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CIA/OER/IM 72-178 Approved For Release 2007/03/09 : CIA-RDP85T00750017004619 ECON SITUATION OF S. VIETNAM

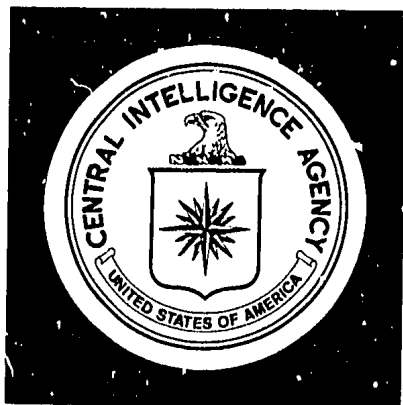
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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*The Economic Situation in South Vietnam*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
December 1972

INTELLIGENCE MEMORANDUM

THE ECONOMIC SITUATION IN SOUTH VIETNAM

SUMMARY

1. Inflation was less of a problem in 1972 than might have been expected, from the various disturbances to the economy during the year. Although the cost-of-living index for Saigon rose 24%, it still was the second lowest year-to-year increase since 1964.
2. Preliminary fourth-quarter data indicate that exports will exceed \$20 million in 1972, up from \$12 million in 1971.
3. Despite the recession and other dislocations caused by the North Vietnamese offensive, local and central government tax collections increased substantially in 1972. The increase in local government revenues, which have been neglected in recent years, was the result of an organized, nationwide effort to help local governments become financially self-supporting.
4. Charts on foreign exchange reserves, money supply and prices, gold and currency prices, and the government budget (Figures 1-5) follow the text.

DISCUSSION

**Market Developments**

5. With yearend figures now in, inflation appears to have been less of a problem in South Vietnam than might have been expected from the various disturbances to the economy in 1972. The cost-of-living index (computed on a monthly average basis) for Saigon rose 24% over the course

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Note: This memorandum was prepared by the Office of Economic Research.

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of the year. This rise is a deterioration from the 14% of 1971, but it still compares favorably with the results for 1965-70, when inflation ranged from 30% to 55% annually. Although much of the city's business community has been in a recession since the start of the North Vietnamese offensive, supply problems caused by bad weather and enemy interdiction of roads into the city led to sharp increases in food prices, especially in August and October. Rice prices increased 30%-35% during the year, and prices of several nonfood items also rose substantially as the result of higher taxes and the increasing cost of imports attendant on continuing devaluation of the piaster.<sup>1</sup> The most recent devaluation on 9 December brought the exchange rate to 455 piasters per dollar compared with 400 to 1 at the end of 1971.

6. Although cease-fire discussions have had comparatively little effect on commodity markets during the last two months of the year, they apparently have been the major reason for the steep rise in black-market dollar rates. The price of dollars, which had been hovering around the official exchange rate for several months, increased steadily through most of November and December, reaching 503 piasters per dollar on 18 December. With the renewed bombing of North Vietnam, however, the rate dropped to 470 piasters on 26 December, only 15 piasters above the official rate.

### Exports Up for 1972

7. Commodity exports from South Vietnam continue at levels substantially above last year despite heightened enemy activity throughout much of 1972. Preliminary reporting for the fourth quarter indicates that total exports will be in excess of \$20 million, up from only \$12 million in 1971. The principal factor in this increase is the implementation of realistic exchange rates and export subsidies beginning in late 1971. Products that in the past were overvalued in world markets have become profitable for Vietnamese exporters, and, as a result, several new export product lines have appeared as significant foreign exchange earners. In particular, shrimp and pine log exports - neither of which had been exported in substantial quantity in previous years - will each bring in more than \$5 million in 1972, thereby replacing rubber as the leading export commodity.

### Tax Collections Increase Nationwide

8. The big push this past year to increase tax revenues has been quite successful, especially for local governments. Despite the disruption from the North Vietnamese offensive, local government tax collections were double the 1971 level through the end of October. This record was achieved

1. Although many markets outside Saigon suffered more frequent disruptions during the year, available data indicate that inflation in other parts of the country was not appreciably different from that experienced in Saigon.

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under the aegis of the Local Revenue Improvement Program (LRIP), a four-year (1972-75) plan to make all provinces and autonomous cities as well as the majority of villages in South Vietnam self-supporting. In 1971 these local governments financed only about one-sixth of their total operating and development expenditures, the remainder being covered by subsidies from the central government. Fewer than 10 of the 44 provinces and only about 200 of the 2,300 villages were able to cover all their operating expenses. Even fewer villages could finance their expenditures for such items as water systems and clinics. More than 200 villages (not counting those under NVA/VC control) had no revenue collections at all.

9. The division of responsibility for public expenditures in South Vietnam has always been rather lopsided toward the central government, and this tendency has been reinforced by security conditions in the countryside. At present, total local government expenditures are equivalent to only about 5% of the national budget. With security improvements, there will undoubtedly be some pressure to increase the fiscal role of local governments for items such as education and public works. Before local governments can take on any additional responsibilities, however, they must be able to finance their current ones. To do this, local tax reform is required. Local tax systems have grown into a hodgepodge of nuisance and other taxes which are neither equitably apportioned nor efficient as revenue producers.

10. According to the LRIP, revenues were to increase from about 2 billion piasters in 1971 (\$4.4 million converted at the current exchange rate of 455 to 1) to 10 billion piasters in 1975. Collections, however, were running a year ahead of the original plan, and the goals were therefore revised upward. The 1972 goal, for example, was boosted from 3.1 billion piasters to 5.4 billion piasters, and, by the end of October, 80% of the new goal had been reached. Because of their greater wealth and better security, provinces and villages in Military Regions (MRs) 3 and 4 are expected to become financially self-sufficient much sooner than those in MRs 1 and 2. They also are slated to provide 85% of the total revenues to be collected under the LRIP.

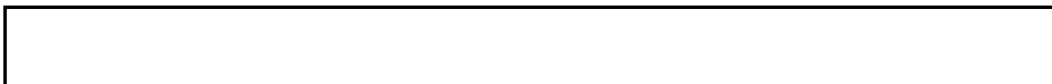
11. The success of the LRIP is due both to increased numbers of trained tax collectors and to higher tax rates. For revenue, local governments rely on surcharges on such national use taxes as those on business licenses and logging operations. They also collect numerous miscellaneous fees such as market taxes and export fees on the shipment of produce out of villages or provinces. Probably the largest single source of revenue in 1972, however, has been the tax on real property, which had not been collected in many areas during recent years. In 1972, Saigon instructed local governments to apply the maximum tax rates on all kinds of real estate as a means of boosting revenue prior to the enactment of a completely revised property

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tax law. The new property tax law (decreed in October), which will take effect in 1973 and be fully implemented by 1974, is slated to become the primary source of tax revenue for local governments, allowing them to eliminate nuisance taxes and those such as the export fee that discourage increased production and marketing in rural areas.

12. Central government revenue collections also registered an impressive gain through October, but tax officials expect that the continuing business recession may cause collections to fall somewhat short of the 1972 target. Revenues from domestic taxes were about 40% above the 1971 level, although October returns were somewhat lower than expected, especially for production and corporate income taxes. Actually, the recession in Saigon might have been expected to have a greater impact on revenues, since more than 90% of domestic revenues are collected in the Saigon area. Higher tax rates and greater collection efforts, however, were sufficient to offset much of the potential loss.

13. Neither the central nor local governments can afford to let up in the drive to increase revenues, for both are far shy of being self-supporting. President Thieu recently signed the long-pending decrees on new income and motor vehicle taxes,<sup>2</sup> and consideration is still being given to the adoption of a value-added tax. The major focus in 1973, however, is likely to be on improving the administration and collection of existing taxes rather than on adopting new ones.



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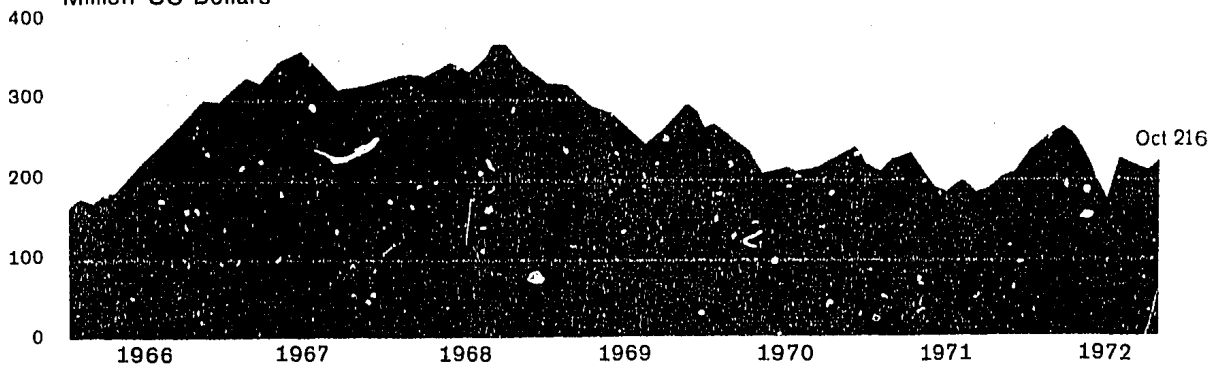
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### SOUTH VIETNAM

Figure 1.

#### Foreign Exchange Reserves\*

Million US Dollars



\*Consisting of gold and foreign exchange held by the National Bank of Vietnam

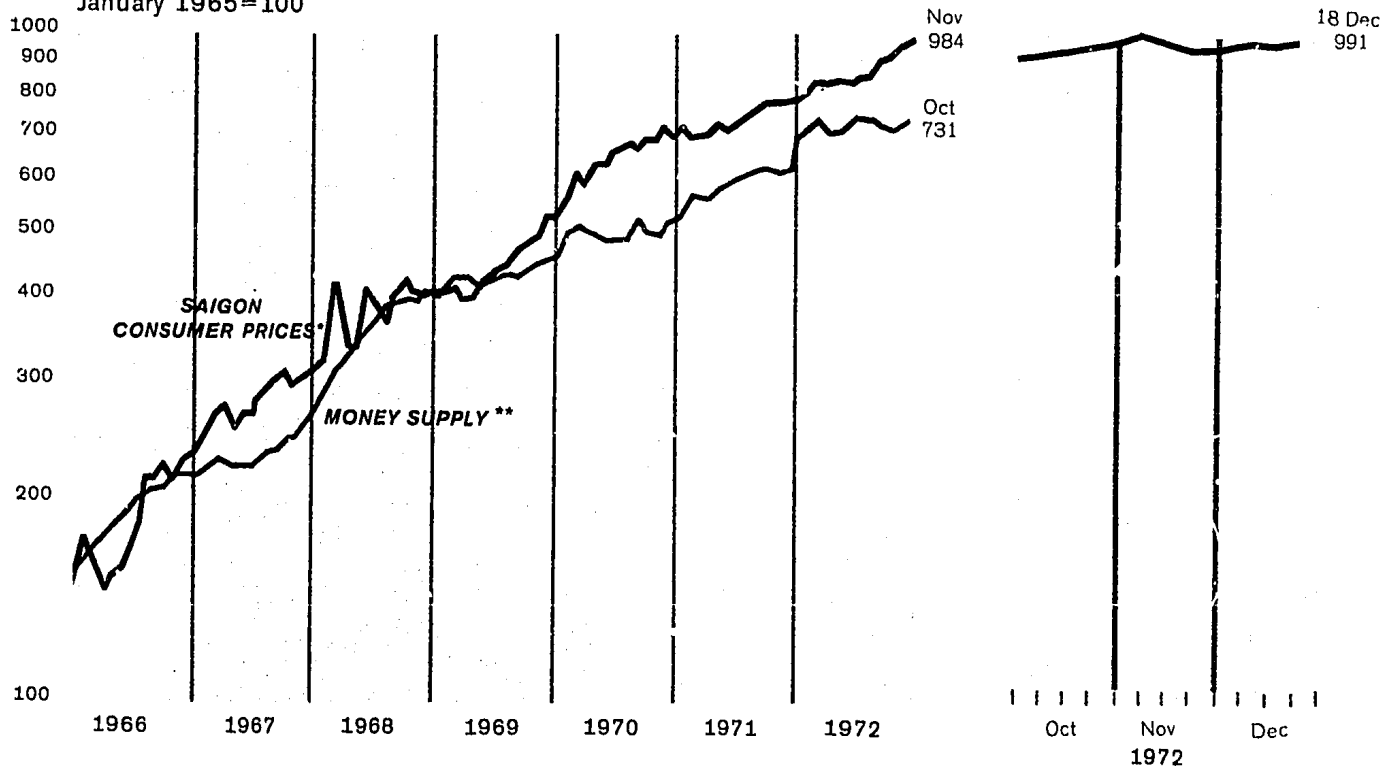
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### SOUTH VIETNAM

Figure 2

#### Indexes of Money Supply and Saigon Consumer Prices

January 1965=100



\*USAID monthly average retail price index for Saigon

\*\*Data are for end of month

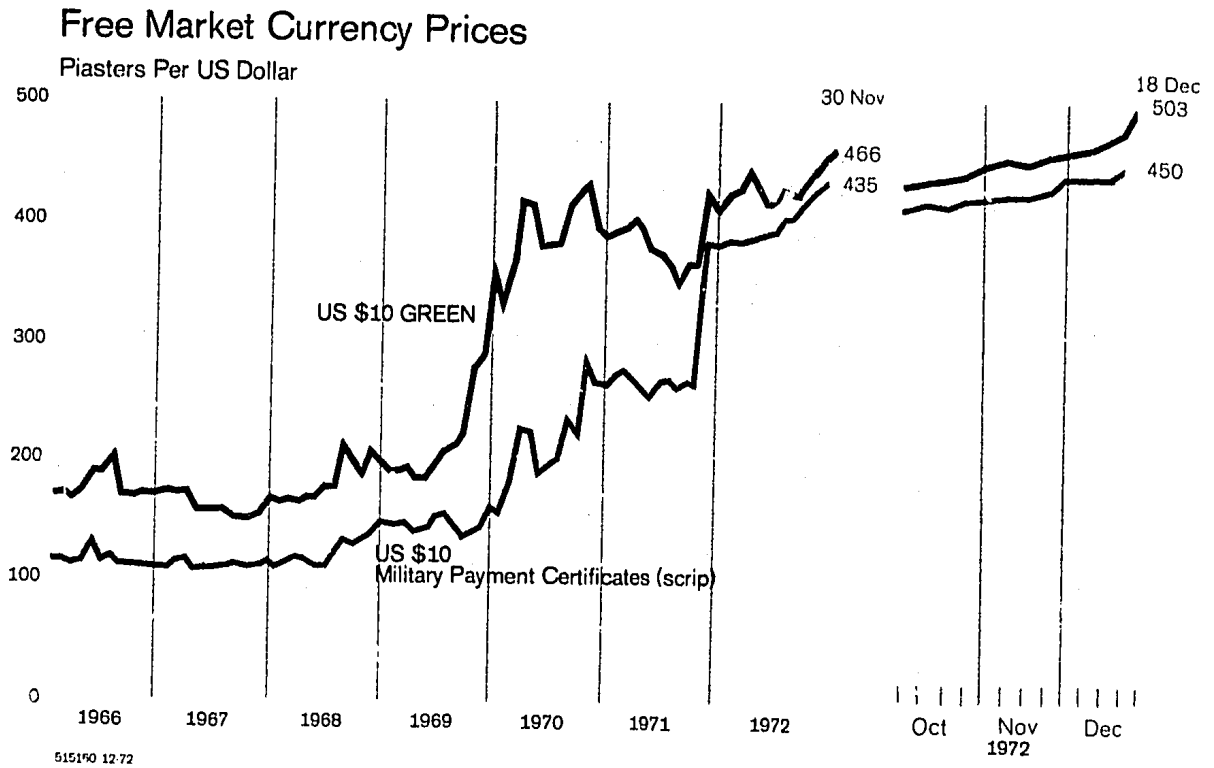
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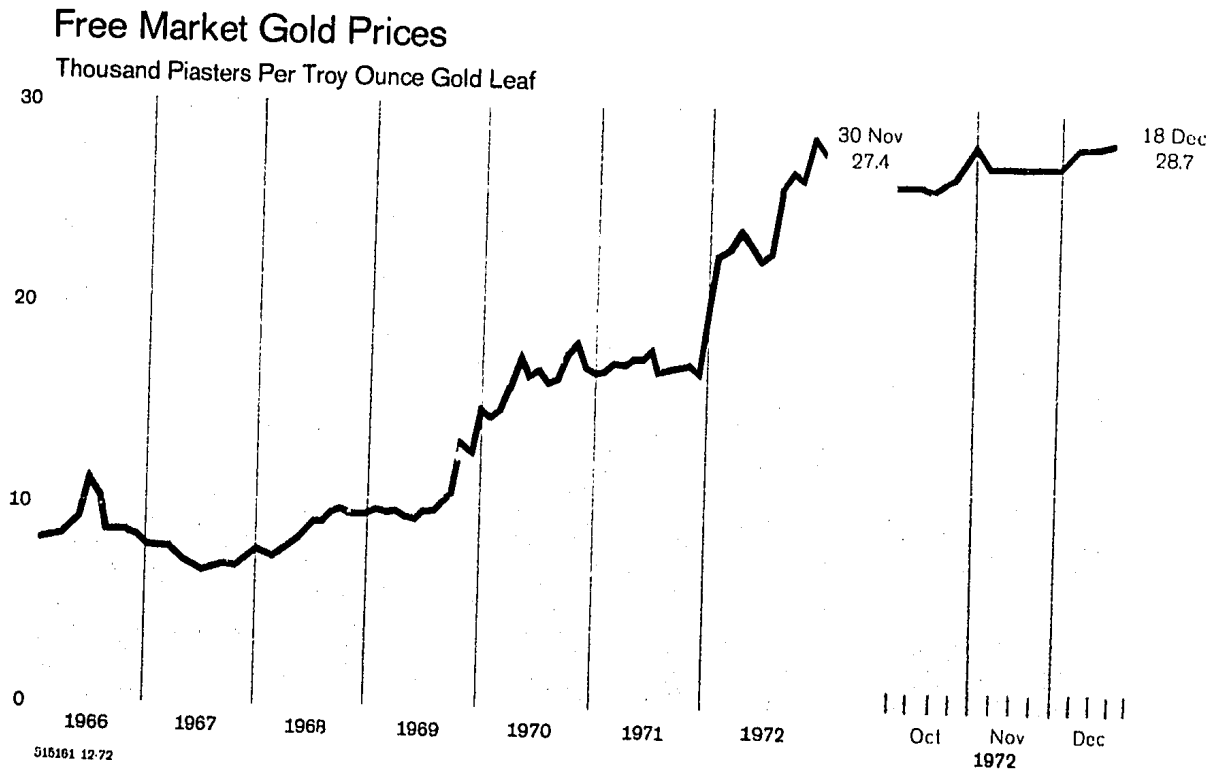
### SAIGON

Figure 3



### SAIGON

Figure 4

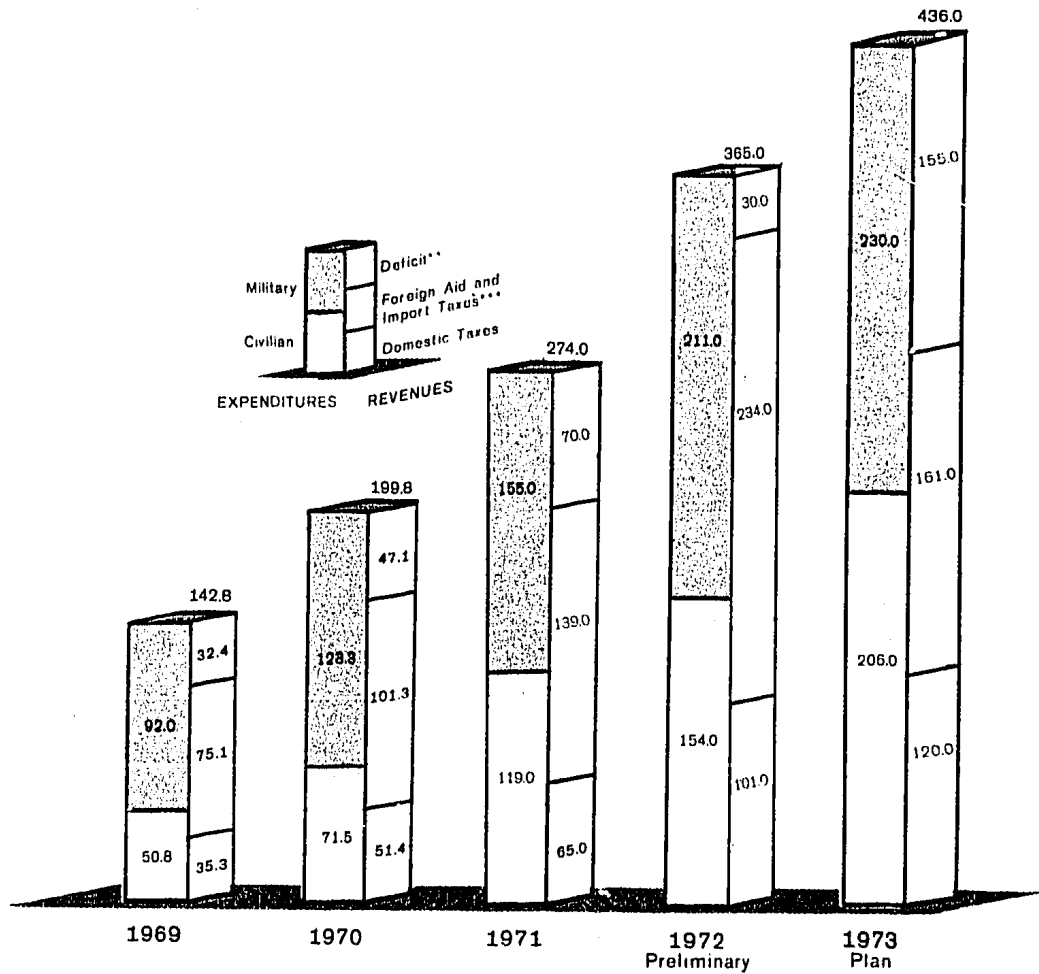


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SOUTH VIETNAM  
Government Budget\*

Billion Piasters

Figure 5



\*Data include extrabudgetary revenues and expenditures.

\*\*Residual. Financed primarily by borrowing from the National Bank.

\*\*\*Includes customs duties and other import taxes, counterpart funds generated by US-financed import programs, and profits from foreign exchange transactions. A major result of the November 1971 reforms was to make explicit a greater share of US aid to the budget that earlier took the form of high customs duties on aid-financed imports.

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