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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam *(Weekly)*

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

The Economic Situation in South Vietnam

Summary

In the hope of encouraging local governments to increase their own revenues, US and Vietnamese officials have worked out a new formula for the payment of central government subsidies. The central government's earlier decision to turn over all proceeds of the property tax to the local governments did not result in the anticipated increase in revenues for the villages in 1968.

Retail prices in Saigon and the USAID price index for imported goods each declined one percent during the week ending 27 January. Free market dollar and gold prices also declined slightly, but the rate for MPC (scrip) increased.

ANNEX: Weekly Retail Prices in Saigon (table)
Monthly and Weekly Currency and Gold
Prices (graph)

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Village Finance

1. In an effort to strengthen village governments and stimulate them to increase local revenues, US and Vietnamese officials have devised a new formula for paying central government subsidies. In 1967 the central government subsidized the entire payroll for salaried village officials in 89 percent of the villages under South Vietnamese Government (GVN) control. Only three percent of the villages had local revenues large enough to permit them to pay officials' salaries without help from the central government. Salaries for the remaining villages were paid partly by the villages themselves and partly by the central government. Local government revenues have been declining steadily during the past several years. Local officials are not trained in the administration of public funds and have failed to change tax rates or develop new sources of revenue. In addition, because most local officials are paid from central government funds, they make little effort to collect taxes.

2. In 1968 the central government tried to reduce the subsidy to local governments by turning over to them all property tax revenues, which formerly were shared between the central and local governments. The anticipated increases in local revenues did not occur, however. Receipts from property taxes are not large and have been declining steadily largely because of the deterioration of security and the collection mechanism in rural areas.

3. In order to reduce the discouraging effect of the subsidy, representatives from the GVN, USAID, and CORDS agreed on a new payment formula. The new formula still would require that the villages assume more of the salary payments as their revenues increase, but the villages' share of the payments would increase at a slower rate than under the present formula. It thus would allow the villages to retain more funds for their own development projects, which are essential if the local governments are to become responsive to the needs of the villagers.

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4. The new subsidy formula is scheduled to become effective in April, but problems involved in implementing the change may cause delays. USAID officials hope that adoption of this formula coupled with the Ministry of Interior's budget-taxation training program this year for village officials will in time greatly increase the ability of villages to generate their own revenues.

Prices

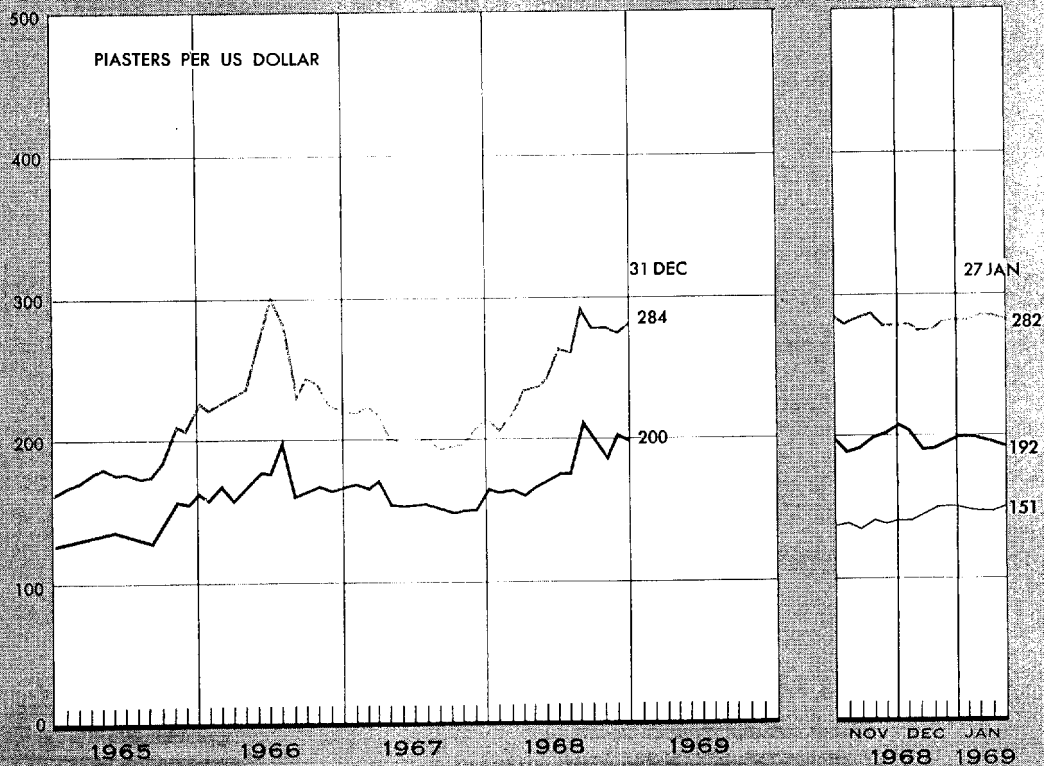
5. The retail price index for Saigon declined slightly during the week ending 27 January as food prices were down one percent and nonfood prices were generally stable. Prices of most protein foods and many vegetables declined. As a result of massive imports of day-old chicks during the past few months, the price of chicken has dropped to its lowest level in nine months. Fresh pork prices also have been relatively low, partly because of the availability of low priced imported frozen pork through government commissaries. The price index for nonfood items was stable as a decline in the price of firewood offset an increase in the price of white calico. The USAID price index for selected imported goods declined slightly as new shipments arrived. (A table of weekly retail prices in Saigon is included in the Annex.)

Currency and Gold

6. During the week ending 27 January free market dollar and gold prices declined slightly for the second week. The price of dollars fell three piasters to 192 piasters per dollar, and the price of a dollar's worth of gold leaf fell five piasters to 282 piasters. The rate for MPC (scrip), on the other hand, rose three piasters to 151 piasters per dollar, compared with the official rate of 118. (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



— GOLD Basis gold leaf worth \$35 per troy ounce
— US \$10 GREEN
— US \$10 MPC Military Payment Certificates (strip)

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