Agriculture, and USAID to finance the import and distribution of agricultural inputs by these groups. Loans are being made from a revolving one-billion-piaster fund using counterpart piasters derived from

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US-financed imports. The first loan from the fund, which is administered by the ADB, was made in January to the Tenant Farmers Union of the Vietnamese Confederation of Labor, which will use the money to import fertilizer and farm machinery.

4. The ADB continues to push the development of a privately-owned rural banking system, which it hopes eventually will assume most of the responsibility for short-term credit in rural areas, freeing the ADB to concentrate on financing medium- and long-term agricultural development projects. Since September 1969 four banks have been established in district towns in four provinces, and ADB, which supervises the private banks, expects to inaugurate 20 new banks this year. ADB officials are very encouraged by the rate at which the rural banks are attracting savings deposits, which by mid-March totaled 12 million piasters.

Increased VC Tax Goals for 1970

5. In order to help meet its financial needs, the Central Office of South Vietnam (COSVN) has ordered increased taxation of the delta rice crop in 1970. Rice probably accounts for about 80 percent of Viet Cong (VC) revenues, while the remainder consists mostly of cash from transportation and business taxes and "contributions."

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Although the tax rate is only slightly higher in 1970, the amount of rice to be collected is substantially greater because of the large increase in paddy production in IV Corps this year. Tax goals for most other areas of the country also are higher.

6. The VC have not been successful in achieving tax goals in the past and probably will be no more successful this year. They admitted a shortfall of 25 percent in 1968 tax collections. The Government of Vietnam, however, which tries to collect a much

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smaller tax on agricultural land, has an even poorer collection record. COSVN directives continually point out the shortcomings of the Finance-Economy Section cadres and exhort them and the local military forces to aid in harvesting and concealment of the crop from allied forces. Because the amount of tax revenues varies directly with the extent of VC military control, however, the principal means of achieving increased tax collections would be a significant expansion of VC-controlled areas.

Prices

7. Retail prices in Saigon continued to increase during the two weeks ending 20 July. On that date the USAID weekly retail price index already was six percent above the average price level for June and 31 percent above the level of December 1969. During January through mid-July 1969 prices rose only 11 percent.

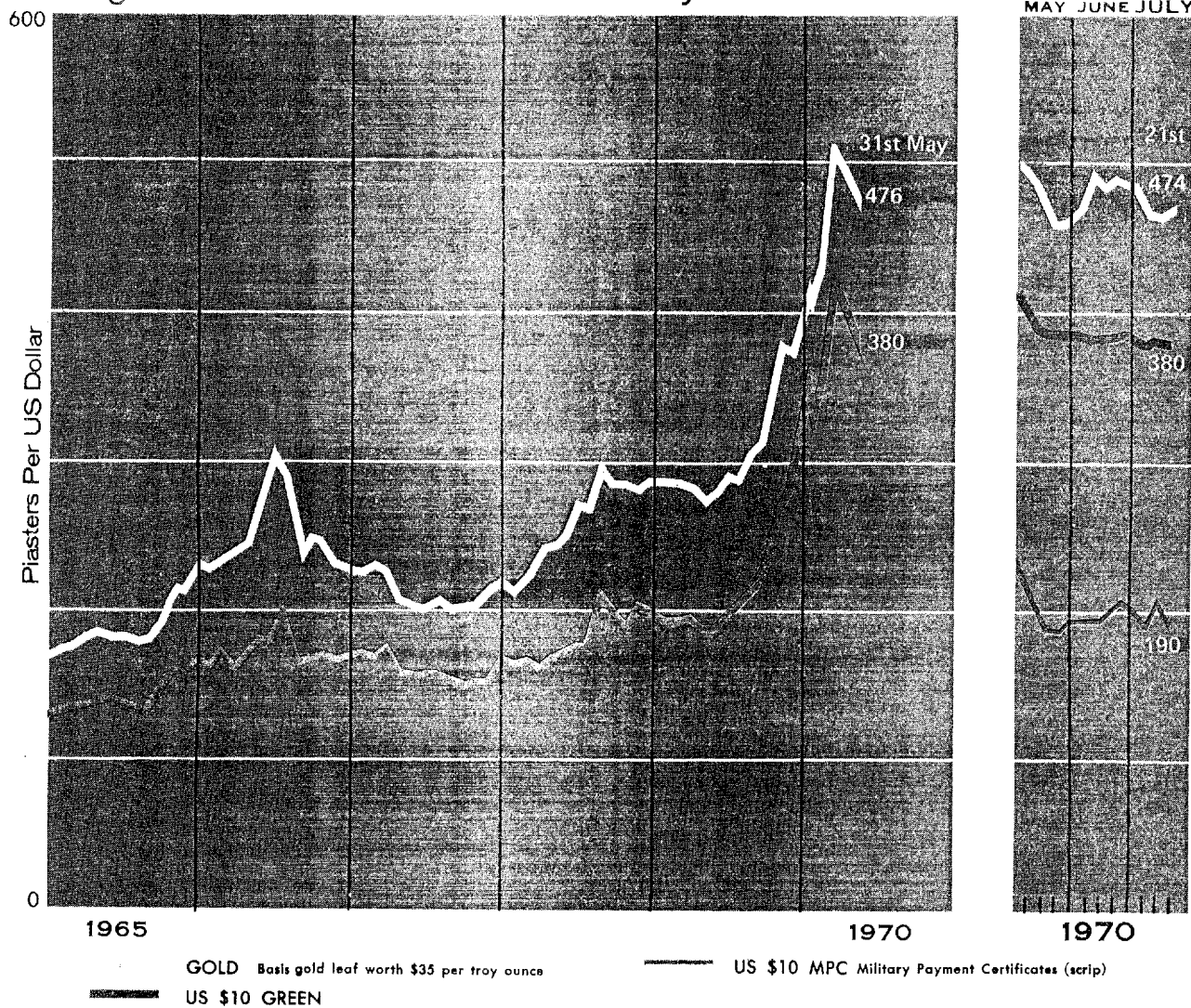
8. The USAID monthly average price index for imported commodities rose 17 percent during January-June compared with eight percent during the first half of 1969.

Currency and Gold

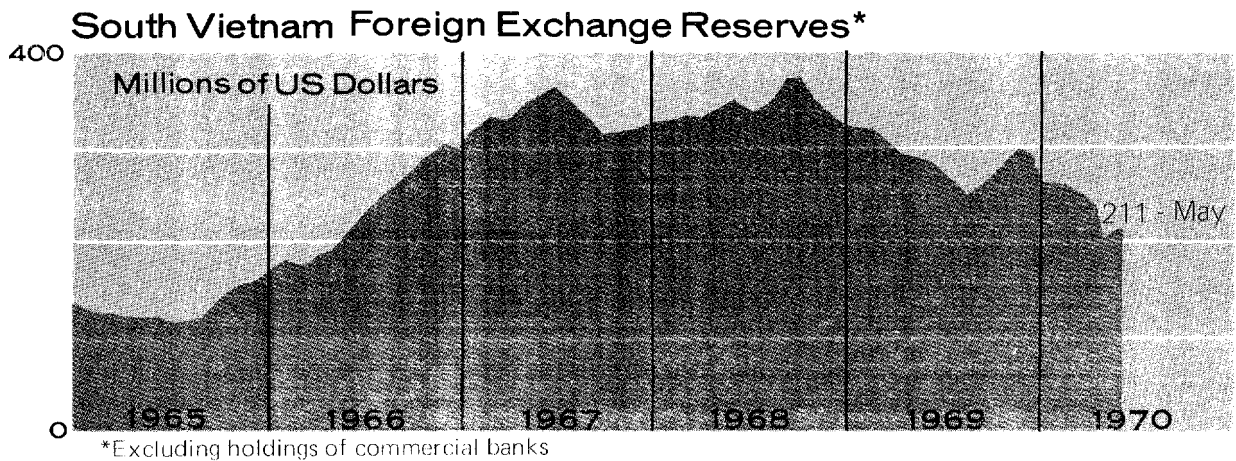
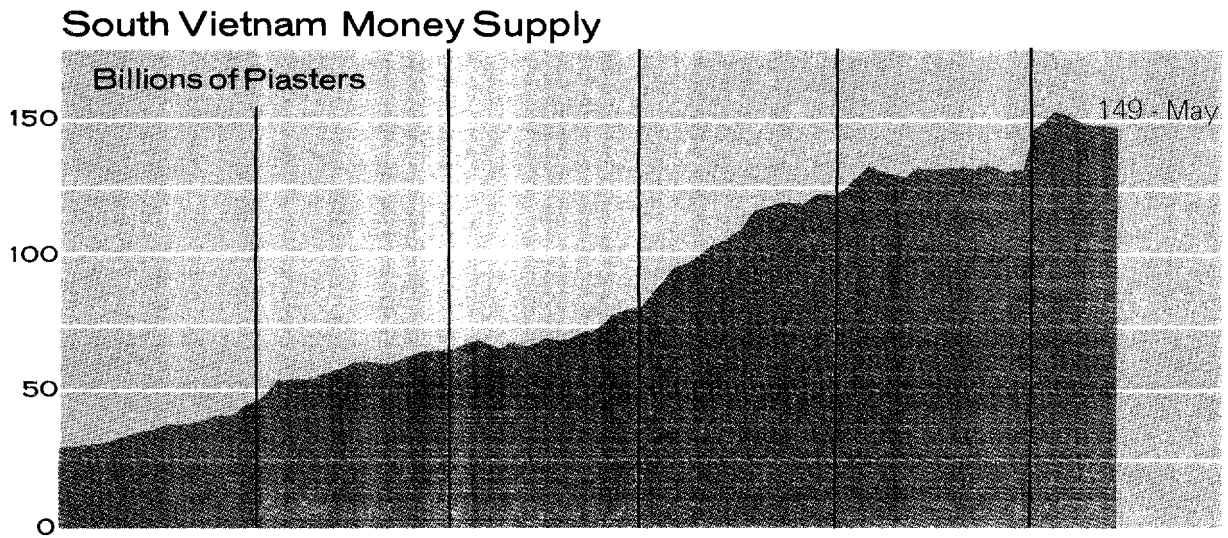
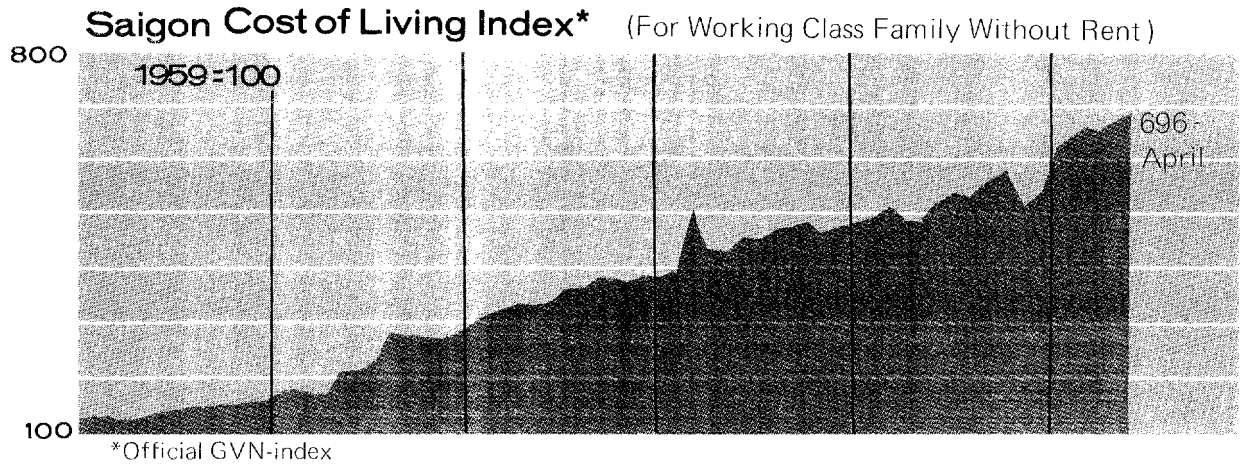
9. Black market currency and gold prices in Saigon continued to fluctuate during the two weeks ending 21 July. The price of dollars rose five piasters to 380 piasters per dollar, and the rate for MPC (scrip) was unchanged at 190 piasters per dollar on 21 July after having risen to 210 piasters the previous week. The price of a dollar's worth of gold leaf, which had been declining for several weeks, rose ten piasters to 474 piasters. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

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Saigon Free Market Gold and Currency Prices



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