

Ram

Import Level

Clearest link of import level to aid receipts is on p. 12; Staff Report:

"For 1974, the amount of foreign aid estimated by the Vietnamese would help to finance a total level of imports of US\$910 million, which would be 14 per cent higher in dollar terms than in 1973."

and two major uncertain ties regarding aid and oil price:

"Pending further policy decisions, it is difficult to assess the precise impact of these developments on the 1974 balance of payments outcome."

There is no statement in the Minutes or the Concluding Observations that the IMF mission has "agreed to an import forecast." There are, of course, many statements concerning excessive credit for import financing.

Also Briefing Paper, p. 7:

"The level of foreign aid receipts, supplemented by Viet-Nam's own exchange receipts, will effectively determine the feasible import value during 1974, even though this may imply a decline in imports in real terms."

Frequency of exchange rate adjustments

There is never any mention of specific time periods but reference to:

- periodic adjustments (Staff Appraisal) (1973)
- adjustments from time to time (Letter)
- adjustments as required to avoid any significant loss of reserves (Staff Report)

From September 6, 1973 to January 6, 1974 there were six exchange rate adjustments, i.e., an average of one every two and a half weeks.

From December 30, 1972 to September 5, 1973, there were five adjustments, i.e., one every six and a half weeks: on this staff commented that:

"During the middle months of 1973, exchange rate adjustments may not have been as large and timely as would have been desirable under the circumstances; however, in recent months more frequent adjustments have occurred." (p. 13, Staff Report).

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

cc: ASD
LEG
ETR

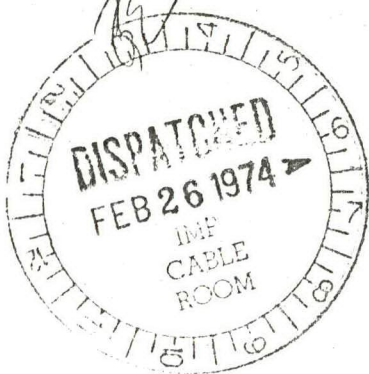
To: Tomasson

BANVINA, Saigon, South-Vietnam

by telex

[in code]

Cleared by Legal



Drafted by DKPalmer/EBrau

De vent ETR

Date February 26, 1974

AUTHORIZATION

W. John R. Woodley
Signature

Second Signature When Required

FOR CODE ROOM

Time Received 5:41 P.M.
 Time Dispatched 6:48 P.M.
 Number of Words (9 Min.)
 Log 217467
 Route WUI, TLX
 Operator PD

No. 23

1. In responding to your cable 19, we start from basic aim, which we hope is shared by authorities, of establishing a viable, continuing [exchange rate system] which will ensure sufficient [exchange rate depreciation] in an orderly way. As was made clear in Fund staff recommendation for approval of [exchange system], this aim could be achieved by frequent [exchange adjustments] as was the case under the system in operation during the latter part of 1973. Alternatively, if a new system along lines of your 19 has political attractiveness for authorities, we would be prepared to support it with following modifications:

(a) We see no reason to exempt [bulky imports and invisibles from bidding procedures]. In particular, all [exchange transactions should be channeled through free market] except for cip imports, PL 480 imports and official capital transactions.

(b) Regarding your point 9, we think it would be unrealistic to envisage a situation in which underlying market forces would provide justification for [an upward rate movement]. We seriously doubt that [intervention policy should aim at upward movements].

DO NOT TYPE BELOW THIS LINE

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON DC

To Tomasson (Saigon)

[in code]

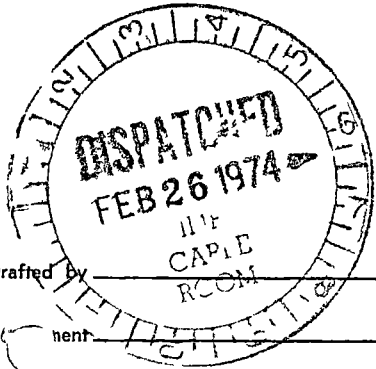
- 2 -

(c) Under new system, we see no reason to continue four week requirement during which letters of credit may be opened, and would suggest change to require opening letters of credit immediately upon successful bids

2 Under new system, scope of National Bank intervention and therefore control over and execution of foreign exchange budget would be crucial to actual exchange rate path Who will prepare and revise foreign exchange budget and on what basis, and who will execute daily, weekly, monthly, intervention in the market on the basis of the foreign exchange budget? We raise these questions in order that they be carefully considered by authorities before they make decision to embark on such a new system We think it important that they have full understanding of implications and have no illusions that a change in the method of achieving depreciation, will, per se, ^{will} bring less responsibility for decision making by authorities

3 If new system introduced, it would need to be described to Executive Board in short staff paper

Woodley



Drafted by _____
 Department _____
 Date _____

AUTHORIZATION

W. Woodley
 Signature
 /s/ W John R Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 5:41 P M
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1801/471 23/2/76

INTERFUND WASHINGTON DC

WOODLEY

NUMBER 12

FOR YOUR INFORMATION AND COMMENT I HAVE PREPARED FOR MINISTER

OF TRADE AND GOVERNOR FOLLOWING OUTLINE OF EXCHANGE MARKET

SETUP NOW UNDER CONSIDERATION :

QUOTE ONE. A FREE EXCHANGE MARKET ORGANIZED BY THE

NATIONAL BANK WOULD OPERATE THREE TIMES A WEEK WITH THE

PARTICIPATION OF COMMERCIAL BANKS ACTING ON BEHALF OF THEIR

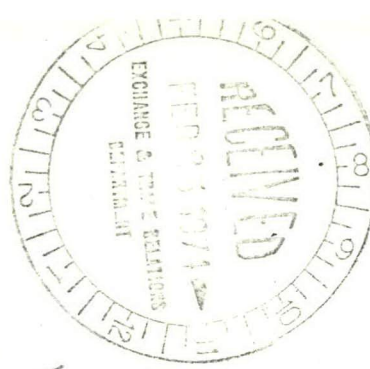
CLIENTS.

TWO. ALL EXPORT PROCEEDS WOULD BE REPATRIATED THROUGH THE

COMMERCIAL BANKS AS AT PRESENT. AN EXPORTER WOULD BE REQUIRED

TO OFFER THE PROCEEDS FOR SALE IN THE FREE EXCHANGE MARKET

THROUGH HIS COMMERCIAL BANK, WITH THE EXPORTER INDICATING A



cc: Mr. Brown ✓

212860

Orig: ASD
cc: LEG
ETR

Prior issue
last para. General memo
to Governor

Approval 2

Technical capabilities

1705 St. N.W. Washington D.C. Phone 277-0200

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MINIMUM EXCHANGE RATE AT WHICH HE IS PREPARED TO SELL. IF
 THE EXPORT PROCEEDS HAVE NOT BEEN SOLD WITHIN THREE WEEKS
 OF THEIR RECEIPT BY A COMMERCIAL BANK BECAUSE THE ACTUAL
 MARKET EXCHANGE RATE HAS BEEN BELOW THE MINIMUM RATE
 SPECIFIED BY THE EXPORTER, THEY MUST BE SOLD IN THE NEXT
 MARKET AT THE EXCHANGE RATE ESTABLISHED FOR THAT DAY.

Speculative blocking

THREE. AT THE OPENING OF EACH MARKET DAY, REPRESENTATIVES
 OF ALL COMMERCIAL BANKS WOULD MEET WITH A REPRESENTATIVE
 OF THE NATIONAL BANK AND PRESENT HIM WITH A SCHEDULE OF
 SUPPLY OF EXPORT PROCEEDS BY THEIR CLIENTS. THE SCHEDULE
 WOULD SHOW THE CUMULATIVE AMOUNT OF FOREIGN EXCHANGE OFFERED
 FOR SALE AT ANY GIVEN EXCHANGE RATE AND AT MORE DEPRECIATED
 RATES. THE REPRESENTATIVE OF THE NATIONAL BANK WOULD
 CONSOLIDATE

THE SUPPLY SCHEDULES SUBMITTED BY THE VARIOUS COMMERCIAL
 BANKS

Vertical text on the right edge of the page.

INTO A CIRCLE MARKET FULLY OPERABLE.

FOUR. ALL IMPORT AGAINST FREE EXCHANGE WOULD HAVE TO BE

FINANCED WITH EXCHANGE PURCHASED IN THE FREE EXCHANGE MARKET,

EXCEPT SPECIAL BULKY IMPORTS SUCH AS IMPORTS OF CEMENT, SUGAR

AND FERTILIZER FOR WHICH PRESENT PROCEDURES WOULD REMAIN IN

EFFECT.

FIVED EACH COMMERCIAL BANK WOULD ALSO SUBMIT TO THE

REPRESENTATIVE OF THE NATIONAL BANK A SCHEDULE SHOWING

CUMULATIVE DEMAND BY HIS CLIENTS FOR FREE EXCHANGE FOR

IMPORT FINANCING AT ANY GIVEN XCHANGE RATE AND AT MORE

APPRECIATED RATES. IMPORTERS WOULD BE FREE TO INDICATE ANY

EXCHANGE RATE AT WHICH THEY WOULD BE PREPARED TO PURCHASE

FOREIGN EXCHANGE. IF A MORE DEPRECIATED RATE IS ESTABLISHED

IN ANY GIVEN MARKET, THEY COULD RESUBMIT THEIR PURCHASE

DEMAND IN THE NEXT MARKET, PERHAPS INDICATING A DIFFERENT

EXCHANGE RATE. THE REPRESENTATIVE OF THE NATIONAL BANK WOULD

2

why
exception

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CONSOLIDATE THE VARIOUS DEMAND SCHEDULES INTO A SINGLE MARKET

DEMAND SCHEDULE.

SIX. IN THE ABSENCE OF NATIONAL BANK INTERVENTION, THE

EXCHANGE RATE WOULD BE ESTABLISHED AT THE INTERSECTION OF

THE MARKET DEMAND SCHEDULE AND THE MARKET SUPPLY SCHEDULE,

WHERE DEMAND FOR FOREIGN EXCHANGE WOULD BE EQUAL TO SUPPLY.

SEVEN. EXPORT PROCEEDS ARE PROJECTED TO REACH USDLRS 90

MILLION IN 1974 WHILE IMPORTS FINANCED THROUGH THE FREE

EXCHANGE MARKET WOULD BE AT LEAST TWICE AS LARGE. THEREFORE,

THE NATIONAL BANK WOULD HAVE TO INTERVENE IN THE FREE EXCHANGE

MARKET ON A CONTINUING BASIS. THE OBJECTIVES OF SUCH

INTERVENTION WOULD BE TWOFOLD: (A) TO ACHIEVE THE FOREIGN

EXCHANGE RESERVES TARGET SET BY THE GOVERNMENT FOR ANY GIVEN

PLANNING PERIOD; FOR EXAMPLE, TO LIMIT ANY LOSS OF RESERVES

TO USDLRS 20 MILLION IN 1974; AND (B) TO MAINTAIN AN ORDERLY

MARKET BY PREVENTING THROUGH ITS SALES OR PURCHASES ANY

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EXCESSIVE IN THE FLUCTUATION OF THE EXCHANGE RATE.

EIGHT. A BASIC INSTRUMENT FOR GUIDING NATIONAL BANK INTERVENTION IN THE MARKET WOULD BE ITS FOREIGN EXCHANGE BUDGET WHICH WOULD BE REVIEWED REGULARLY TO PROVIDE AN UP-TO-DATE PROJECTION OF ALL FOREIGN EXCHANGE RECEIPTS OR EXPENDITURES BY THE NATIONAL BANK FOR UP TO TWELVE MONTHS AHEAD.

NINE. IN ORDER TO ENHANCE THE EFFICIENCY OF THE FREE EXCHANGE MARKET MECHANISM, NATIONAL BANK INTERVENTION SHOULD NOT AIM AT ASSURING EITHER STABILITY OR MOVEMENT OF THE EXCHANGE RATE IN ANY GIVEN DIRECTION ON ANY GIVEN MARKET DAY. IN EFFECT, THERE MIGHT BE FREQUENT RELATIVELY SMALL CHANGES IN THE EXCHANGE RATE EITHER UP OR DOWN.

TEN. THE FREE EXCHANGE MARKET COULD OPERATE, FOR EXAMPLE EACH MONDAY, WEDNESDAY, AND FRIDAY, WITH THE NATIONAL BANK ANNOUNCING THE MARKET EXCHANGE RATE AT THE BEGINNING OF THE

Official is budget determination

Seasonal budgets

who decides intervention, precisely?
not IMF man!

at varying speeds
down only
speculative danger

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FOLLOWING BUSINESS

DAY. THE EXCHANGE RATE SO ESTABLISHED

WOULD APPLY TO ALL FOREIGN EXCHANGE TRANSACTIONS UNTIL A NEW

MARKET EXCHANGE RATE HAD BEEN ESTABLISHED. FOREIGN EXCHANGE

TRANSACTIONS INVOLVING INVISIBLE RECEIPTS AND EXPENDITURES

AND FOREIGN AID IMPORTS WOULD BE CONDUCTED AS AT PRESENT AT

THE EXCHANGE RATE ESTABLISHED IN THE FREE EXCHANGE MARKET.

ELEVEN. THE COMMERCIAL BANKS WOULD BE REQUIRED TO TRANSFER

THE EXPORT PROCEEDS TO THE NATIONAL BANK IMMEDIATELY UPON

THEIR SALE IN THE MARKET. THE BANKS WOULD ALSO BE FREE TO

PROCEED IMMEDIATELY WITH THE OPENING OF IMPORT LETTERS

OF CREDIT FOR CLIENTS WHO HAD MADE SUCCESSFUL BID FOR

FOREIGN EXCHANGE ON ANY GIVEN MARKET DAY. AS AT PRESENT,

THE NATIONAL BANK WOULD HOLD THE FOREIGN EXCHANGE UNTIL

PAYMENT ON THE LETTER OF CREDIT BECAME DUE.

TWELVE. THE NATIONAL BANK WOULD IMMEDIATELY CREDIT THE

why not participate in bidding?

import credit valid for how long?

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ACCOUNT OF EACH COMMERCIAL BANK WITH THE PIA TER VALUE OF THE
EXPORT PROCEEDS SOLD BY CLIENTS OF THE BANK ON ANY MARKET DAY,
CALCULATED AT THE EXCHANGE RATE ESTABLISHED FOR THE DAY,
ADJUSTED FOR ANY MORIAL BANK CHARGES. SIMILARLY, THE
NATIONAL BANK WOULD DEBIT THE ACCOUNT OF EACH COMMERCIAL
BANK WITH THE PIASTER VALUE OF FOREIGN EXCHANGE PURCHASED BY
ITS CLIENTS ON ANY MARKET DAY.
THIRTEEN. THE COMMERCIAL BANKS WOULD BE RESPONSIBLE FOR
ASSURING THAT EXPORT PROCEEDS WERE SOLD WITHIN THREE WEEKS OF
THEIR RECEIPT AND THAT EXISTING IMPORT REGULATIONS BE OBSERVED
IN THE USE OF FOREIGN EXCHANGE PURCHASED BY THEIR CLIENTS IN
THE FREE EXCHANGE MARKET. THE NATIONAL BANK MAY ESTABLISH

import
credit
system
3/4 weeks
exports
2 imports

SEE SUPPLEMENTARIES FILE

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ADMINISTRATIVE PENALTIES FOR ANY FAILURE BY THE COMMERCIAL
BANKS TO FULFILL THEIR RESPONSIBILITIES IN THESE AREAS.

FOURTEEN. PRESENT RESTRICTIONS ON BANK FINANCING OF IMPORT
TRANSACTIONS WITH FREE FOREIGN EXCHANGE WOULD CONTINUE TO
APPLY AFTER THE ESTABLISHMENT OF THE FREE EXCHANGE

MARKET QUOTE

DECISION MAY BE REACHED BY END OF NEXT WEEK.

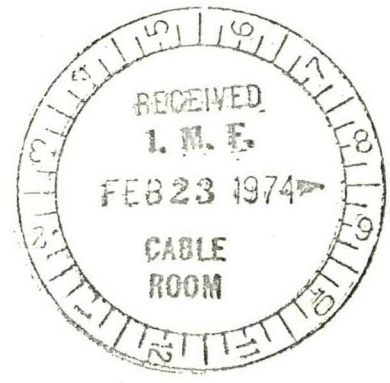
REGARDS TOMASSON

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M. Brown

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INTERFUND WASHINGTON DC

WOODLEY

Orig: ASD
cc: LEG
ETR

NUMBER 10

FOR YOUR INFORMATION AND COMMENT I HAVE PREPARED FOR MINISTER
OF TRADE AND GOVERNOR FOLLOWING OUTLINE OF EXCHANGE MARKET
SETUP NOW UNDER CONSIDERATION :

QUOTE ONE. A FREE EXCHANGE MARKET ORGANIZED BY THE
NATIONAL BANK WOULD OPERATE THREE TIMES A WEEK WITH THE
PARTICIPATION OF COMMERCIAL BANKS ACTING ON BEHALF OF THEIR
CLIENTS.

TWO. ALL EXPORT PROCEEDS WOULD BE REPATRIATED THROUGH THE
COMMERCIAL BANKS AS AT PRESENT. AN EXPORTER WOULD BE REQUIRED
TO OFFER THE PROCEEDS FOR SALE IN THE FREE EXCHANGE MARKET
THROUGH HIS COMMERCIAL BANK, WITH THE EXPORTER INDICATING A

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1708 L St. N.W. Washington D.C. Phone 225-6268

CITIZENS COMMUNICATIONS INC.

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THE EXPORT PROCEEDS HAVE NOT BEEN SOLD WITHIN THREE WEEKS OF THEIR RECEIPT BY A COMMERCIAL BANK BECAUSE THE ACTUAL MARKET EXCHANGE RATE HAS BEEN BELOW THE MINIMUM RATE SPECIFIED BY THE EXPORTER, THEY MUST BE SOLD IN THE NEXT MARKET AT THE EXCHANGE RATE ESTABLISHED FOR THAT DAY.

THREE. AT THE OPENING OF EACH MARKET DAY, REPRESENTATIVES OF ALL COMMERCIAL BANKS WOULD MEET WITH A REPRESENTATIVE OF THE NATIONAL BANK AND PRESENT HIM WITH A SCHEDULE OF SUPPLY OF EXPORT PROCEEDS BY THEIR CLIENTS. THE SCHEDULE WOULD SHOW THE CUMULATIVE AMOUNT OF FOREIGN EXCHANGE OFFERED FOR SALE AT ANY GIVEN EXCHANGE RATE AND AT MORE DEPRECIATED RATES. THE REPRESENTATIVE OF THE NATIONAL BANK WOULD CONSOLIDATE

THE SUPPLY SCHEDULES SUBMITTED BY THE VARIOUS COMMERCIAL BANKS

FOUR. ALL IMPORT AGAINST FREE EXCHANGE WOULD HAVE TO BE FINANCED WITH EXCHANGE PURCHASED IN THE FREE EXCHANGE MARKET, EXCEPT SPECIAL BULKY IMPORTS SUCH AS IMPORTS OF CEMENT, SUGAR AND FERTILIZER FOR WHICH PRESENT PROCEDURES WOULD REMAIN IN EFFECT.

FIVE. EACH COMMERCIAL BANK WOULD ALSO SUBMIT TO THE REPRESENTATIVE OF THE NATIONAL BANK A SCHEDULE SHOWING CUMULATIVE DEMAND BY HIS CLIENTS FOR FREE EXCHANGE FOR IMPORT FINANCING AT ANY GIVEN EXCHANGE RATE AND AT MORE APPRECIATED RATES. IMPORTERS WOULD BE FREE TO INDICATE ANY EXCHANGE RATE AT WHICH THEY WOULD BE PREPARED TO PURCHASE FOREIGN EXCHANGE. IF A MORE DEPRECIATED RATE IS ESTABLISHED IN ANY GIVEN MARKET, THEY COULD RECUR TO THEIR PURCHASE DEMAND IN THE NEXT MARKET, PERHAPS INDICATING A DIFFERENT EXCHANGE RATE. THE REPRESENTATIVE OF THE NATIONAL BANK WOULD

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1769 L St. N.W. Washington D.C. Phone 223-2000
McCormack & Co. Inc.

DEMAND SCHEDULE.

SIX. IN THE ABSENCE OF NATIONAL BANK INTERVENTION, THE EXCHANGE RATE WOULD BE ESTABLISHED AT THE INTERSECTION OF THE MARKET DEMAND SCHEDULE AND THE MARKET SUPPLY SCHEDULE, WHERE DEMAND FOR FOREIGN EXCHANGE WOULD BE EQUAL TO SUPPLY.

SEVEN. EXPORT PROCEEDS ARE PROJECTED TO REACH USDLRS 90 MILLION IN 1974 WHILE IMPORTS FINANCED THROUGH THE FREE EXCHANGE MARKET WOULD BE AT LEAST TWICE AS LARGE. THEREFORE, THE NATIONAL BANK WOULD HAVE TO INTERVENE IN THE FREE EXCHANGE MARKET ON A CONTINUING BASIS. THE OBJECTIVES OF SUCH

INTERVENTION WOULD BE TWOFOLD : (A) TO ACHIEVE THE FOREIGN EXCHANGE RESERVES TARGET SET BY THE GOVERNMENT FOR ANY GIVEN PLANNING PERIOD : FOR EXAMPLE, TO LIMIT ANY LOSS OF RESERVES TO USDLRS 90 MILLION IN 1974 ; AND (B) TO MAINTAIN AN ORDERLY MARKET BY PREVENTING THROUGH ITS SALES OR PURCHASES ANY

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EIGHT. A BASIC INSTRUMENT FOR GUIDING NATIONAL BANK INTERVENTION IN THE MARKET WOULD BE ITS FOREIGN EXCHANGE BUDGET WHICH WOULD BE REVIEWED REGULARLY TO PROVIDE AN UP-TO-DATE PROJECTION OF ALL FOREIGN EXCHANGE RECEIPTS OR EXPENDITURES BY THE NATIONAL BANK FOR UP TO TWELVE MONTHS AHEAD.

NINE. IN ORDER TO ENHANCE THE EFFICIENCY OF THE FREE EXCHANGE MARKET MECHANISM, NATIONAL BANK INTERVENTION SHOULD NOT AIM AT ASSURING EITHER STABILITY OR MOVEMENT OF THE EXCHANGE RATE IN ANY GIVEN DIRECTION ON ANY GIVEN MARKET DAY. IN EFFECT, THERE MIGHT BE FREQUENT RELATIVELY SMALL CHANGES IN THE EXCHANGE RATE EITHER UP OR DOWN.

TEN. THE FREE EXCHANGE MARKET COULD OPERATE, FOR EXAMPLE EACH MONDAY, WEDNESDAY, AND FRIDAY, WITH THE NATIONAL BANK ANNOUNCING THE MARKET EXCHANGE RATE AT THE BEGINNING OF THE

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WOULD APPLY TO ALL FOREIGN EXCHANGE TRANSACTIONS UNTIL A NEW MARKET EXCHANGE RATE HAD BEEN ESTABLISHED. FOREIGN EXCHANGE TRANSACTIONS INVOLVING INVISIBLE RECEIPTS AND EXPENDITURES AND FOREIGN AID IMPORTS WOULD BE CONDUCTED AS AT PRESENT AT THE EXCHANGE RATE ESTABLISHED IN THE FREE EXCHANGE MARKET.

ELEVEN. THE COMMERCIAL BANKS WOULD BE REQUIRED TO TRANSFER TH EXPORT PROCEEDS TO THE NATIONAL BANK IMMEDIATELY UPON THEIR SALE IN THE MARKET. THE BANKS WOULD ALSO BE FREE TO PROCEED IMMEDIATELY WITH THE OPENING OF IMPORT LETTERS OF CREDIT FOR CLIENTS WHO HAD MADE SUCCESSFUL BID FOR FOREIGN EXCHANGE ON ANY GIVEN MARKET DAY. AS AT PRESENT, THE NATIONAL BANK WOULD HOLD THE FOREIGN EXCHANGE UNTIL PAYMENT ON TH LETTER OF CREDIT BECAME DUE.

TWELVE. THE NATIONAL BANK WOULD IMMEDIATELY CREDIT THE

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1700 L St. N.W. Washington D.C. Phone 256-0224

1700 L St. N.W. Washington D.C. Phone 256-0224

ACCOUNT OF EACH COMMERCIAL BANK WITH THE PIASTER VALUE OF THE EXPORT PROCEEDS SOLD BY CLIENTS OF THE BANK ON ANY MARKET DAY, CALCULATED AT THE EXCHANGE RATE ESTABLISHED FOR THE DAY, ADJUSTED FOR ANY NORMAL BANK CHARGES. SIMILARLY, THE NATIONAL BANK WOULD DEBIT THE ACCOUNT OF EACH COMMERCIAL BANK WITH THE PIASTER VALUE OF FOREIGN EXCHANGE PURCHASED BY ITS CLIENTS ON ANY MARKET DAY.

THIRTEEN. THE COMMERCIAL BANKS WOULD BE RESPONSIBLE FOR ASSURING THAT EXPORT PROCEEDS WERE SOLD WITHIN THREE WEEKS OF THEIR RECEIPT AND THAT EXISTING IMPORT REGULATIONS BE OBSERVED IN THE USE OF FOREIGN EXCHANGE PURCHASED BY THEIR CLIENTS IN THE FREE EXCHANGE MARKET. THE NATIONAL BANK MAY ESTABLISH

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W. Washington D.C. Phone 202-4206

ADMINISTRATIVE PENALTIES FOR ANY FAILURE BY THE COMMERCIAL
BANKS TO FULFILL THEIR RESPONSIBILITIES IN THESE AREAS.

FOURTEEN. PRESENT RESTRICTIONS ON BANK FINANCING OF IMPORT
TRANSACTIONS WITH FREE FOREIGN EXCHANGE WOULD CONTINUE TO
APPLY AFTER THE ESTABLISHMENT OF THE FREE EXCHANGE
MARKET URQUOTE

DECISION MAY BE REACHED BY END OF NEXT WEEK.

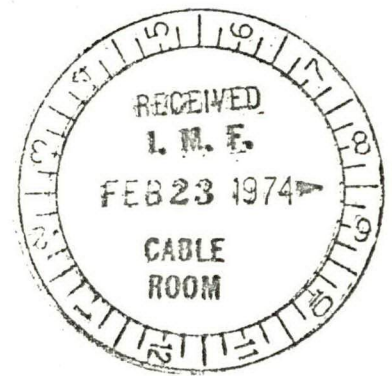
REGARDS TOMASSON

SENT 1

BANVINA 793203

440040 FUND UI

.....



~~DRAFT~~

Final

Tomasson, Banvina, Saigon (Viet-Nam)

*Cleared
ETR
Legal*

1. We advise against proposal of your 18. Compulsory margin deposit requirement on letter of credits already issued ^{would} constitutes multiple currency practice subject to Fund approval. Moreover, retention of present subsidy for CIP imports and introduction of margin deposits on CIP licenses ^{would be} ~~are~~ contradictory policies.

*fted
Palmer/
Bran*

2. With reference to discussion between ^{Discussed} mission and authorities on the rationale for a CIP subsidy ^{in light of actual demand} and its pragmatic adjustment, we advise instead that amount of subsidy be reduced from VN\$85 per US\$1 of custom value of imports to about VN\$10-20 per US\$1. ^{also} ~~In addition~~, import demand ^{reportedly} at unsustainable level requires more flexibility in exchange rate adjustment.

appears to me to be an additional reason for returning to practice of frequent exchange rate adjustments.

Woodley,
Interfund

100.

1709 L St. N.W. Washington D.C. Phone 236-6200

111 330710 3000000000

6

M. Blair

212713

Orig: ASD
cc: LEG
ETR

440040 FUND UI

0487 EDT

440040 FUND UI

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440040 FUND UI

440040 FUND UI

LAVIRA 793203

THIS IS NATIONAL BANK OF VIETNAM CAIGON

4:30PM

NR01:458 21/2/74

INTERFUND WASHINGTONDC

WOODLEY

NUMBER 18

OVN AUTHORITIES AND USAID WISH TO TAKE ACTION TO REDUCE
DEMAND FOR CIP LICENSING WHICH HAS BEEN RUNNING FAR ABOVE
SUSTAINABLE LEVEL DURING PAST FEW WEEKS. AT PRESENT

Washington D.C. Phone 236-6200

IMPORTERS ARE NOT REQUIRED TO PUT UP ANY MARGIN EITHER
AT TIME OF LICENSE APPLICATION OR LETTER OF CREDIT OPENING
AND RECENT DEMAND APPEARS PARTLY SPECULATIVE. GOVERNOR
IS THINKING OF INTRODUCING MARGIN DEPOSIT REQUIREMENT OF
25 TO 30 PERCENT FOR NZW LICENSE APPLICATIONS AND FOR
FUTURE OPENING OF LETTERS OF CREDIT AGAINST LICENSES
ALREADY ISSUED. ALSO LETTERS OF CREDIT WOULD HAVE TO BE
OPENED WITHIN 21 DAYS FOR LICENSES ALREADY ISSUED AND FOR
FUTURE LICENSES. COMMERCIAL BANKS WOULD BE PROHIBITED
FROM FINANCING THE MARGIN DEPOSIT WHICH WOULD EVENTUALLY
BE CREDITED AGAINST THE FULL LOCAL CURRENCY PAYMENT WHICH
WOULD CONTINUE TO BE REQUIRED AT TIME OF EXCHANGE PAYMENT
ABROAD. MARGIN DEPOSIT WOULD BE CALCULATED AT CURRENT EXCHANGE

1702 L H.W. Washington D.C. Phone 266-5100

International Inc.

ONS INC.

ITT World Communications Inc.

REBETZ, BOTH IN ADVISE TO READ TUSAID DEPUTY DIRECTOR REZAI DISCUSSED

THIS PROBLEM WITH IZ TODAY. PLEASE ADVISE IF STAFF WOULD

HAVE ANY OBJECTION TO ACTION ALONG ABOVE LINES.

REGARDS TOMASSON

----- HR 1 RPT FOUR LAST LINES +?'

440046 FUND UI

ABROAD. MARGIN DEPOSIT WOULD BE CALCULATED AT CURRENT EXCHANGE

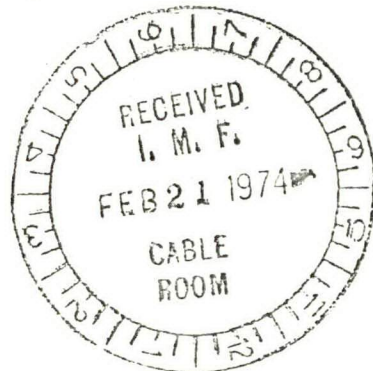
RATE WITH FINAL SETTLEMENT EFFECTED AT THE THZN PREVAILING

RATE. BOTH GOVERNOR AND USAID DEPUTY DIRECTOR HAVE DISCUSSED

THIS PROBLEM WITH IZ TODAY. PLEASE ADVISE IF STAFF WOULD

HAVE ANY OBJECTION TO ACTION ALONG ABOVE LINES.

REGARDS TOMASSON



SENT 1

Page 50. Phone 286-6200

20 D.C. Phone 285-5200

ITT World Communications Inc.

ITT World Communications

THIS IS NATIONAL BANK OF VIETNAM SAIGON

*Mr. Chabrier
cc to Mr. Handy
(tabular
copy (list))*

NR01/438 20/2/74

212631

INTERFUND WASHINGTONDC

Orig: ASD
cc: LEG
ETR

WOODLEY

NUMBER 17

GOVERNOR IN CONSULTATION WITH ECONOMIC MINISTERS HAS

ASKED ME TO ENQUIRE ABOUT POSSIBILITY FOR VIETNAM TO

BORROW FROM FUND UNDER SPECIAL FACILITY PROPOSED BY

MANAGING DIRECTOR AT ROME MEETING. GOVERNOR ALSO EXPRESSED

RENEWED INTEREST IN POSSIBLE STANDBY ARRANGEMENT EITHER

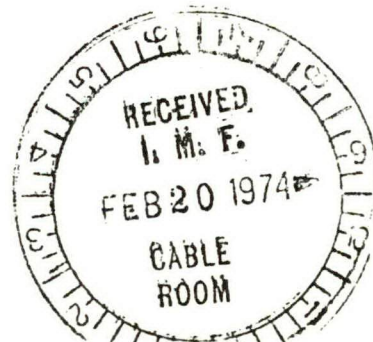
AS SUPPLEMENT TO BORROWING UNDER ANY SPECIAL FACILITY

WHICH MAY BE APPROVED BY EXECUTIVE BOARD OR WS AN

ALTERNATIVE.

REGARDS TOMASSON

SENT 1 4:15PM



World Communications Inc.
1709 L St. N.W. Washing D.C. Phone 296-2200
ne 296-6200

**INTERNATIONAL MONETARY FUND
SPECIAL DELIVERY**

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0437 EDTG

440040 FUND UI BANTINA VIKCIVK

440040 FUND UI

BANVINA 798203

THIS IS NATIONAL BANK OF VIETNAM SAIGON

4:40PM

NRD1/427 19/2/74

INTERFUND WASHINGTON DC

WOODLEY

NUMBER 16

MINISTER OF TRADE CALLED TODAY TO ACK NY VIEWS ON PROPOSAL

TO LET EXPORTERS AND IMPORTERS NEGOTIATE EXCHANGE RATE

FOR GVN EXCHANGE AND TO LET ALL OTHER EXCHANGE TRANSACTIONS

ALSO BE EFFECTED AT RATE NEGOTIATED EACH DAY. BY INITIAL

cc: Mr Bran



212546

Orig: ASD
cc: LEG
ETR

U.S. PHONE 202-3209

111 WOODLEY COMMUNICATIONS UNIT

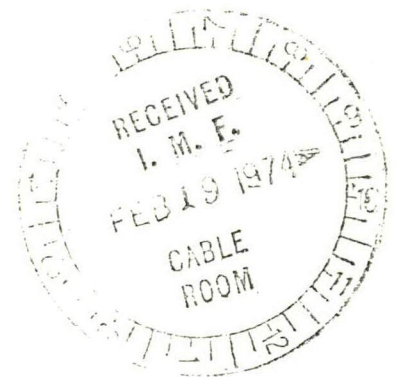
111 WOODLEY COMMUNICATIONS UNIT
U.S. PHONE 202-3209

REACTION WAS TO NOTE IMPORTANCE OF REASONABLE BALANCE
BETWEEN DEMAND AND SUPPLY WHICH WOULD NOT BE THE CASE AT
PRESENT WITHOUT NATIONAL BANK INTERVENTION. WITH SUCH
INTERVENTION HOWEVER THE POLITICALLY SENSITIVE QUESTION
WOULD STILL ARISE AS TO WHO SETS THE RATE. MINISTER ASKED
THAT I MEET WITH HIM LATER THIS WEEK TO DISCUSS THIS AND
OTHER PROPOSALS FOR RATE MANAGEMENT. WOULD NOT EXPECT
ANYTHING TO BE DECIDED WITHOUT CONSULTATION WITH YOU.

REGARDS TO MASSON

SENT 1

440040 FULD UI



4-303
M. Braun

440040 FUND UIO

0437 EDT

440040 FUND UIBANTINA VIKGIKV

440040 FUND UI

BANVINA 798203

THIS IS NATIONAL BANK OF VIETNAM SAIGON

4:40PM

NRO1/427 19/2/74

212546

INTERFUND WASHINGTONDC

Orig: ASD
cc: LEG
ETR

WOODLEY

NUMBER 16

MINISTER OF TRADE CALLED TODAY TO ASK MY VIEWS ON PROPOSAL

TO LET EXPORTERS AND IMPORTERS NEGOTIATE EXCHANGE RATE

FOR CVN EXCHANGE AND TO LET ALL OTHER EXCHANGE TRANSACTIONS

ALSO BE EFFECTED AT RATE NEGOTIATED EACH DAY. MY INITIAL

ATTN: Mr. F. G. L.

1705 - Dr. H. H. Was - 2nd D.C. Phone 200-0200

Phone 200-0200

U.S. Phone 200-0200
111 WORLD COMMUNICATIONS INC.
111 WORLD

1709 L St. N.W. Washington D.C.

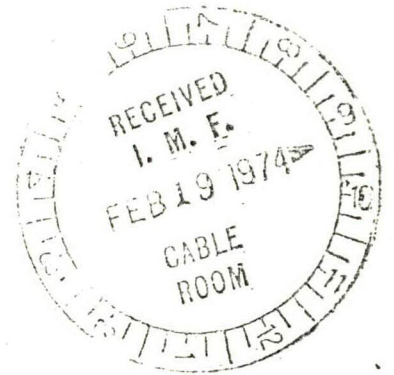
ITT World Communications Inc.

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 ANYTHING TO BE DECIDED WITHOUT CONSULTATION WITH YOU?

REGARDS TOMASSON

SENT 1

440040 FUND UI



SECRET

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

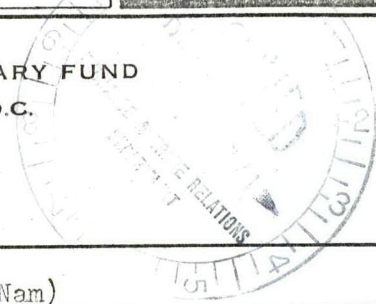
- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

By telex

cc: ETR
 LEG
 ETR

INTERNATIONAL MONETARY FUND
 WASHINGTON D.C.



To: Tomasson

BANVINA, Saigon (Viet-Nam)

No. 24

Re your letter. Your suggestion for mission beginning May 7 will be considered, but presently we expect somewhat later date, probably early June. Will inform you as soon as possible. Regards

Tun Thin

Drafted by J. Woodley:to

Der ent Asian

Date February 27, 1974

AUTHORIZATION

J. Woodley
 Signature
 s/ J. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 4:00 P.M.
 Time Dispatched 4:40 P.M.
 Number of Words (10 Min.) Basic
 Log 217492, 217498
 Route WUI, TLX
 Operator VW/FJ



DO NOT TYPE BELOW THIS LINE



Office Memorandum

Joy.
Viet-Nam.

TO : Mr. de Looper

FROM : Alki Jacobs

SUBJECT : Information Requested by Mr. Evans on Viet-Nam's Exchange System

DATE: February 26, 1974

The information I have been able to gather indicates that Viet-Nam initially maintained regulations applied while it was still under French rule. However, it gradually modified these regulations so that by the time it joined the Fund, in September 1956, it could be described as having its own foreign exchange system. I have listed below the relevant orders and other legislative provisions which trace the principal developments in Viet-Nam's exchange system until the time of Fund membership.

1. The Convention of December 29, 1954 eliminated the Office Indochinois des Changes, and transferred its responsibilities to the Government of Viet-Nam.
2. Decree No. 168-TC of December 31, 1954:
 - a. Provisionally maintained existing regulations;
 - b. Established an "Office National des Changes" to regulate foreign exchange transactions.
3. Order No. 48 of December 31, 1954 established the National Bank of Viet-Nam.
4. The bilateral Monetary Agreement with France signed on December 30, 1955 was denounced by the Government of Viet-Nam, and as of January 1, 1956 the Vietnamese piastre was removed from the franc area.
5. Order No. 36 of June 30, 1956:
 - a. Created a limited free foreign exchange market;
 - b. Instructed the National Exchange Office to determine conditions of the functioning of this market;
 - c. Repealed a number of existing regulations contrary to this order, including some relating to transfers between Viet-Nam and France and other countries in the franc area.
6. Instruction No. 2 of the Director General of the National Exchange Office dated July 1, 1956 defined rules applicable to this foreign exchange market.

doc
refers
to
the Fr
'47 law?

ex. ch. 111.55

the ex. c. regs. applicable in V-N at the time of dissolution of the O. I. d. C.

implement the ex. c. regs. applicable in V-N.

ONDC items
many regs.
beg. in Jan. '55.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

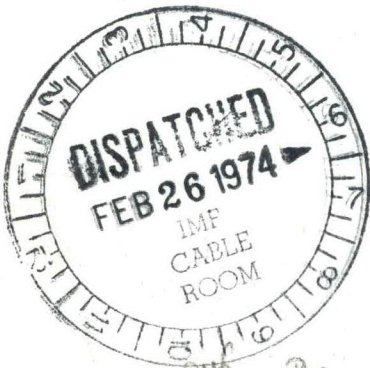
SPECIAL INSTRUCTIONS

by telex

[in code]

Cleared by Legal

BE



Drafted by DKPalmer/EBrau

Dr. nent ETR

Date February 26, 1974

AUTHORIZATION

Woodley
 Signature
 W. John R. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 5:41 P.M.
 Time Dispatched 6:48 P.M.
 Number of Words (9 min.)
 Log 217467
 Route WUI, TLX
 Operator PD

INTERNATIONAL MONETARY FUND

WASHINGTON D.C.

cc: ASD
LEG
ETR

To: Tomasson

BANVINA, Saigon, South Vietnam

No. 23

1. In responding to your cable 19, we start from basic aim, which we hope is shared by authorities, of establishing a viable, continuing [exchange rate system] which will ensure sufficient [exchange rate depreciation] in an orderly way. As was made clear in Fund staff recommendation for approval of [exchange system], this aim could be achieved by frequent [exchange] adjustments as was the case under the system in operation during the latter part of 1973. Alternatively, if a new system along lines of your 19 has political attractiveness for authorities, we would be prepared to support it with following modifications:

(a) We see no reason to exempt [bulky imports and invisibles from bidding procedures]. In particular, all [exchange transactions] should be channeled through free market [except for cip imports, PL 480 imports and official capital transactions].

(b) Regarding your point 9, we think it would be unrealistic to envisage a situation in which underlying market forces would provide justification for [an upward rate movement]. We seriously doubt that [intervention policy should aim at upward movements].

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OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

[in code]

INTERNATIONAL MONETARY FUND
WASHINGTON D C

To Tonasson (Saigon)

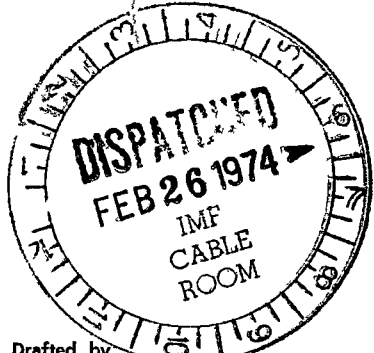
- 2 -

(c) Under new system, we see no reason to continue four week requirement during which letters of credit may be opened, and would suggest change to require opening letters of credit immediately upon successful bids.

2. Under new system, scope of National Bank intervention and therefore control over and execution of foreign exchange budget would be crucial to actual exchange rate path. Who will prepare and revise foreign exchange budget and on what basis; and who will execute daily, weekly, monthly, intervention in the market on the basis of the foreign exchange budget? We raise these questions in order that they be carefully considered by authorities before they make decision to embark on such a new system. We think it important that they have full understanding of implications and have no illusions that a change in the method of achieving depreciation will, per se, bring less responsibility for decision making by authorities.

3. If new system introduced, it would need to be described to Executive Board in short staff paper.

Woodley



Drafted by _____

Di sent _____

Date _____

AUTHORIZATION

Signature

/s/ W. John R. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 5:41 P.M.
 Time Dispatched 6:48 P.M.
 Number of Words (9 Min.)
 Log 217467
 Route WUI, TLX
 Operator ED

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MR01/471 23/2/74

INTERFUND WASHINGTONDC

WOODLEY

NUMBER 19

FOR YOUR INFORMATION AND COMMENT I HAVE PREPARED FOR MINISTER

OF TRADE AND GOVERNOR FOLLOWING OUTLINE OF EXCHANGE MARKET

SETUP NOW UNDER CONSIDERATION :

QUOTE ONE. A FREE EXCHANGE MARKET ORGANIZED BY THE

NATIONAL BANK WOULD OPERATE THREE TIMES A WEEK WITH THE

PARTICIPATION OF COMMERCIAL BANKS ACTING ON BEHALF OF THEIR

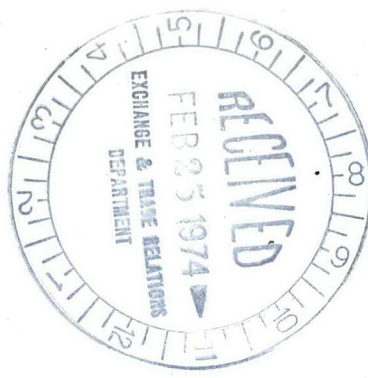
CLIENTS.

TWO. ALL EXPORT PROCEEDS WOULD BE REPATRIATED THROUGH THE

COMMERCIAL BANKS AS AT PRESENT. AN EXPORTER WOULD BE REQUIRED

TO OFFER THE PROCEEDS FOR SALE IN THE FREE EXCHANGE MARKET

THROUGH HIS COMMERCIAL BANK, WITH THE EXPORTER INDICATING A



cc: Mr. Bacon

212860

Orig: ASD
cc: LEG
ETR

ITT World Communications Inc.

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1709

MINIMUM EXCHANGE RATE AT WHICH HE IS PREPARED TO SELL. IF
THE EXPORT PROCEEDS HAVE NOT BEEN SOLD WITHIN THREE WEEKS
OF THEIR RECEIPT BY A COMMERCIAL BANK BECAUSE THE ACTUAL
MARKET EXCHANGE RATE HAS BEEN BELOW THE MINIMUM RATE
SPEED STIPULATED BY THE EXPORTER, THEY MUST BE SOLD IN THE NEXT
MARKET AT THE EXCHANGE RATE ESTABLISHED FOR THAT DAY.

AT THE OPENING OF EACH MARKET DAY, REPRESENTATIVES
OF ALL COMMERCIAL BANKS WOULD MEET WITH A REPRESENTATIVE
OF THE NATIONAL BANK AND PRESENT HIM WITH A SCHEDULE OF
SUPPLY OF EXPORT PROCEEDS BY THEIR CLIENT. THE SCHEDULE
WOULD SHOW THE CUMULATIVE AMOUNT OF FOREIGN EXCHANGE OFFERED
FOR SALE AT ANY GIVEN EXCHANGE RATE AND AT MORE DEPRECIATED
RATES. THE REPRESENTATIVE OF THE NATIONAL BANK WOULD
CONSOLIDATE

THE SUPPLY SCHEDULES SUBMITTED BY THE VARIOUS COMMERCIAL
BANKS

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WASHINGTON DC
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COMMUNICATIONS
118

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118

II TO A SINGLE UNIT SUPPLY SCHEDULE

FOUR ALL IMPORT AGAINST FREE EXCHANGE WOULD HAVE TO BE FINANCED WITH EXCHANGE PURCHASED IN THE FREE EXCHANGE MARKET, EXCEPT SPECIAL PRIORITY IMPORTS SUCH AS IMPORTS OF CEMENT, SUGAR AND FERTILIZER FOR WHICH PRESENT PROCEDURES WOULD REMAIN IN EFFECT

FIVE. EACH COMMERCIAL BANK WOULD ALSO SUBMIT TO THE REPRESENTATIVE OF THE NATIONAL BANK A SCHEDULE SHOWING CUMULATIVE DEMAND BY HIS CLIENTS FOR FREE EXCHANGE FOR IMPORT FINANCING AT ANY GIVEN EXCHANGE RATE AND AT MORE APPRECIATED RATES. IMPORTERS WOULD BE FREE TO INDICATE ANY EXCHANGE RATE AT WHICH THEY WOULD BE PREPARED TO PURCHASE FOREIGN EXCHANGE. IF A MORE DEPRECIATED RATE IS ESTABLISHED IN ANY GIVEN MARKET, THEY COULD REOPEN AT THEIR PURCHASE DEMAND IN THE NEXT MARKET, PERHAPS INDICATING A DIFFERENT EXCHANGE RATE. THE REPRESENTATIVE OF THE NATIONAL BANK WOULD

1709 1st NW Washington DC 20004 202-337-5400

World Communications Inc. 1709 1st NW Washington DC 20004 202-337-5400

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0329 952
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0329 952

CONSOLIDATE THE VARIOUS DEMAND SCHEDULES INTO A SINGLE MARKET

DEMAND SCHEDULE

SIX IN THE ABSENCE OF NATIONAL BANK INTERVENTION, THE

EXCHANGE RATE WOULD BE ESTABLISHED AT THE INTERSECTION OF

THE MARKET DEMAND SCHEDULE AND THE MARKET SUPPLY SCHEDULE,

HERE DEMAND FOR FOREIGN EXCHANGE WOULD BE EQUAL TO SUPPLY

SEVEN EXPORT PROCEEDS ARE PROJECTED TO REACH USDLPS 90

MILLION IN 1971 WHILE IMPORTS FINANCED THROUGH THE FREE

EXCHANGE MARKET WOULD BE AT LEAST TWICE AS LARGE THEREFORE,

THE NATIONAL BANK WOULD HAVE TO INTERVENE IN THE FREE EXCHANGE

MARKET ON A CONTINUING BASIS THE OBJECTIVES OF SUCH

INTERVENTION WOULD BE TWOFOLD (A) TO ACHIEVE THE FOREIGN

EXCHANGE RESERVES TARGET SET BY THE GOVERNMENT FOR ANY GIVEN

PLANNING PERIOD FOR EXAMPLE, TO LIMIT ANY LOSS OF RESERVES

TO USDLPS 90 MILLION IN 1971 AND (B) TO MAINTAIN AN ORDERLY

MARKET BY PREVENTING THROUGH ITS SALES OR PURCHASES ANY

STON D C Phone 295 6200

IT World Communications Inc.

IT World Comercio

EXCESSIVE SHORT-TERM FLUCTUATIONS IN THE EXCHANGE RATE

EIGHT - A BASIC INSTRUMENT FOR GUIDING NATIONAL BANK

INTERVENTION IN THE MARKET WOULD BE ITS FOREIGN EXCHANGE

BUDGET WHICH WOULD BE REVISED REGULARLY TO PROVIDE AN

UP-TO-DATE PROJECTION OF ALL FOREIGN EXCHANGE RECEIPTS OR

EXPENDITURES BY THE NATIONAL BANK FOR UP TO TWELVE MONTHS

AHEAD

NINE - IN ORDER TO ENHANCE THE EFFICIENCY OF THE FREE

EXCHANGE MARKET MECHANISM, NATIONAL BANK INTERVENTION

SHOULD NOT AIM AT ASSURING EITHER STABILITY OR MOVEMENT

OF THE EXCHANGE RATE IN ANY GIVEN DIRECTION ON ANY GIVEN

MARKET DAY. IN EFFECT, THERE MIGHT BE FREQUENT RELATIVELY

SMALL CHANGES IN THE EXCHANGE RATE EITHER UP OR DOWN

TEN - THE FREE EXCHANGE MARKET COULD OPERATE, FOR EXAMPLE

EACH MONDAY, WEDNESDAY, AND FRIDAY, WITH THE NATIONAL BANK

ANNOUNCING THE MARKET EXCHANGE RATE AT THE BEGINNING OF THE

1709 L St NW Washington D C Phone 206 6200

1709 L St NW Washington D C Phone 206 6200

FOLLOWING BUSINESS

DAY THE EXCHANGE RATE SO ESTABLISHED

WOULD APPLY TO ALL FOREIGN EXCHANGE TRANSACTIONS UNTIL A NEW

MARKET EXCHANGE RATE HAD BEEN ESTABLISHED. FOREIGN EXCHANGE

TRANSACTIONS INVOLVING INVISIBLE RECEIPTS AND EXPENDITURES

AND FOREIGN AID IMPORTS WOULD BE CONDUCTED AS AT PRESENT AT

THE EXCHANGE RATE ESTABLISHED IN THE FREE EXCHANGE MARKET

EXCEPT THE COMMERCIAL BANKS WOULD BE REQUIRED TO TRANSFER

THE EXPORT PROCEEDS TO THE NATIONAL BANK IMMEDIATELY UPON

THEIR SALE IN THE MARKET. THE BANKS WOULD ALSO BE FREE TO

PROCEED IMMEDIATELY WITH THE OPENING OF IMPORT LETTERS

OF CREDIT FOR CLIENTS WHO HAD MADE SUCCESSFUL BIDS FOR

FOREIGN EXCHANGE ON ANY GIVEN MARKET DAY. AS AT PRESENT,

THE NATIONAL BANK WOULD HOLD THE FOREIGN EXCHANGE UNTIL

PAYMENT ON THE LETTER OF CREDIT BECAME DUE

WITHIN TWELVE MONTHS. THE NATIONAL BANK WOULD IMMEDIATELY CREDIT THE

IT WILL COMMUNICATIONS INC.

1729 L St NW Washington D C Phone 295-5200

177 W

222-552 946
S C W 330 4521 N N 157 30.
311
UNIVERSITY
400 910 34 147
L-395

ACCOUNT OF EACH COMMERCIAL BANK WITH THE PIASTER VALUE OF THE
EXPORT PROCEEDS SOLD BY CLIENTS OF THE BANK ON ANY MARKET DAY,
CALCULATED AT THE EXCHANGE RATE ESTABLISHED FOR THE DAY,
ADJUSTED FOR ANY NORMAL BANK CHARGES. SIMILARLY, THE
NATIONAL BANK WOULD DEBIT THE ACCOUNT OF EACH COMMERCIAL
BANK WITH THE PIASTER VALUE OF FOREIGN EXCHANGE PURCHASED BY
ITS CLIENTS ON ANY MARKET DAY.
THIRTEEN THE COMMERCIAL BANKS WOULD BE RESPONSIBLE FOR
ASSUMING THAT EXPORT PROCEEDS WERE SOLD WITHIN THREE WEEKS OF
THEIR RECEIPT AND THAT EXISTING EXPORT REGULATIONS BE OBSERVED
IN THE USE OF FOREIGN EXCHANGE PURCHASED BY THEIR CLIENTS IN
THE FREE EXCHANGE MARKET. THE NATIONAL BANK MAY ESTABLISH

735 L St NW
Washington DC
June 25 1962

THE COMMERCIAL BANK
WASHINGTON DC

ADMINISTRATIVE PENALTIES FOR ANY FAILURE BY THE COMMERCIAL

BANKS TO FULFILL THEIR RESPONSIBILITIES IN THESE AREAS

FOURTEEN PERCENT RESTRICTIONS ON BANK FINANCING OF IMPORT

TRANSACTIONS WITH FREE FOREIGN EXCHANGE WOULD CONTINUE TO

APPLY AFTER THE ESTABLISHMENT OF THE FREE EXCHANGE

MARKET QUOTE

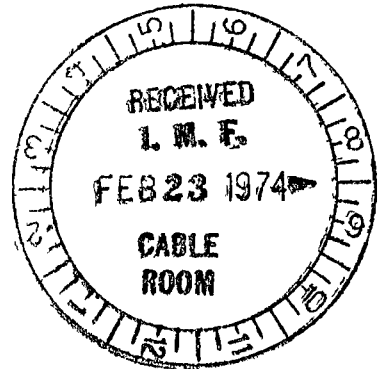
DECISION MAY BE REACHED BY END OF NEXT WEEK

REGARDS TOMASSONI

SENT 1

BANVINA 703202

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WITHDRAWAL NOTICE**PROJECT**

Project number 2008 012
Project name PDR/EXR Front Office (AI)
Project tab number 352
Project box number 4

DOCUMENT

Series / File Vietnam Correspondence and Memos (54235)
Original box / file No 290 / 1
Date 1974 02 22
Type Memo
From Gunnar Tomasson
To Minister of Trade and Industry & Governor of the National Bank
Subject / Title Proposal for Free exchange market
Number of pages 26
Classification SECRET
Authority Asia & Pacific Department

COMMENTS

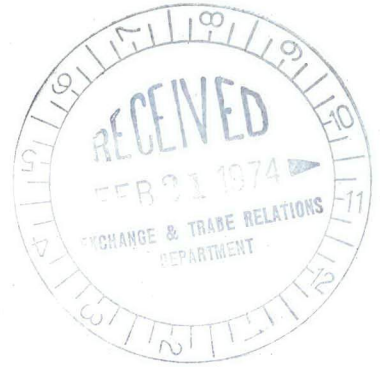
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Entered on 2008-11 11

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177 World Commerce

cc: The Branch



212713

Orig: ASD
cc: LEG
ETR

440040 FUND UIN
0427 EDTG
440040 FUND UI
MOMPLS +
E
440040 FUND UI
440040 FUND UI
BANVINA 798203

THIS IS NATIONAL BANK OF VIETNAM SAIGON

4:30PM

NRO1:458 21/2/74

INTERFUND WASHINGTONDC

WOODLEY

NUMBER 18

GVN AUTHORITIES AND USAID WISH TO TAKE ACTION TO REDUCE
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ABROAD MARGIN DEPOSIT WOULD BE CALCULATED AT CURRENT EXCHANGE

10ms ms.

TTM and COMMUNICATIONS LTD.

1709 L (W) Washington N.A. 7 5071

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1709 L (W) Washington N.A. 7 5071

RW PATZ: THE OFFICE ADVISORY BOARD DEPUTY DIRECTOR HAVE DISCUSSED
 THIS PROBLEM WITH HIM TODAY. PLEASE ADVISE IF STAFF WOULD
 HAVE ANY OBJECTION TO ACTION ALONG ABOVE LINES.

REGARDS TO MASSON

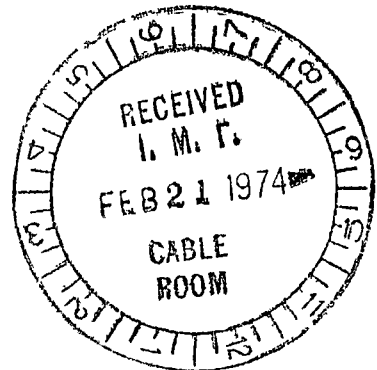
----- HR 1 RPT FOUR LAST LINES +?'

410040 FUND UI

ABROAD MARCIN DEPOSIT WOULD BE CALCULATED AT CURRENT EXCHANGE
 RATE WITH FINAL SETTLEMENT EFFECTED AT THE THEN PREVAILING
 RATE. BOTH GOVERNOR AND USAID DEPUTY DIRECTOR HAVE DISCUSSED
 THIS PROBLEM WITH HIM TODAY. PLEASE ADVISE IF STAFF WOULD
 HAVE ANY OBJECTION TO ACTION ALONG ABOVE LINES.

REGARDS TO MASSON

SENT 1



ON D J PROP 236-6205

IT World Communications Inc.

IT World Communica

11/17/74

17022 ST NW Phone 256 5203

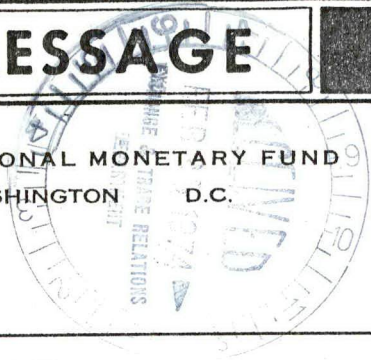
17022 ST NW Phone 256 5203

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.



FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

[] code

To: Mr. Tomasson,
BANVINA, Saigon, Viet-Nam

CC: ASD
LEG
ETR

Cleared with: *[Signature]*

ETR
LEGAL

No. 22

1. We advise against proposal of your 18. Compulsory margin deposit requirement on letter of credits already issued would constitute multiple currency practice subject to Fund approval. Moreover, retention of present subsidy for CIP imports and introduction of margin deposits on CIP licenses would be contradictory policies.
2. With reference to discussion between December mission and authorities on the rationale for a CIP subsidy and its pragmatic adjustment in light of actual demand pressures, we advise instead that amount of subsidy [be reduced from VN\$85 per US\$1 of custom value of imports to about VN\$10-20 per US\$1.] Also, import demand at reportedly unsustainable level appears to us to be an additional reason for returning to practice of [frequent exchange rate adjustments.]

Woodley,
Interfund

Dra by *[Signature]* DKPalmer/EHBrau/ms

Department ETR

Date February 21, 1974

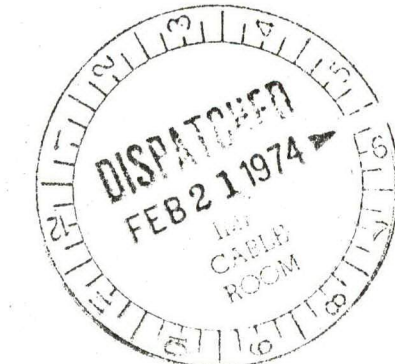
AUTHORIZATION

[Signature]
Signature
1/3/ J. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 5:31 P.M.
 Time Dispatched 6:28 P.M.
 Number of Words (4 Min.)
 Log 216914
 Route WUI, TLX
 Operator [initials]



DO NOT TYPE BELOW THIS LINE

THIS IS NATIONAL BANK OF VIETNAM SAIGON

cc: The Brass

NRO1/438 20/2/74

212631

INTERFUND WASHINGTONDC

Orig: ASD
cc: LEG
ETR

WOODLEY

NUMBER 17



GOVERNOR IN CONSULTATION WITH ECONOMIC MINISTERS HAS

ASKED ME TO ENQUIRE ABOUT POSSIBILITY FOR VIETNAM TO

BORROW FROM FUND UNDER SPECIAL FACILITY PROPOSED BY

MANAGING DIRECTOR AT ROME MEETING. GOVERNOR ALSO EXPRESSED

RENEWED INTEREST IN POSSIBLE STANDBY ARRANGEMENT EITHER

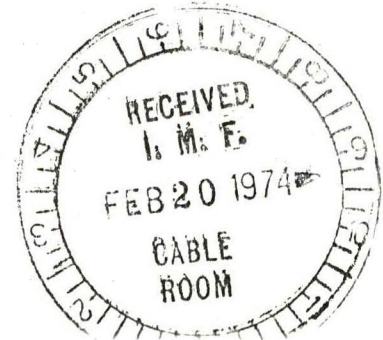
AS SUPPLEMENT TO BORROWING UNDER ANY SPECIAL FACILITY

WHICH MAY BE APPROVED BY EXECUTIVE BOARD OR WS AN

ALTERNATIVE.

REGARDS TOMASSON

SENT 1 4:15PM



World Communications, Inc. 1700 L St. N.W. Washing. D.C. Phone 296-2000 ne 296-620.

SEE SUPERSEDING OFFICE FILE JOE III

440040 FUND UIO

0437 EDT

440040 FUND UI BANTINA VIKGIKVV

440040 FUND UI

BANVINA 798203

THIS IS NATIONAL BANK OF VIETNAM SAIGON

4:40PM

NRO1/427 19/2/74

INTERFUND WASHINGTONDC

WOODLEY

NUMBER 16

MINISTER OF TRADE CALLED TODAY TO ASK MY VIEWS ON PROPOSAL

TO LET EXPORTERS AND IMPORTERS NEGOTIATE EXCHANGE RATE

FOR GVN EXCHANGE AND TO LET ALL OTHER EXCHANGE TRANSACTIONS

ALSO BE EFFECTED AT RATE NEGOTIATED EACH DAY. MY INITIAL

cc: Mr Bran



212546

Orig: ASD
cc: LEG
ETR

ITT World Communications Inc. Phone 202-6200

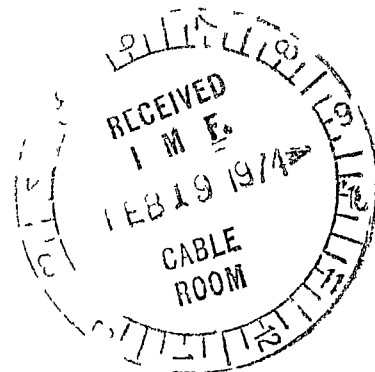
U.S. Phone 202-6200

REACTION WAS TO NOTE IMPORTANCE OF REASONABLE BALANCE
BETWEEN DEMAND AND SUPPLY WHICH WOULD NOT BE THE CASE AT
PRESENT WITHOUT NATIONAL BANK INTERVENTION. WITH SUCH
INTERVENTION HOWEVER THE POLITICALLY SENSITIVE QUESTION
WOULD STILL ARISE AS TO WHO SETS THE RATE MINISTER ASKED
THAT I MEET WITH HIM LATER THIS WEEK TO DISCUSS THIS AND
OTHER PROPOSALS FOR RATE MANAGEMENT WOULD NOT EXCEPT
ANYTHING TO BE DECIDED WITHOUT CONSULTATION WITH YOU.

REGARDS TOBIASSON

SENT 1

440040 FUND UI



1705 L.S. 114

TOBIASSON

RECEIVED



RECEIVED
INTERNATIONAL
MONETARY FUND

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

FEB 26 2 45 PM '74

COMMUNICATIONS
DIVISION

Orig. & enc: ASD
cc: LEG
ETR

Letter No. 12



Bangkok, February 18, 1974

Dear Mr. Tun Thin:

The resignation of the Vietnamese Cabinet on Saturday presumably is the beginning of a political rearrangement whose purpose would be to strengthen the President's position in dealing with the difficult economic problems ahead. Earlier in the week, the Prime Minister told the Minister of Trade, according to the latter, that the Government as a whole should increasingly assume responsibility for difficult decisions on economic policy rather than permit these to become a basis for attacks on individual ministers of a Cabinet. There is now full awareness of the serious economic outlook and the Government has apparently concluded that most of the solutions must be sought within, while outside assistance may remain inadequate.

A basic objective of the political reshuffle is likely to be the creation of a stronger centralized mechanism for a decision making in the field of economic policy. Leadership on economic policy matters has not been strong in recent months with each of the various parties involved concerned to maintain most of their own prerogatives vis-à-vis their colleagues. The Commissioner of Information, Mr. Nha, has increasingly played a role in economic policy behind the scenes much to the dissatisfaction of such people as the Minister of Finance and the Commissioner-General for Planning. The Commissioner-General is in his early 30s and is related to President Thieu. He is not an economist, but made a good reputation for himself when he represented the President in many of the most delicate negotiations with Dr. Kissinger on the case-fire. As economics become a more important element of the overall political struggle, the President has increasingly depended on Mr. Nha for policy guidance in economic matters. Mr. Nha is a controversial figure and many Vietnamese are envious of his influential position in addition to resenting his stepping on their toes. On the American side, Mr. Robinson, Director of U.S. AID, told me the other day that he had no channel of communication with Mr. Nha on matters concerning economic policy.

If Mr. Nha comes out on top as a result of a present political reshuffle, I would expect him to take over the responsibilities of the Commissioner-General for Planning, in addition to maintaining his present post as Commissioner of Information. Routine operations of the Commissariat-General for Planning, however, would probably be left to a Deputy Commissioner. The present Commissioner-General, Mr. Ngoc, would presumably be removed from the Government or given a nominal position. Another indication that Mr. Nha had come out on top would be the appointment of our former colleague, Mr. Hung, as President of the National Economic Development Fund. The present Minister of Finance have lately expressed some desire to be relieved of his job, but I would not be

surprized if the Prime Minister were to persuade him to continue, but the two of them are on very close terms. I am more concerned about the position of the Minister of Trade who although he is on good terms with Mr Nha has come under very strong criticism over basic economic policy issues. The Minister is the strongest advocate of realistic economic policies within the present government and his removal would probably indicate a decision by the President to adopt more interventionist economic policies. The possibility exists, of course, that Mr Nha's opponents will be strong enough to prevent him from assuming a key role on economic matters. However, I rather believe that the President would not have made his move at this time if he had not been fairly confident that agreement could be reached on giving significantly stronger power to Mr Nha.

I had a long meeting with the Minister of Trade last Friday less than 24 hours before the resignation of the Cabinet. He gave no indication that the resignation would be taken place the following morning which suggests that the decision was one taken jointly by the President and the Prime Minister. In our discussion, the Minister expressed serious concern that the present and prospective economic difficulties would be blamed on the system of liberal economic policies which would, therefore, be replaced or seriously modified in a direction of greater controls and direct government intervention. Earlier, the Governor had told me that he did not consider the probability of the long-term survival of the present exchange and trade system higher than 60 per cent. For his part, the Minister of Finance is increasingly uncomfortable with the system and now reportedly regrets that he alone signed the letter to the Fund of January 14. The unusually speed with which the Governor and the economic team proceeded to consider the idea of introducing a bid system for managing the exchange rate reflected this concern over the viability of the present system. I did not seek to influence their position on the subject one way or another, leaving them to judge for themselves the political realities. As it turned out, however, the realities were even less favorable than they had thought since the Board of Directors of the National Bank opposed the introduction of the bid system on the grounds that speculators would be able to buy most of the exchange at the expense of genuine importers. However, one would distinguish between the two groups. For the time being at least, the bid system is no longer under consideration, but the same basic attitude which influenced the position of the Board of Directors applies equally to the present flexible exchange rate which supposedly is moved as necessary to maintain equilibrium between demand and supply of foreign exchange.

In view of the above, I would not be surprized if out of the present political reshuffle would emerge a demand that the exchange and trade system be modified. I have reason to believe that Mr Nha would favor in principle the idea of a flexible exchange rate, but suspect that he would be more inclined to holdback import demand through direct restrictions and licensing. The proponents of the present exchange and trade system, therefore, may soon be faced the decision whether or not to agree to certain compromises as a means of salvaging the more important elements of a system rather than to have it replaced partially or completely. In essence, the question will soon have to be faced whether the prospective shortfall of foreign exchange resources should be fully reflected in depreciation of the exchange rate with the accompanying inflationary pressure on the prices of all imported items, or whether the shortfall to some extent be offset through direct restrictions. In our meeting last Friday, the Minister of Trade asked me for my views on this question. I suggested that he and his colleagues should not accept any compromise unless and until they were literally back against the wall and had no alternative. Under such circumstances, I suggested that suspension of imports of certain items might be

preferable to a system of generalized quantitative restrictions. Subsequently, as and when foreign exchange resources became more adequate, the suspension could be gradually reduced and eventually eliminated. However, in the case of a prolonged period of inadequate resources, the suspension could be lifted from time to time on specified items to prevent unduly disruptive supply shortages. On a related matter, I also suggested to the Minister last Friday that a decision to grant temporary subsidies to exporters of fish products might be interpreted as the first retreat from the principles of the present exchange and trade system which might give encouragement to demands for other and more significant changes in the system. The Minister agreed and was going to discuss with the Minister of Finance an adjustment of exchange rate to VN\$600 per US\$1, which the Minister of Trade would then claim, had been effected in recognition of the temporary difficulties of exporters of fish products. Our discussion, of course, was just before the Cabinet resignation and the Minister may now have other more pressing problems to deal with.

The economic ministers and the Governor were scheduled to begin discussions with the National Assembly today on economic policies, including exchange rate policy and on the economic situation in general. In a meeting which I had with the Minister of Finance less than two weeks ago, he asked me to write him a personal letter explaining the need for a flexible exchange rate in the present circumstances of the Vietnamese economy. This, I did, in a letter dated February 7 (Attachment 1). The Minister is not an economist but he is a serious and a responsible man who is concerned to do that which on balance may be considered best in any given situation. On the exchange rate issue, he told me that he would support the principle of a flexible exchange rate in the discussions with the National Assembly on the basis of the arguments outlined in my letter. Concerning the procedure for adjusting the exchange rate, the Governor and the Minister of Trade now both tend to favor more frequent and relatively small adjustments, and such a policy may soon be implemented, provided that the Minister of Finance will agree (which I expect him to do) and that they all retain their present positions. In addition to agreement on the principles of exchange rate adjustments, a political agreement is also needed on how those principles are to be translated into actual exchange rate adjustments. So far, the economic team is agreed that the exchange rate must be moved as necessary to achieve a certain specified objective in terms of exchange reserves. However, changes in reserves over a short period such as one week or one month are not relevant for judging the need for exchange rate adjustments, and therefore an agreed conceptual framework is required so that the necessary adjustments can be made without being challenged on the grounds that they are arbitrary. Recent criticism of the exchange rate adjustments has primarily been on the basis of arbitrariness. It was such a framework which I described in my cable No. 13. Needless to say, someone will have to interpret the implications of the quarterly and annually foreign exchange budget projections for the rate at which the exchange rate is depreciated. Since this responsibility will most likely be assumed by the National Bank, I do not think that one should worry that monetary factors would be ignored in any assessment of the need for exchange rate depreciation.

As I have already cabled, the economic team has now agreed that interest rates must be raised substantially. Earlier, the Minister of Finance had opposed any interest rate adjustment and the Governor suggested in this connection that I go and talk to him about the matter. This, I did, on

February 6, carrying with me a memorandum on interest rate policy of the same date (Attachment 2) This memorandum is probably the bluntest which I have submitted to the Vietnamese authorities and I was careful to tell the Minister of Finance that I realized very well the pressures exerted on him over the interest rate question and that my memorandum was designed to help him place the opponents of an increase in interest rates on the defensive I saw the Minister again two days later and was pleasantly surprized when he told me flatly that he had decided to support the proposed increase in interest rates under which, for example, the interest rate on 12-month time deposits would be increased from 24 per cent to 35 per cent per year He told me also that presidents of four commercial banks had called on him separately in recent days to argue against higher interest rates Earlier in the day of our meeting, the President of the Banker's Association had seen the Minister The Minister told me that he had told the president of his new position on interest rate, the Minister added that he expected heavy pressure from interested parties during the next few days, but he had made up his mind to support an increase in interest rates and his position would not change

In response to the worsening balance of payments outlook, the Governor proposed to the economic team that bank credit for financing imports be restricted as I have already cabled Before submitting his proposal to the team, the Governor discussed with me the details We agreed that prohibition of bank credit for imports in categories C and D, and a ceiling of 50 per cent instead of the present 80 per cent on bank loans for most other import would represent a very significant squeeze on import financing In a situation where import credits represent a major part of total bank credit one can expect such a selective credit policy to be more effective than under other conditions We recognized, therefore, that the proposed changes in credit policy were perhaps somewhat on the restrictive side, but agreed that initially that would be better than to make the change too lenient In approving the tighter credit policy, the Board of Directors of the National Bank expressed its view that if needed to be supplemented by an early decision on higher interest rates and that exchange rate adjustment would also have to be sufficient so as not to impose too heavy a burden on any single policy instrument such as bank credit An interesting side issue in connection with the tightening of bank credit is that the Chief Economist of U S AID, Mr Sharpe, learnt about it from local bankers at a cocktail party on the eve of its application, although it had been approved by the economic team, including the Commissioner-General of Planning a week earlier Mr Sharpe called me early next morning to inquire whether "I had had anything to do with the decision " I explained the background to him and he concluded by suggesting that perhaps we should get together from time to time

I have been cooperating with the Administrator of the National Food Administration, Dr Minh on the preparation of the official rice program for 1974 I am attaching three memoranda concerning the rice program and related policy issues (Attachments 3, 4, and 5) Attachment 3 is a translation of the original NFA program which was submitted to the President and the members of the Cabinet My memorandum for files of February 8 (Attachment 4) describes the difficult political struggle of the Minister of Trade and Dr Minh, the NFA Administrator, over the 1974 NFA program, while my memorandum of February 15 to the Minister of Trade (Attachment 5) presents the financial implications of

the 1974 program and provides estimates which are relevant for evaluating the contribution of PL 480 rice imports to the overall economic program. The issue of PL 480 rice imports has become a major political issue as described in my memorandum of February 8. Briefly, the Minister of Agriculture has taken the position both in meetings with the President and publicly that rice imports will not be necessary in 1974 and that the domestic harvest is sufficiently good to permit exports of perhaps 50,000 tons of rice. On the other hand, the Minister of Trade has responsibility for assuring adequate official rice stocks, and therefore takes a cautious position on the question of continuing rice imports. Finally, U S AID is planning for imports of as much as 300,000 to 400,000 tons of rice under PL 480 in 1974. I am not certain on what basis such quantities have been arrived at, according to my calculations (see memorandum of February 15), PL 480 rice imports are not likely to have any significant net effect on monetary expansion in 1974 (a finding which surprised me), but will require exporters of perhaps US\$20 million in free foreign exchange for freight and other costs on imports of 215,000 tons as presently planned by NFA. Accordingly, PL 480 imports of rice in 1974 would have to be justified in terms of overall supply requirements plus whatever counterpart resources the United States wishes to have at its disposal. I do not intend to become involved in the debate over continuing rice imports beyond presenting to the authorities the financial implications of such imports and emphasizing the importance of maintaining an adequate level of security stocks at all times. I find it ironic, however, that at a time of severe limitations on overall economic aid to Viet-Nam the United States is urging Viet-Nam to accept perhaps US\$150-200 million worth of rice imports, the need for which the Vietnamese themselves either do not accept or about which they are uncertain. Moreover, since the value of PL 480 rice imports would be included in any calculation of total U S aid to Viet-Nam, it would be that much easier for congressional opponents of such aid to argue that Viet-Nam is by no means being short changed.

Work is progressing well on the review of the financial prospects for 1974 which I recommended to the authorities following the recent changes in the balance of payments and foreign aid outlook. Representatives of the Ministries of Finance and Trade, the Commissariat-General of Planning, and the National Bank have been working with me during the past ten days and further work sessions are planned for later this week. I have been very much impressed with the caliber of some of these people, especially two young men from the National Bank and one each from the Ministry of Trade and the Commissariat-General of Planning. The National Bank fellows are among the new recruits which the Governor has been actively seeking from foreign universities and institutions. One of them, Mr Luong, is the de facto leader of the Vietnamese side during our meetings and I coordinate the work through him. He is probably 30 years old, educated in France where he was teaching at a school among whose distinguished alumnae are the Governor himself and Paul Chabrier. Mr Luong is very bright, articulate, and engages one in challenging discussions. When I remarked on this to the Governor, he told me that Mr Luong will soon replace Mr Bao as Director of the Research Department, but the latter is soon leaving for the United States to take his master's degree. The Governor added that he wanted Mr Luong and his other associate from the National Bank, Mr Cuong, to become familiar with all the aspects of financial planning and coordination since he considered them as promising candidates for the next generation of economic policy makers in Viet-Nam.

Concerning the substance of the review, the monetary outlook is considerably worse than projected in December and January, mainly because of higher overall expansionary affect of the official rice program and the lower level of imports. We are building an assumption of 40 per cent inflation into the estimates, although in fact the present provisional monetary projections would place the increase in total monetary liabilities in 1974 somewhere between 60 and 80 per cent. The exact figure would depend on the Government's position on the level of official foreign exchange reserves, but the Board of Directors of the National Bank took the position the other day that reserves should not decline by more than US\$20 million in 1974. The question of reserves will be an important one where my own inclinations would perhaps be somewhat different from those of Governor in that I would be prepared to recommend acceptance of a higher loss of reserves simply because of the sharp curtailment of general imports which would be implied by a reserve loss of only US\$20 million. A combination of monetary expansion of the order of magnitude of 80 per cent and a reduction of some 20-30 per cent of general imports in real terms from the 1973 level would, in my judgment, almost certainly result in hyper-inflation.

Finally, I am attaching a copy of memorandum from U S AID to me on the government budget receipts in 1973 (Attachment 6) and my reply dated February 7 (Attachment 7). It appears that the revenue data provided by the authorities to the Fund mission last December seriously overstated domestic budget receipts in 1972 and thus understated what appears to have been an impressive increase in such receipts in 1973. Hopefully better revised estimates for 1972 will have been prepared before the arrival of the next Fund mission.

With best regards

Yours truly,

Gunnar Tomasson

Attachments

OFFICIAL

OUTGOING MESSAGE

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Telex

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

[] in code

Cleared by:

ETR *SM*



Drafted by WJRWoodley/EBrau/hs

Department Asian

Date February 14, 1974

AUTHORIZATION

W. Woodley
Signature

/s/ J. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 4:30 P.M.

Time Patched 5:35 P.M.

Number of Words (5 Min.)

Log 216563

Route WUI, TLX

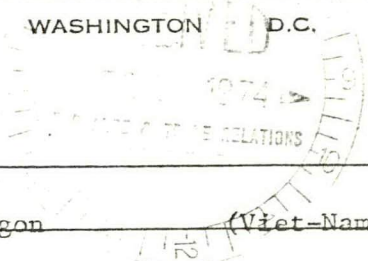
Operator FJ

INTERNATIONAL MONETARY FUND

WASHINGTON D.C.

cc: Brau

cc: ASD
LEG
ETR



To: Tomasson
BANVINA, Saigon (Viet-Nam)

No. 19

1. We have reviewed your letter February 4 in connection with subject cables 12 and 13.
2. We agree that you keep up maximum feasible pressure on limiting budget deficit and reducing credit to private sector and especially importers.
3. We cannot judge political acceptability of one technical means of rate adjustment or other but would insist that rate adjustment principle needs full endorsement of all economic authorities to ensure frequent rate adjustment. We can see advantages in maintaining present system but with small frequent adjustments, say daily or two to three times per week as in Alternative One of Minister of Trade proposal. The aim must be to avoid political issue among authorities over every rate movement.
4. We agree with your advice for holding a basic policy review in February. After such review, a balance of payments strategy based on conservative aid estimate should be used. We would caution against too frequent revisions in balance of payments estimates based on incomplete information and would not like you to become identified with particular import estimates.

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- Full Rate
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SPECIAL INSTRUCTIONS

[] in code

Cleared by:

ETR

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

- 2 -

To: Tomasson
BANVINA, Saigon (Viet-Nam)

5. Please report on significant economic trends in January as soon as information becomes available. Regards.

Woodley
Interfund

Drafted by WJRWoodley/EBrau/hs

Department Asian

Date February 14, 1974

AUTHORIZATION

[Handwritten Signature]
s/ J. Woodley

Signature

Second Signature When Required

FOR CODE ROOM

Time Received 4:30 P.M.
 T Dispatched 5:35 P.M.
 Number of Words (5 Min.)
 Log 216563
 Route WUI, TLX
 Operator FJ

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Telex

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SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON DC

cc - Mr. Braun

To Tomasson

BANVINA, Saigon (Viet-Nam)

No 18

in code

cc ASD
LEG

Cleared by

ETR
LEG

One Fund approval for change in practice for aid imports pay-
ments will be taken on lapse of time basis in next few days

Two We are concerned by developments described in your cables 12
and 13 on intended shifts in tactics in exchange rate
management. We generally feel present system has worked
adequately. The increasing political challenge to recent
adjustments which you describe in your 12 indicate that more
frequent changes suggested in your 13 may face even
stronger opposition. We are concerned that desire of
authorities to adopt new tactics may be disturbing to
market by itself and may reflect their unwillingness to
devalue by adequate amounts. We thus advise that present
procedures be kept unchanged.

WJRWoodley/PChabrier
Draft by EBrau/hs

Department Asian

Date February 12, 1974

Three We see difficulties with bid system as you describe in your
cable. Chabrier will brief you on Khmer experience. Also,
if exchange rate is to be adjusted in the broader pers-
pective of the trend of demand for foreign exchange and
outlook for foreign aid, we doubt usefulness of observing
bid ranges.

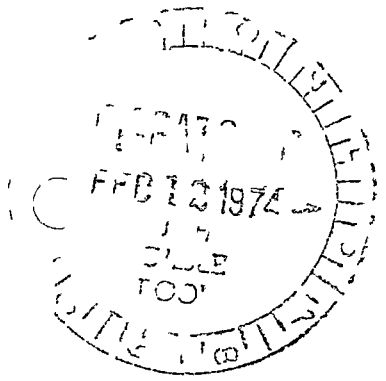
AUTHORIZATION
JW
Signature

/s/ J W Woodley
Second Signature When Required

Four Your 13 put³ heavy emphasis on quarterly--and annual--pro-
jections of use and availability of foreign exchange.

FOR CODE ROOM
Received 5.30 PM
Time Dispatched 6.00 PM
Number of Words 6 mins
Log 216324
Route WUI
Operator FJ

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INTERNATIONAL MONETARY FUND
WASHINGTON DC

OFFICER

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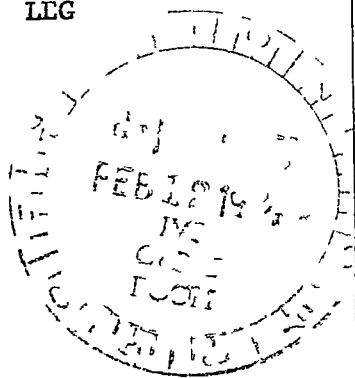
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INSTRUCTIONS

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ETR
LEG



WJRWoodley/PChabrier

Drafted by EBrau/hs

Department Asian

Date February 12, 1974

AUTHORIZATION

J. Woodley
Signature

/s/ J. Woodley
Second Signature When Required

FOR CODE ROOM

Time Received 5 30 P
Time Dispatched 6 23 P
Number of Words 1 03
Log 27 374
Route 1 1 1
Operator 1 1

To Tomasson
BANVINA, Saigon (Viet-Nam)

- 2 -

Given uncertainties of availability, in particular of aid funds, we feel this procedure risky and ignores monetary projections

Adoption of bid system has disadvantage of differing from the one communicated to Fund Board at time discussion exchange reform

We fear that additional export subsidy specifically for fishing industry will lead to undesirable proliferation of such subsidies for other sectors We stress that incentives to exports should be achieved through exchange rate adjustments Regards

Woodley
Interfund

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OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

EBS/74/36 (2/12/74)

For despatch after
5.30 p.m. Feb.12



Cleared with:

- ASD
- ETRD
- LEG
- TRE

Handwritten initials and signatures:
 JS
 [Signature]
 [Signature]

Drafted by JKay:jmh

Department SEC

Date February 12, 1974

AUTHORIZATION

Signature

W. Lawrence Hebbard

Second Signature When Required

FOR CODE ROOM

Time Received 7:15 PM
 Time Dispatched 7:30 PM
 Number of Words 2 mins
 Log 216356
 Route WUI
 Operator JE

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

To: The Honorable
The Governor of the National Bank of Viet-Nam
17 Ben Chuong-Duong
Saigon, Viet-Nam

Executive Board February 12 took following decision:

QUOTE

The Fund agrees to the change in the exchange rate system as described in EBS/74/36.

UNQUOTE

~~cc:~~

- cc: MD
- DMD
- Mr. Kharmawan
- ASD
- LEG
- RES
- ETR
- SEC
- TRE

Hebbard
Interfund

DO NOT TYPE BELOW THIS LINE

440040 FUND UI

BANVINA 798203

THIS IS NATIONAL BANK OF VIETNAM SAIGON

cc: Mr. Bran

4:08PM

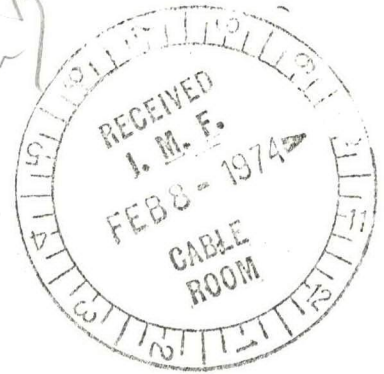
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Orig: ASD
cc: LEG
ETR

✓
h
211862

INTERFUND WASHINGTONDC

WOODLEY



NUMBER 14.

MINISTER OF TRADE HAS BEEN UNDER HEAVY PRESSURE BY FISHING

INDUSTRY BECAUSE OF RECENT LARGE INCREASE IN THEIR FUEL

COSTS. IN ORDER TO AVOID HALT IN FISHING AND FISH EXPORT

OPERATIONS AND TO RELIEVE POLITICAL HEAT HE HAS AGREED TO

CONSIDER SOME TRANSITIONAL RELIEF TO FISHING INDUSTRY. HIS

PRESENT THINKING IS TO GIVE ADDITIONAL SUBSIDY TO EXPORTERS

OF SHRIMP, FISHMEAL AND FISH AT TIME OF EXPORT DECLARATION.

AMOUNT OF POSSIBLE ADDITION REMAINS TO BE DECIDED, BUT A

SCHEDULE FOR PHASING IT OUT OVER SAY SIX MONTHS WOULD BE

AGREED TO IN ADVANCE AND WOULD BE A PART OF THE COMPROMISE.

REGARDS TOMASSONN

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cc: Mr. Bray

NRO1/337 08/2/74

WOODLEY

Orig: ASD
cc: LEG
ETR

211861

NUMBER 15.

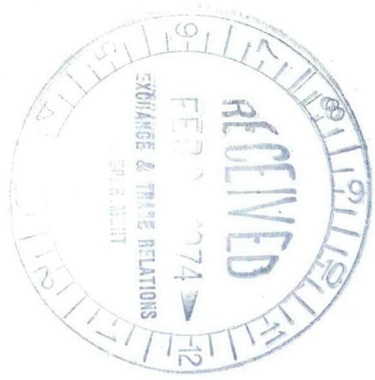
ONE. MINISTER OF FINANCE TOLD ME TODAY THAT HE WILL SUPPORT PROPOSED ADJUSTMENT OF INTEREST RATES AT NEXT WEEKS MEETING OF POLICY TEAM. EARLIER TODAY HE TOOK SAME POSITION IN MEETING WITH PRESIDENT OF BANKERS ASSOCIATION.

TWO. WILL MEET WITH BLOBEL AND GIBBS IN BANGKOK MONDAY.

REGARDS TOMASSON

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W

cc: Mr. Bran

BANVINA 798203

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440040 FUND UI

THIS IS NATIONAL BANK OF VIETNAM SAIGON

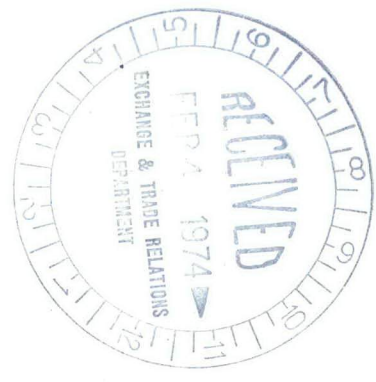
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211449

NUMBER 12

ONE. FURTHER TO MY CABLE NUMBER 11 PARA THREE, I HAVE DISCUSSED EXCHANGE RATE POLICY WITH MINISTERS OF FINANCE AND TRADE AND GOVERNOR. A BASIC CONCERN OF ALL THREE HAS BEEN HOW TO CUT BACK IMPORT DEMAND TO AVAILABLE RESOURCES WITHOUT RESORT TO INCREASED RESTRICTIONS. IN VIEW OF INCREASING POLITICAL CHALLENGE TO RECENT EXCHANGE RATE ADJUSTMENTS, THE GOVERNOR AND MINISTER OF TRADE HAVE BEEN CONSIDERING POSSIBLE ALTERNATIVE ADJUSTMENT PROCEDURES. AT GOVERNORS REQUEST, I PREPARED MEMO ON THE SYSTEM INTRODUCED

IN KHMER REPUBLIC IN OCTOBER GROUP FOR SETTING RATE ON BASIS
OF BIDS SUBMITTED BY IMPORTERS AND OF AVAILABILITY OF
RESOURCES AS SHOWN IN FOREIGN EXCHANGE BUDGET WHICH WOULD
BE REVISED AND UPDATED REGULARLY. COPY OF MY MEMO WILL BE
AIRMAILED FROM BANGKOK MONDAY. GOVERNOR IS INTERESTED IN
ADOPTING THIS SYSTEM AND PLANS TO SEEK APPROVAL OF
MINISTERS NEXT WEEK.

TWO. I HAVE MADE REVISED ESTIMATES OF 1974 BALANCE OF
PAYMENTS OUTLOOK AFTER REVIEWING AID PROSPECTS WITH USAID
STAFF AND ASSUMING NO IDA CREDIT IN 1974. ACHIEVEMENT OF
1974 IMPORT LEVEL PROJECTED LAST DECEMBER WOULD NOW IMPLY
LOSS OF RESERVES OF 211 MILLION DOLLARS AS
COMPARED TO MY JANUARY 17 ESTIMATE OF 108 MILLION. (=28))
AIRMAIL MONDAY.

THREE. I HAVE STARTED FULL REVIEW OF 1974 FINANCIAL
PROSPECTS ON BASIS OF CHANGED EXPECTATIONS. MINISTER OF
FINANCE WILL CONVENE MEETING OF MINISTERS AND GOVERNOR
AND MYSELF NEXT WEEK TO DISCUSS AND AGREE ON AGENDA FOR

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INTERNATIONALS INC.

INTERNATIONALS INC.

INTERNATIONALS INC.

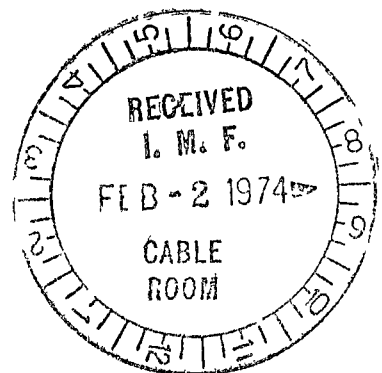
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COMPREHENSIVE POLICY REVIEW. THE OBJECTIVE WOULD BE TO
HAVE DEVELOPED COMPREHENSIVE POLICY OPTIONS BY END OF
FEBRUARY.

FOUR. MINISTER OF TRADE HAS ASKED WHETHER FUND STAFF
WOULD OBJECT IF IMPORTERS USING CIP WOULD BE REQUIRED
TO PAY PIASTER COUNTERPART AT EXCHANGE RATE IN EFFECT AT
TIME OF EXCHANGE PAYMENT ABROAD. AT PRESENT, SUCH IMPORTERS
MAKE PIASTER PAYMENT WHEN PAYMENT IS MADE ABROAD, BUT THE/
EXCHANGE RATE IS THAT WHICH PREVAILED AT TIME OF LC OPENING.
PLEASE ADVISE.

FIVE. FOLLOWING FRIEDMANS ARTICLE IN NEWSWEEK THE OTHER
DAY, VIETNAMESE OFFICIALS HAVE ASKED THAT I OBTAIN FROM
HE
DQUARTERS ANY AVAILABLE INFORMATION ON BRAZILIAN
INDEXING SYSTEM. PLEASE SEC WHAT IS AVAILABLE AND SEND
IT TO ME.

REGARDS TOMASSON



SENT 1

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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

Letter No. 12

Bangkok, February 18, 1974

Dear Mr. Tun Thin:

The resignation of the Vietnamese Cabinet on Saturday presumably is the beginning of a political rearrangement whose purpose would be to strengthen the President's position in dealing with the difficult economic problems ahead. Earlier in the week, the Prime Minister told the Minister of Trade, according to the latter, that the Government as a whole should increasingly assume responsibility for difficult decisions on economic policy rather than permit these to become a basis for attacks on individual ministers of a Cabinet. There is now full awareness of the serious economic outlook and the Government has apparently concluded that most of the solutions must be sought within, while outside assistance may remain inadequate.

A basic objective of the political reshuffle is likely to be the creation of a stronger centralized mechanism for a decision making in the field of economic policy. Leadership on economic policy matters has not been strong in recent months with each of the various parties involved concerned to maintain most of their own prerogatives vis-à-vis their colleagues. The Commissioner of Information, Mr. Nha, has increasingly played a role in economic policy behind the scenes much to the dissatisfaction of such people as the Minister of Finance and the Commissioner-General for Planning. The Commissioner-General is in his early 30s and is related to President Thieu. He is not an economist, but made a good reputation for himself when he represented the President in many of the most delicate negotiations with Dr. Kissinger on the case-fire. As economics become a more important element of the overall political struggle, the President has increasingly depended on Mr. Nha for policy guidance in economic matters. Mr. Nha is a controversial figure and many Vietnamese are envious of his influential position in addition to resenting his stepping on their toes. On the American side, Mr. Robinson, Director of U.S. AID, told me the other day that he had no channel of communication with Mr. Nha on matters concerning economic policy.

If Mr. Nha comes out on top as a result of a present political reshuffle, I would expect him to take over the responsibilities of the Commissioner-General for Planning, in addition to maintaining his present post as Commissioner of Information. Routine operations of the Commissariat-General for Planning, however, would probably be left to a Deputy Commissioner. The present Commissioner-General, Mr. Ngoc, would presumably be removed from the Government or given a nominal position. Another indication that Mr. Nha had come out on top would be the appointment of our former colleague, Mr. Hung, as President of the National Economic Development Fund. The present Minister of Finance have lately expressed some desire to be relieved of his job, but I would not be

surprized if the Prime Minister were to persuade him to continue, but the two of them are on very close terms. I am more concerned about the position of the Minister of Trade who although he is on good terms with Mr. Nha has come under very strong criticism over basic economic policy issues. The Minister is the strongest advocate of realistic economic policies within the present government and his removal would probably indicate a decision by the President to adopt more interventionist economic policies. The possibility exists, of course, that Mr. Nha's opponents will be strong enough to prevent him from assuming a key role on economic matters. However, I rather believe that the President would not have made his move at this time if he had not been fairly confident that agreement could be reached on giving significantly stronger power to Mr. Nha.

I had a long meeting with the Minister of Trade last Friday less than 24 hours before the resignation of the Cabinet. He gave no indication that the resignation would be taken place the following morning which suggests that the decision was one taken jointly by the President and the Prime Minister. In our discussion, the Minister expressed serious concern that the present and prospective economic difficulties would be blamed on the system of liberal economic policies which would, therefore, be replaced or seriously modified in a direction of greater controls and direct government intervention. Earlier, the Governor had told me that he did not consider the probability of the long-term survival of the present exchange and trade system higher than 60 per cent. For his part, the Minister of Finance is increasingly uncomfortable with the system and now reportedly regrets that he alone signed the letter to the Fund of January 14. The unusually speed with which the Governor and the economic team proceeded to consider the idea of introducing a bid system for managing the exchange rate reflected this concern over the viability of the present system. I did not seek to influence their position on the subject one way or another, leaving them to judge for themselves the political realities. As it turned out, however, the realities were even less favorable than they had thought since the Board of Directors of the National Bank opposed the introduction of the bid system on the grounds that speculators would be able to buy most of the exchange at the expense of genuine importers. However, one would distinguish between the two groups. For the time being at least, the bid system is no longer under consideration, but the same basic attitude which influenced the position of the Board of Directors applies equally to the present flexible exchange rate which supposedly is moved as necessary to maintain equilibrium between demand and supply of foreign exchange.

In view of the above, I would not be surprized if out of the present political reshuffle would emerge a demand that the exchange and trade system be modified. I have reason to believe that Mr. Nha would favor in principle the idea of a flexible exchange rate, but suspect that he would be more inclined to holdback import demand through direct restrictions and licensing. The proponents of the present exchange and trade system, therefore, may soon be faced the decision whether or not to agree to certain compromises as a means of salvaging the more important elements of a system rather than to have it replaced partially or completely. In essence, the question will soon have to be faced whether the prospective shortfall of foreign exchange resources should be fully reflected in depreciation of the exchange rate with the accompanying inflationary pressure on the prices of all imported items, or whether the shortfall to some extent be offset through direct restrictions. In our meeting last Friday, the Minister of Trade asked me for my views on this question. I suggested that he and his colleagues should not accept any compromise unless and until they were literally back against the wall and had no alternative. Under such circumstances, I suggested that suspension of imports of certain items might be

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preferable to a system of generalized quantitative restrictions. Subsequently, as and when foreign exchange resources became more adequate, the suspension could be gradually reduced and eventually eliminated. However, in the case of a prolonged period of inadequate resources, the suspension could be lifted from time to time on specified items to prevent unduly disruptive supply shortages. On a related matter, I also suggested to the Minister last Friday that a decision to grant a temporary subsidies to exporters of fish products might be interpreted as the first retreat from the principles from the present exchange and trade system which might give encouragement to demands for other and more significant changes in the system. The Minister agreed and was going to discuss with the Minister of Finance an adjustment of exchange rate to VN\$600 per US\$1, which the Minister of Trade would then claim, had been effected in recognition of the temporary difficulties of exporters of fish products. Our discussion, of course, was just before the Cabinet resignation and the Minister may now have other more pressing problems to deal with.

The economic ministers and the Governor were scheduled to begin discussions with the National Assembly today on economic policies, including exchange rate policy and on the economic situation in general. In a meeting which I had with the Minister of Finance less than two weeks ago, he asked me to write him a personal letter explaining the need for a flexible exchange rate in the present circumstances of the Vietnamese economy. This, I did, in a letter dated February 7 (Attachment 1). The Minister is not an economist but he is a serious and a responsible man who is concerned to do that which on balance may be considered best in any given situation. On the exchange rate issue, he told me that he would support the principle of a flexible exchange rate in the discussions with the National Assembly on the basis of the arguments outlined in my letter. Concerning the procedure for adjusting the exchange rate, the Governor and the Minister of Trade now both tend to favor more frequent and relatively small adjustments, and such a policy may soon be implemented, provided that the Minister of Finance will agree (which I expect him to do) and that they all retain their present positions. In addition to agreement on the principles of exchange rate adjustments, a political agreement is also needed on how those principles are to be translated into actual exchange rate adjustments. So far, the economic team is agreed that the exchange rate must be moved as necessary to achieve a certain specified objective in terms of exchange reserves. However, changes in reserves over a short period such as one week or one month are not relevant for judging the need for exchange rate adjustments, and therefore an agreed conceptual framework is required so that the necessary adjustments can be made without being challenged on the grounds that they are arbitrary. Recent criticism of the exchange rate adjustments has primarily been on the basis of arbitrariness. It was such a framework which I described in my cable No. 13. Needless to say, someone will have to interpret the implications of the quarterly and annually foreign exchange budget projections for the rate at which the exchange rate is depreciated. Since this responsibility will most likely be assumed by the National Bank, I do not think that one should worry that monetary factors would be ignored in any assessment of the need for exchange rate depreciation.

As I have already cabled, the economic team has now agreed that interest rates must be raised substantially. Earlier, the Minister of Finance had opposed any interest rate adjustment and the Governor suggested in this connection that I go and talk to him about the matter. This, I did, on

February 6, carrying with me a memorandum on interest rate policy of the same date (Attachment 2). This memorandum is probably the bluntest which I have submitted to the Vietnamese authorities and I was careful to tell the Minister of Finance that I realized very well the pressures exerted on him over the interest rate question and that my memorandum was designed to help him place the opponents of an increase in interest rates on the defensive. I saw the Minister again two days later and was pleasantly surprized when he told me flatly that he had decided to support the proposed increase in interest rates under which, for example, the interest rate on 12-month time deposits would be increased from 24 per cent to 35 per cent per year. He told me also that presidents of four commercial banks had called on him separately in recent days to argue against higher interest rates. Earlier in the day of our meeting, the President of the Banker's Association had seen the Minister. The Minister told me that he had told the president of his new position on interest rate; the Minister added that he expected heavy pressure from interested parties during the next few days, but he had made up his mind to support an increase in interest rates and his position would not change.

In response to the worsening balance of payments outlook, the Governor proposed to the economic team that bank credit for financing imports be restricted as I have already cabled. Before submitting his proposal to the team, the Governor discussed with me the details. We agreed that prohibition of bank credit for imports in categories C and D, and a ceiling of 50 per cent instead of the present 80 per cent on bank loans for most other import would represent a very significant squeeze on import financing. In a situation where import credits represent a major part of total bank credit one can expect such a selective credit policy to be more effective than under other conditions. We recognized, therefore, that the proposed changes in credit policy were perhaps somewhat on the restrictive side, but agreed that initially that would be better than to make the change too lenient. In approving the tighter credit policy, the Board of Directors of the National Bank expressed its view that if needed to be supplemented by an early decision on higher interest rates and that exchange rate adjustment would also have to be sufficient so as not to impose too heavy a burden on any single policy instrument such as bank credit. An interesting side issue in connection with the tightening of bank credit is that the Chief Economist of U.S. AID, Mr. Sharpe, learnt about it from local bankers at a cocktail party on the eve of its application, although it had been approved by the economic team, including the Commissioner-General of Planning a week earlier. Mr. Sharpe called me early next morning to inquire whether "I had had anything to do with the decision." I explained the background to him and he concluded by suggesting that perhaps we should get together from time to time.

I have been cooperating with the Administrator of the National Food Administration, Dr. Minh on the preparation of the official rice program for 1974. I am attaching three memoranda concerning the rice program and related policy issues (Attachments 3, 4, and 5). Attachment 3 is a translation of the original NFA program which was submitted to the President and the members of the Cabinet. My memorandum for files of February 8 (Attachment 4) describes the difficult political struggle of the Minister of Trade and Dr. Minh, the NFA Administrator, over the 1974 NFA program, while my memorandum of February 15 to the Minister of Trade (Attachment 5) presents the financial implications of

the 1974 program and provides estimates which are relevant for evaluating the contribution of PL 480 rice imports to the overall economic program. The issue of PL 480 rice imports has become a major political issue as described in my memorandum of February 8. Briefly, the Minister of Agriculture has taken the position both in meetings with the President and publicly that rice imports will not be necessary in 1974 and that the domestic harvest is sufficiently good to permit exports of perhaps 50,000 tons of rice. On the other hand, the Minister of Trade has responsibility for assuring adequate official rice stocks, and therefore takes a cautious position on the question of continuing rice imports. Finally, U.S. AID is planning for imports of as much as 300,000 to 400,000 tons of rice under PL 480 in 1974. I am not certain on what basis such quantities have been arrived at; according to my calculations (see memorandum of February 15), PL 480 rice imports are not likely to have any significant net effect on monetary expansion in 1974 (a finding which surprised me), but will require exporters of perhaps US\$20 million in free foreign exchange for freight and other costs on imports of 215,000 tons as presently planned by NFA. Accordingly, PL 480 imports of rice in 1974 would have to be justified in terms of overall supply requirements plus whatever counterpart resources the United States wishes to have at its disposal. I do not intend to become involved in the debate over continuing rice imports beyond presenting to the authorities the financial implications of such imports and emphasizing the importance of maintaining an adequate level of security stocks at all times. I find it ironic, however, that at a time of severe limitations on overall economic aid to Viet-Nam, the United States is urging Viet-Nam to accept perhaps US\$150-200 million worth of rice imports, the need for which the Vietnamese themselves either do not accept or about which they are uncertain. Moreover, since the value of PL 480 rice imports would be included in any calculation of total U.S. aid to Viet-Nam, it would be that much easier for congressional opponents of such aid to argue that Viet-Nam is by no means being short changed.

Work is progressing well on the review of the financial prospects for 1974 which I recommended to the authorities following the recent changes in the balance of payments and foreign aid outlook. Representatives of the Ministries of Finance and Trade, the Commissariat-General of Planning, and the National Bank have been working with me during the past ten days and further work sessions are planned for later this week. I have been very much impressed with the caliber of some of these people, especially two young men from the National Bank and one each from the Ministry of Trade and the Commissariat-General of Planning. The National Bank fellows are among the new recruits which the Governor has been actively seeking from foreign universities and institutions. One of them, Mr. Luong, is the de facto leader of the Vietnamese side during our meetings and I coordinate the work through him. He is probably 30 years old, educated in France where he was teaching at a school among whose distinguished alumnae are the Governor himself and Paul Chabrier. Mr. Luong is very bright, articulate, and engages one in challenging discussions. When I remarked on this to the Governor, he told me that Mr. Luong will soon replace Mr. Bao as Director of the Research Department, but the latter is soon leaving for the United States to take his master's degree. The Governor added that he wanted Mr. Luong and his other associate from the National Bank, Mr. Cuong, to become familiar with all the aspects of financial planning and coordination since he considered them as promising candidates for the next generation of economic policy makers in Viet-Nam.

impossible figure

Concerning the substance of the review, the monetary outlook is considerably worse than projected in December and January, mainly because of higher overall expansionary affect of the official rice program and the lower level of imports. We are building an assumption of 40 per cent inflation into the estimates, although in fact the present provisional monetary projections would place the increase in total monetary liabilities in 1974 somewhere between 60 and 80 per cent. The exact figure would depend on the Government's position on the level of official foreign exchange reserves, but the Board of Directors of the National Bank took the position the other day that reserves should not decline by more than US\$20 million in 1974. The question of reserves will be an important one where my own inclinations would perhaps be somewhat different from those of Governor in that I would be prepared to recommend acceptance of a higher loss of reserves simply because of the sharp curtailment of general imports which would be implied by a reserve loss of only US\$20 million. A combination of monetary expansion of the order of magnitude of 80 per cent and a reduction of some 20-30 per cent of general imports in real terms from the 1973 level would, in my judgment, almost certainly result in hyper-inflation.

Finally, I am attaching a copy of memorandum from U.S. AID to me on the government budget receipts in 1973 (Attachment 6) and my reply dated February 7 (Attachment 7). It appears that the revenue data provided by the authorities to the Fund mission last December seriously overstated domestic budget receipts in 1972 and thus understated what appears to have been an impressive increase in such receipts in 1973. Hopefully better revised estimates for 1972 will have been prepared before the arrival of the next Fund mission.

With best regards.

Yours truly,

Gunnar Tomasson

Attachments.



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

T.T.
Attachment 1

CABLE ADDRESS
INTERFUND

Saigon

February 7, 1974

H.F. Mr. Chau Kim Nhan
Minister of Finance
Saigon

Dear Mr. Minister,

1. The question has been raised whether the present policy of adjusting periodically the exchange rate of the Vietnamese piaster is appropriate, considering the increasing cost of living and the economic hardships suffered by many Vietnamese. It is understandable that this question should be asked now that people are in a very personal way feeling the effects of inflation on the family budget.

2. The answer, in brief, is that continued depreciation of the exchange rate is essential as long as the Vietnamese economy is experiencing strong inflationary pressures. The exchange rate is the price of foreign exchange and must reflect on the one hand the total supply of foreign exchange and, on the other hand, the total demand for foreign exchange. If demand exceeds supply, serious economic consequences will follow if the official price of foreign exchange is not permitted to increase, just as adverse consequences would follow if prices of domestic commodities were not permitted to change in response to market demand in excess of the available supply.

3. The truth of the above statement is immediately clear if one considers, for example, the demand and supply of rice. If there is a shortage of rice at a given price, i.e. consumers want to buy more rice than farmers are ready to produce for sale in the market, the government is faced with two choices: (i) to try to enforce a fixed

price of rice in order to try to protect the standard of living of consumers; or (ii) to permit the rice price to increase in order to give added incentives to farmers to produce and sell more rice. Recent experience in Viet-Nam and other countries show that will inevitably happen if the first choice is adopted. Consumers will be encouraged to eat more rice while farmers will not have any added incentive to produce more with the result that (a) the shortfall of rice supply will continue, (b) since consumers want to buy more rice at the given price than is available for sale in the market, the government must introduce a system of rationing; and (c) those people who for some reason cannot get an official ration, must buy rice in the free market at higher prices, but others who honestly or otherwise can obtain the limited amount of rice for sale at the official price will be in a position to resell it at perhaps a large profit in the free market. Choice (i), therefore, is doomed to failure: it will not eliminate the basic problem, which is too little rice production, and it will not satisfy the majority of consumers who are likely to have to buy rice in the free market; a minority of genuine consumers will benefit a little but those officials and private citizens who may have access to rice at the official price in excess of their own needs will make large profits at the expense of the majority of consumers. Choice (ii), therefore, is the one which will be supported by rice producers and by the majority of people who cannot buy their rice at the official price or make a profit by reselling rice in the free market; choice (ii) will help eliminate the rice shortage by encouraging more production and limiting demand and therefore is the appropriate choice for the government.

4. It may perhaps be argued that the example of rice in 3. above is not relevant to a discussion of the exchange rate, since, it may be asserted, depreciation of the exchange rate is the CAUSE of inflation. If this were indeed true, Viet-Nam and the many other countries which have suffered from inflation would have a simple solution to the problem, namely to keep the exchange rate stable. Unfortunately, the price of foreign exchange, like the price of rice, fish, bananas and taxi rides will change as a part of and as a RESULT of inflation. In this connection,

the case of Indonesia between 1966 and 1969 may be instructive; a flexible exchange rate was introduced there in 1966 when inflation was over 600 per cent, and was continued in 1967 and 1968 when inflation slowed down to about 120 per cent and 85 per cent, respectively; in 1969 inflation was brought down to about 10 per cent and in line with other prices the exchange rate also became more stable.

5. Viet-Nam is heavily dependent on foreign aid for financing its import requirements because of low domestic production on the one hand, and low exports and other foreign exchange earnings on the other hand. A basic argument against a fixed exchange rate under the present inflationary conditions is that it would continuously make imported goods relatively cheaper than domestic goods; this would increase import demand and would make it very difficult for domestic producers to compete with imports. The Vietnamese people want to strengthen their economy and so reduce its dependence on foreign aid; a realistic, flexible exchange rate accomplishes this by limiting import demand and by encouraging domestic production of import-substitutes.

6. On the other side, a flexible realistic exchange rate strengthens the economy by stimulating export production and trade, and by encouraging tourism and foreign investment in areas where Viet-Nam may not have the necessary resources. In view of the uncertain world economic outlook, including the difficult balance of payments of friendly countries which may have to provide less economic aid than they might have done under more favorable circumstances, it should be an urgent national policy priority for Viet-Nam to strongly encourage exports. All efforts in this direction are likely to be disappointed unless they are supported by a realistic and attractive exchange rate.

7. Paragraphs 5 and 6 place the question of the exchange rate in the perspective of basic national policy objectives. Leaving these aside, there are also serious administrative and operational problems involved in the alternative to a flexible rate, namely a fixed rate. Suppose that because of continuing domestic inflation and a fixed exchange

rate, demand for foreign exchange exceeds the amount available, including any part of the nation's foreign exchange reserves which the government may be prepared to lose. If depreciation of the exchange rate is ruled out there is only one alternative: import restrictions either in the form of import licensing or increased prohibitions. Since by far the largest part of imports are classified as "very essential" or "essential", increased prohibitions will cause supply shortages of important items whose prices will increase as a result. Accordingly, higher prices will not be avoided by a fixed exchange rate combined with import prohibitions. Import licensing will also lead to higher prices despite a fixed exchange rate, and in addition will result in administrative malpractices as the experience of many countries has proved over and over again. The higher prices under import licensing can be explained as follows: assume that demand for a given import item is 100 units at the price, say, VND100,000, corresponding to free imports at the fixed exchange rate. If imports of only 80 units is authorized, the question arises which potential buyers should receive the units and which should not. Unless the government were to control all sales of licensed imports (which is not feasible nor desirable), the importer will sell to those who are prepared to pay the highest prices. Instead of selling each unit at VND100,000, the importer may be able to charge, say, VND125,000 per unit. Who benefits from this transaction? Not the potential buyers who were not able to buy the units they needed; not the buyers who had to pay 25 per cent higher prices; but the importer who collected an extra VND25 million as a result of the government's licensing policy. It would be against human nature if the importer would not find this arrangement highly profitable, and he might not be above offering a financial reward to those in a position to issue to him a new import licence. In fact, import restrictions and licensing have historically been one of the worst important and fertile sources of official corruption in countries in all parts of the world.

9. The above paragraph indicates that import restrictions and prohibitions will not protect reserves from a decline in the value of foreign exchange at a low level. It is also clear that imports

will also rise in line with the adjustment of a flexible rate, there is this basic difference between the two systems. With a flexible rate and prohibitions the higher prices will benefit the exporters and others, while with a flexible rate they will benefit exporters or will increase the government's revenue from foreign aid counterpart.

9. The importance of a flexible realistic exchange rate for the budget position in Viet-Nam is very great. Total foreign aid impacts are likely to be at least \$500 million in 1974. Assume that inflation in 1973 is 40 per cent as compared to over 60 per cent in 1972, and assume that the exchange rate were to be fixed at its level at the end of December 1973 of VN\$550 per US\$1 instead of being depreciated by 40 per cent in line with the inflation, to VN\$770 per US\$1 by the end of 1974. A fixed rate of VN\$550 would imply that foreign aid of \$500 million would yield counterpart funds of only VN\$275 billion as compared to VN\$330 billion which would result from a flexible exchange rate which would average VN\$660 in 1974. A fixed exchange rate would cause a loss to the budget of VN\$55 billion. If the government is not prepared to cut budget expenditures by this amount (some 20 to 30 per cent of all budget expenditures represent military and civilian personnel costs), the Treasury would have to borrow this amount from the National Bank. This in turn would result in additional monetary expansion of about 21 per cent over the level of money supply at the end of 1973. Therefore, in addition to the higher prices caused by import licensing or prohibitions, a fixed rate would cause a serious monetary inflation which would make the inflationary problem much more difficult to solve.

10. The analysis of the above paragraph can be applied also to exports. At a fixed rate of VN\$550, exporters will receive a gross income of VN\$55 billion for their exports which for 1974 are forecast to reach as high as \$100 million. This would represent a loss to exporters of VN\$11 billion as compared to their receipts at a flexible exchange rate which would average VN\$660 in 1974. The effects of such a heavy tax on the development of Vietnamese exports would be most unfortunate.

11. In conclusion, Mr. Minister, the difficulties of the Vietnamese economy at present, including the serious inflation, represent a major challenge to the people of Viet-Nam and their government. In meeting this challenge, perseverance and determination are required since a solution will take time--at least to the end of 1974, and probably longer. It is my conviction, supported by the experience of many other countries, that a flexible realistic exchange rate will prove to be a key instrument in what I am confident will ultimately be a successful economic stabilization and rehabilitation program.

Sincerely yours,



Gunnar Tomasson
IMF Resident Representative

GT/sb



Office Memorandum

T.T.
Attachment 2

Minister of Finance
Minister of Trade and Industry
Commissioner General of Planning
Governor of the National Bank

Saigon

DATE: February 6, 1974

TO :
FROM : Gunnar Tomassen, IMF Resident Representative
SUBJECT : Interest rate policy

1. The prospective large loss of foreign exchange reserves in 1974, placed at \$211 million in my memorandum of January 31, makes it essential that significantly higher interest rates be introduced without delay.

2. Last December, it was thought that an appropriate initial adjustment might be to raise the interest rate on 12-month time deposits to about 30 per cent, and to increase the general lending rate to about 35 per cent. However, in view of the serious deterioration in the balance of payments outlook since December, these increases would no longer be sufficient. My colleagues in Washington and I concluded that an adjustment of interest rates is long overdue, and that the interest rate on 12-month time deposits should be raised to 35 per cent, with corresponding adjustments in other interest rates.

3. It is a basic logical error to argue that an increase in interest rates is in itself inflationary. Inflation is the result of too much demand and too little supply. However, instead of helping to reduce the disequilibrium between demand and supply, the present interest rate structure strongly encourages demand and provides a strong incentive for merchants and dealers to hoard commodity stocks instead of offering them for sale in the market. As a result, inflation is now higher than it would be with more realistic interest rates.

4. The truth of the above statement can be made clearer by reference to interest rates and price increases in 1973. According to recent data, retail prices in Saigon increased by 63 per cent during 1973, while private individuals were offered an interest rate of 24 per cent for 12-month time deposits. In effect, the government imposed a severe penalty on anyone who saved his money instead of buying commodities; in 1973, this loss may be estimated at about 39.04 per cent of 10,000 put in a 12-month deposit on January 1, 1973. No member of the Government could want to save money on these terms and neither would the population as a whole.

5. On the other hand, importers, traders, merchants, and speculators were required to pay an interest rate of only 26 per cent on their borrowing from the commercial banks. With inflation at 63 per cent, they could make a profit of about 31 per cent in 1973 by keeping large stocks of goods instead of selling them in the market. This speculative profit does not serve any useful economic function since all that is required of the profiteer is to sit on the goods for a year instead of having to work hard for his profit as is required of farmers, industrialists and other producers. In effect, the government is offering the business community an attractive alternative to investing in production and taking risks; do nothing.

6. From the social point of view, as well as the economic one, the present interest rate policy is indefensible. Outstanding Bank credit to the private sector was VN\$140 billion last November. On the basis of inflation and interest rates in 1973, the Government was effectively making a subsidy to the business community of approximately VN\$55 billion per year; this amount is equal to twice the amount of income tax paid by all tax payers in 1973. On the other hand, the owners of time and savings deposits (VN\$151 billion in November) were penalized at an annual rate of VN\$59 billion. The Government would obviously reject any request by the business community that they be given a direct subsidy of VN\$55 billion per year. Also, the government would reject any proposal to impose a special tax of VN\$59 billion on people who save money with the banks. Yet this is exactly what the present interest rate policy is doing indirectly.

3
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NATIONAL FOOD AGENCY

THE 1974 RICE POLICY

CONTENT

I. OBJECTIVES

1. To increase production
2. To prevent rice leakage
3. To regularize the rice supply with a view to stabilizing the rice market.

II. POINT OF VIEW

1. Increase production

- a. Object
- b. Encourage production by raising prices in the localities
- c. Increase production credits
- d. Input to support agriculture
- e. Increase cultivated areas
- f. Reduce the loss on storage and on processing
- g. Protect the production in infrastructural level

2. Prevent rice leakage

- a. Object
- b. Duties of the Army
- c. Emphasize the role of economic intelligence
- d. Reward those who prevent the rice leakage
- e. Determine controlled areas

3. Regularize the rice supply and stabilize the rice market
 - a. Object
 - b. The National Food Agency purchases the maximum quantity of rice and reinforces the storage networks
 - c. Purchase and distribution system
 - d. Storage networks
 - e. Processing
 - f. Agricultural selling credits
 - g. Coordination of public agencies

III. MEASURES

1. Urgent measures (before Tet) : from Dec. 15, 1973
to Jan. 15, 1974
 - a. To buy before Jan. 15, 1974 an addition of 60,000 tons of local rice
 - b. A minimum rice price policy to guarantee the farmers' profit
 - c. Purchasing formalities and credits
 - d. To simplify procedures of granting permits, purchasing and carrying out of the Provinces
 - e. Transportation by trucks
 - f. Free market
 - g. The City Hall asks individuals to release their stocks for sale
 - h. Use the storage located in the 8th precinct
2. Medium-term measures : from Jan. 16, 1974 to May 31, 1974
 - a. Maximum purchase and raise the security rice level to 200,000 - 250,000 tons

- b. Strengthen and improve the storage networks
 - c. Purchasing credit
 - d. Production credit
 - e. Fertilizer distribution program for 1974-1975
 - f. Small scale irrigation program
 - g. National economic day
 - h. Strengthen the organization
3. Long-term measures : from June 1, 1974 to Dec. 31, 1974
- a. Unload and storage means at the ports
 - b. Large milling plants
 - c. Improve transportation capacity
 - d. Set a standard for rice
 - e. Improve the structure, the system of cooperatives, farmers organization
 - f. Fertilizer plants

IV. CONCLUSION

- 1. Prospect for 1973-1974 rice crop
- 2. Imports in 1974

Appendix : Estimates of rice purchase, supply, storage and distribution of the National Food Agency in 1974

THE 1974 PADDY-RICE POLICY

I. OBJECTIVES

The paddy-rice policy in 1974 aims at carrying out the following 3 main points

1. Increase paddy production to help farmers to improve their living standard to reduce gradually the rice import and to reach the self sufficiency in rice
2. Prevent the leakage^{of} rice to the enemy areas so that the Viet Cong could not continue their fighting and at the same time to foil the enemy's manoeuvres of rigging our economy.
3. Regulate the rice supply with a view to stabilizing the food market by maintaining an attractive rice price to encourage farmers to produce and on the other hand to supply rice to the consumers at a moderate price avoiding speculation and still maintaining a reasonable profit for cereal merchants.

II. POINT OF VIEW

1. Point of view on the objective of increase production
 - a. The object here is the farmers who account for of the population that through the "land to the tiller" policy, we have won the hearts of almost all of them, with the increase in

production, the farmers' income will be higher and thus their living standard will be improved. At the same time, we could reduce the volume of rice import to reach self sufficiency

b. To encourage farmers in their production, the price should have to stay at a level that could guarantee farmers a minimum profit equal to their labor and their capitals, thus avoiding any price pressures from the merchants.

c. Agricultural production credits should be increased through rural and Agricultural development banking system in order to help farmers to modernize their method of cultivation

d. Parallel with a wide credit distribution inputs to support agriculture like fertilizer pesticide must be supplied sufficiently and at the right time to guarantee a high output capacity especially for the Miracle Rice and other crops.

e. On the other hand, cultivated areas should be increased by recultivating abandoned rice fields and by clearing new ground with the help of small scale irrigation works

f. To ease the present rice shortage milling plants and storage should have to be improved to reduce the loss of rice due to storing and processing. Technical research documents show the loss due to the storage in Vietnam reaches 10 % of total paddy production, and 6 % in the stage of processing because storage facilities and milling plants are obsolete.

If the total percentage of loss is 16 %, the loss in 1973 reached 960,000 tons of paddy or 570,000 tons of rice, amounting to VNĐ 79.8 billion. Compared with the volume of rice import in the coming years Vietnam could reach the stage of self sufficiency in 1974 if the loss could be reduced to a half.

g. Security is another factor affecting the effort of increasing production. While waiting for a true peace to come, the army and local security forces still play an important role in protecting infrastructure and supporting production. Besides, while in duties, the servicemen can still participate directly in the production through the "producing while fighting" program initiated by the President in his message of November 1, 1973.

2. Examining Leaks

a. The object here is the Viet Cong the profiteers and some local officers who have helped the enemies in realizing their plan. Besides, we have to mention those people who live in the unsecured areas, under pressure and have to supply rice to the enemies.

b. The volume of leakage due to the above people is not important and is easy to prevent because the enemies are only present in their controlled areas ; therefore the army can locate, prevent and stop them. Once they are out of these regions, the people who had to supply them will automatically stop.

c. Since their objective is to collect rice to transport to the borders or to the enemy areas, security agents will have to tight the blockade and control measures to be applied to these areas. Thus the role of intelligence service is very important.

d. Because of the importance of this purpose, it is necessary to give reward to anyone who can keep track of the enemy's food purchasing operations and foil the enemy's manoeuvres.

e. Preventing rice leakage is a very important function therefore severe measures must be applied. But while applying, these measures should not become obstacles for the increasing production and regularizing supply.

- Control measures should be strictly applied both at the border areas and the enemy areas.

- Maintaining blockade measures in uncontrolled areas and fixing the level of rice permitted to store at each house to prevent the smuggling of rice in the enemy areas.

- Control measures play only the role of keeping track of rice transportation and storage in the areas controlled by the Government.

3. Point of view on the objective of regularizing rice supply and stabilizing rice market

a. The object here is the consumers in the cities and the regions in rice shortage as well as rice dealers.

b. The National Food Agency will purchase the maximum amount of rice in excess to be able to regularize rice supply to servicemen, civil servants, policemen and at the same time to increase the volume in the storage to 200,000 to 250,000 tons instead of about 100,000 tons as before. With this volume in stock, the National Food Agency is ready to interfere in the market in order to avoid speculation and price rise.

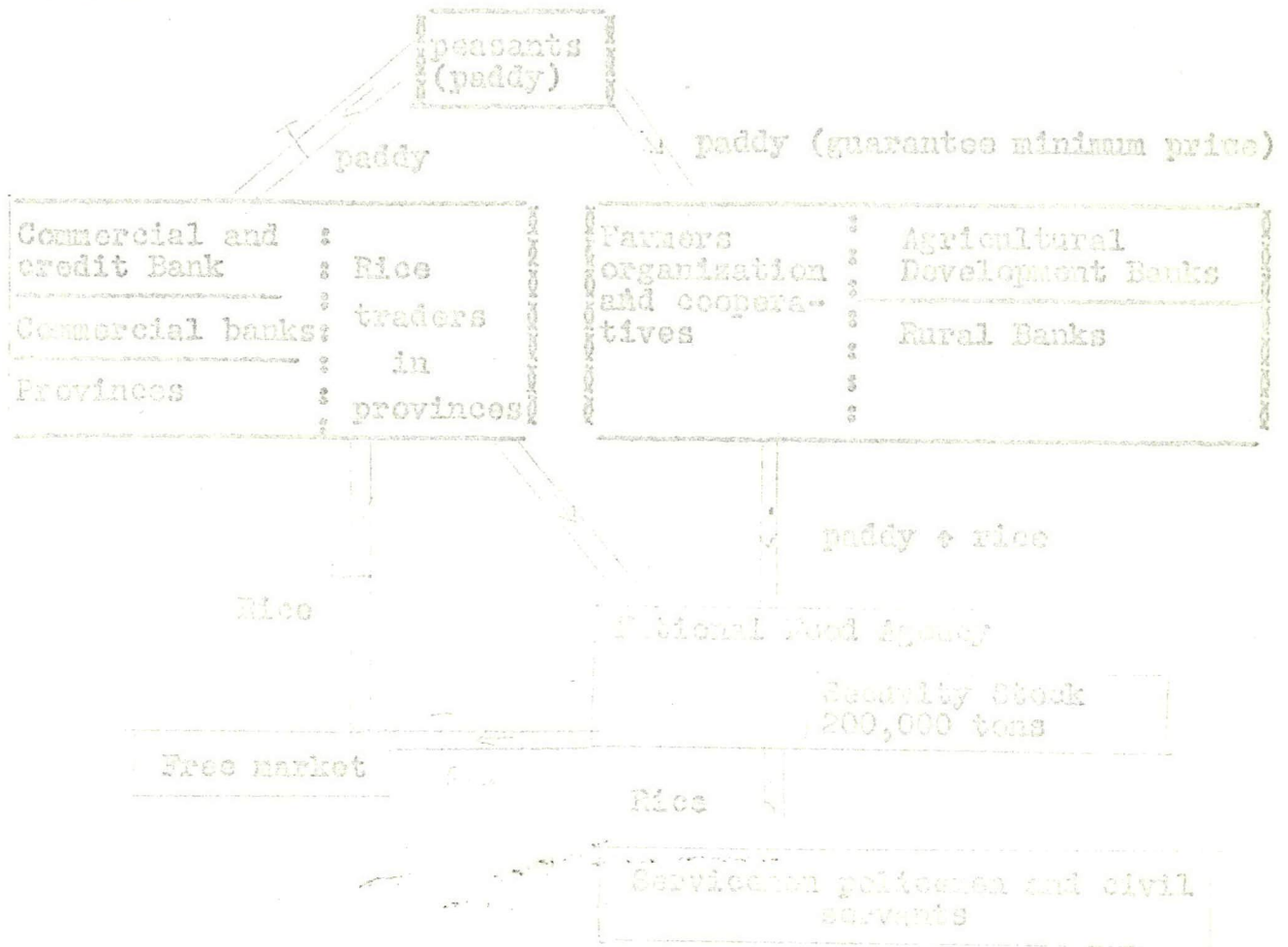
c. The National Food Agency will purchase rice from provinces and specially rice that can be stored for few months (from 3 to 6 months) and guarantee farmers a minimum rice price. It will not monopolize the right to purchase and distribute rice to encourage competition.

- The National Food Agency will continue to purchase rice through traders with the sponsor of Commercial-Credit Bank, some commercial banks or provinces. Besides, it will cooperate with the rural and agricultural development working system to support cooperatives to buy rice directly from peasants with a guaranteed minimum price.

- Traders in regions in rice excess could directly supply Saigon, the Center or the Eastern provinces provided that they give priority to the NFA when it wants to purchase. In regions in rice shortage traders, with the approval of NFA, could purchase rice from regions in excess to supply their regions.

The NFA is also ready to interfere in the free markets by selling through agents presented by province chiefs to stabilize the rice market.

The rice purchases and distribution could be summarized as follows



Note: Each N represents regulations and measures (administrative, economic, defense) aimed at stabilizing prices, regulating rice market.

d. The role of Storing play a very important role in regularizing the supply. The National Food Agency advocates :

- The checking all storages in Saigon, Cholon, Long-An and 16 provinces of the IV Military Region and the certification of these storages according to a minimum required standard.

- The renting certified storages guaranteeing the quality of paddy and the improvement of storage networks.

- Renting farmers organizations' warehouses with a contract guaranteeing their improvement.

- Building needed warehouses by lending money from the National Development Fund and other international credit institutions.

e. The processing of rice purchased by the National Food Agency has been realized as follows :

- The purchased paddy is transported to the storages and is milled only when it is needed.

- Check all the milling plants

- Sign contract of renting storages with those who have milling plants under the agreement of financing necessary operations.

f. Paddy Rice transported by individuals out of the production regions must be declared and must have the authorization of local authorities to help the government to control the food supply of the nation.

To avoid any abuse in the granting of permits, local authorities must fix a procedure for giving permits and this procedure must be clear and must solve the problem within 24 hours.

g. Credits needed in rice purchasing operations have reached a very high figure :

- For the rice purchased by individuals private capital and capital supplied by banks.

- For the rice purchased for the NFA : NFA's capital and it could be subsidized by the government to be able to meet the objective of regularizing rice supply.

h. A joint work from local agencies as well as from the Central is very necessary. It is based on the supreme right of the nation and the people.

III. MEASURES

Rice measures in 1974 will be carried out as follows :

- Urgently : from Dec. 15, 1973 to Jan. 15, 1974
- Medium term : from Jan. 16, 1974 to May 31, 1974
- Long term : from June 1, 1974 to Dec. 31, 1974

1. - Short-term (Dec. 15, 1973 - Jan. 15, 1974)

a/ At present the stock of rice of the General Office of supply has 73,365 tons :

- Da Nang stock	:	12,786 tons
- Qui Nhon stock	:	3,345 -
- Nha Trang stock	:	10,213 -
- Cam Ranh stock	:	1,607 -
- Saigon-imported rice	:	16,413 -
local rice	:	28,996
Total	:	<u>73,365 tons</u>

From now to the Lunar New Year, the National Food Agency has to supply to servicemen, civil servants, policemen and the public about 60,000 tons (without taking into account the increasing demand if the market is upset or the situation gets worse)

The objective of an urgent plan is that the National Food Agency should have a security stock of at least 110,000 tons as at January 15, 1974 to meet contingencies. This stock is distributed as follows :

- Stock as at January 15, 1974	10,000 tons
- Imported rice	15,000
- Rice loan to Kampuchea and paid by U.S.A.	25,000
- Local purchase	60,000
Total	<u>110,000</u>

b/ The purchasing price of the General Office of supply in the last few months is now too low. It is suggested to adjust the purchasing price basing on the minimum price allowed to farmers and a reasonable profit margin for local merchants after deducting all the detailed necessary expenses.

c/ In order to purchase urgently 60,000 tons of rice, the National Food Agency will apply the following procedures :

- Sign contract with local merchants warranted by the Vietnam Commercial Credit Bank
- Sign contract with merchants introduced by the Provinces

For merchants warranted by the Vietnam Commercial Credit Bank, the National Food Agency will disburse money through the Commercial Credit Bank when the rice has been delivered in Saigon.

For merchants introduced by the provinces, they will be paid with the amount previously granted to provinces, when the National Food Agency has received rice in the provinces or in Saigon. In cases when the provinces request an additional amount of money, the National Food Agency will consider this demand basing on the current financial capacity of the Agency and especially on the execution of previous contracts. Besides, the provinces have to make the balance of the amount advanced by the NFA after deducting the amount for the supply of rice for

2 months from the date of the advance and return the remainder to the agency.

1/ In order to facilitate the purchase and supply, it is suggested to prohibit the forbidding of the merchants to buy and transact with each other if they have an interlocking certificate and a license, etc. Meanwhile, the granting of orders will be done as usual.

2/ The granting of orders to the merchants within the scope of their business is suggested to be granted only half the amount, the amount to be granted is suggested to be granted as usual. This is suggested to grant the amount of the order to the merchants as usual. The amount of the order to be granted is suggested to be granted as usual.

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- In areas with a shortage of rice, merchants may go and buy rice from provinces where there is a surplus, provided that :

- i. The provinces grant an introductory letter to merchants, a copy of this letter will be sent to the National Food Agency for following up.
- ii. The amount allowed to be bought must be the amount needed by the region.

g/ In the last few months, the amount of rice flowing in the metropolitan area through the free market reached 20,000 - 30,000 T/month. This should be enough to meet the demand of the inhabitants : 22,343 T/month (1,861,958 inhabitants x 400 gr x 30 days). Meanwhile the Central Office of Supply sold 9,000 tons to the public and 8,500 to the Civil Servant Supply agencies, and Military Supply agencies.

Thus every month about 15,000 tons have been hoarded by merchants to be sold at the black market.

The National Food Agency suggests to stop selling rice to the public and let the prefecture check the stock of private merchants and force those merchants to sell to the public instead of the National Food Agency.

h/ The storage facilities in Saigon is inadequate, thus the Central Office of Supply has to hire private warehouses to stock rice. Most of these warehouses are not well built and are not well suited for the storage of rice.

Waiting for an improvement in the storage facilities, the National Food Agency suggests to use the warehouse of the ... in the Sub Precinct. This warehouse may stock 50,000 tons and is now managed by the Agricultural Development Bank.

2. - Estimated Requirements (16-1-1970 = 17.5-1974)

1/ The National Food Agency ... the National Food Agency ... 250,000 tons. In order to be able to ... 160,000 tons ... 100,000 tons of stock

2/ The ... the ... 200,000 tons ... 100,000 tons

3/ The ... 200,000 tons ... 100,000 tons

4/ The ... 100,000 tons

if necessary, capital for carrying out the objective of increasing production.

e/ The Ministry of Agriculture and the Ministry of Trade and Industry and local authorities will cooperate in the distribution of fertilizers for the 1974-1975 crop year according to a program fixed for the whole country and to be carried out in a timely manner, so that the fertilizer is available to the farmer in time, so that the fertilizer is available to the farmer in time, so that the fertilizer is available to the farmer in time.

f/ Utilize the harvest of the 1974-1975 production the state - also long-term program, especially the agricultural rich family, to be made available to all the agricultural workers in the country.

g/ To ensure the implementation of the economic development policy, the state will continue to support the agricultural sector, especially the agricultural rich family, to be made available to all the agricultural workers in the country.

h/ To ensure the implementation of the economic development policy, the state will continue to support the agricultural sector, especially the agricultural rich family, to be made available to all the agricultural workers in the country.

and supposed to be able to contribute to the agricultural development.

The establishment of a formal Committee for Rural Reconstruction (such as the one established in Taiwan) will be done.

The 1-2-3 project to be realized in the second half year 1971. The establishment of a 1-2-3 plan to reduce the impact and severity of droughts - the agricultural support regime necessary for the 1-2-3 plan.

17. CONCLUSION

18. THE 1-2-3 PROJECT 1973-1974

The 1-2-3 project is a pilot project in the Ministry of Agriculture and Forestry. The 1-2-3 project is a pilot project in the Ministry of Agriculture and Forestry. The 1-2-3 project is a pilot project in the Ministry of Agriculture and Forestry.

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crop. In Central Vietnam, there were typhoons in November but at that time the paddy was already harvested.

In a word, if no special damage happens from now to April 1974, the 6,700,000 tons target will easily be achieved.

2.- 1974 Exports

Estimated population in 1974 is about 20,500,000 with a consumption of 155 kg of rice/person/year (equivalent of 258 kg of paddy) the amount of paddy necessary for human food totals 5,290,000 tons. In addition, we have to take into account the amount of paddy for replanting (2 % of the production), animal feed and other use (10 % of the production), transport and storage loss (10 % of the production), thus the amount of paddy needed in 1974 reaches 6,234,000 tons.

If there were no rice shortages, the 1973-1974 production of rice would be enough for domestic demand. However, as the quality of rice is not so good there will be a shortage of rice, as the security conditions are not perfect, the market will be unstable, the Government needs a security stock of 200,000 tons to meet a shortage and to stabilize the market and regularize the prices. To achieve the above aims, the USA suggests to export 250,000 tons of rice in 1974.



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File title & dates	Vietnam - Correspondence and Memos/file January-September 1974
Doc title & dates	Date February 15 1974 Type Memo From Gunnar Tomasson To H E Mr Cuong Subject/Title Rice Program for 1974 Number of Pages 7 Authority International Monetary Fund Language English
Doc Classification	Strictly Confidential Reviewed April 2021

WITHDRAWAL NOTICE**PROJECT**

Project number 2008 012
Project name PDR/EXR Front Office (AI)
Project tab number 353
Project box number 4

DOCUMENT

Series / File Vietnam Correspondence and Memos (54235)
Original box / file No 290 / 1
Date 1974 02 05
Type Memo
From Richmond Allen
To Gunnar Tomasson
Subject / Title Commentary on GVN Tax Performance in IMF Report on Reform of the
Exchange System
Number of pages 6
Classification CONFIDENTIAL
Authority Office of Executive Director for US

COMMENTS

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NR01/321 07/2/74

cc: Mr. Brown

WOODLEY

Orig: ASD
cc: LEG
ETR

NUMBER 13

211752

ONE. ECONOMIC POLICY TEAM TODAY APPROVED GOVERNORS PROPOSAL TO TIGHTEN IMPORT CREDIT. BEGINNING ABOUT ONE WEEK FROM TODAY, BANK CREDIT WILL BE PROHIBITED FOR GOODS IN CATEGORIES C AND D, AND CEILING ON CREDITS FOR IMPORTS IN CATEGORIES A AND B WILL BE REDUCED FROM 80 TO 50 PERCENT. CREDITS FOR FERTILIZERS AND CERTAIN OTHER ITEMS PRESENTLY HORS-RATIO ARE EXEMPTED FROM THE CHANGE.

TWO. POLICY TEAM AGREED TO DEFER QUESTION OF INTEREST RATE ADJUSTMENT UNTIL NEXT WEEK. I MET YESTERDAY WITH MINISTER OF FINANCE TO DISCUSS THE MATTER AND TO PRESS FOR ACTION ALONG LINES SUGGESTED IN YOUR CABLE 13. BANKING

COMMUNITY IS MOBILIZING OPPOSITION TO ANY INCREASE AND I
GAVE MINISTER POINT-BY-POINT BRIEFING PAPER IN PREPARATION
FOR HIS FORTHCOMING MEETING WITH PRESIDENT OF BANKERS

ASSOCIATION

THREE POLICY TEAM ALSO APPROVED THE APPLICATION OF CHANGE
DESCRIBED IN PARAGRAPH 4 OF MY CABLE 12 EXPECT REQUEST FOR FINANCIAL
APPROVAL TO BE FORWARDED TODAY OR TO MORROW

FOUR. POLICY TEAM ALSO AGREED TO PRINCIPLE TO INTRODUCTION
OF SYSTEM REFERRED TO IN PARAGRAPH 1 OF MY CABLE 12 HOWEVER
CERTAIN QUESTIONS ON POTENTIAL FOR DESTABILIZING SPECULATION
UNDER THE SYSTEM NEED TO BE CLARIFIED BEFORE TEAM WILL SUBMIT
PROPOSAL TO PRIME MINISTER AND PRESIDENT FOR FINAL APPROVAL
MY POSITION HAS BEEN THAT AUTHORITIES NEED NOT RESPOND TO
WHAT APPEARS TO BE TEMPORARY SPECULATION, BUT CAN DECIDE ON

RATE ADJUSTMENTS IN THE BROADER PERSPECTIVE OF THE TREND
OF DEMAND AND THE OUTLOOK FOR THE FOREIGN EXCHANGE RESERVES
POSITION, IN ADDITION TO THE SPECIFIC LEVEL OF DEMAND ON
ANY GIVEN MARKET DAY PERHAPS A GOOD APPROACH WOULD BE TO
PROJECT ON A CONTINUING BASIS WHAT THE REQUIRED EXCHANGE
RATE ADJUSTMENT IS LIKELY TO BE FOR THE NEXT THREE MONTHS
AND THE SAME FREQUENT (SAY WEEKLY) RELATIVELY SMALL (SAY
FIVE PIASTERS), ADJUSTMENTS TO KEEP THE RATE ON THE PROJECTED
QUARTERLY TREND IN TUNIS, THE PROJECTED QUARTERLY TREND
SHOULD BE IN LINE WITH LONGER PERIOD EXPECTATION OF
DEMAND AND SUPPLY OF FOREIGN EXCHANGE. WHATEVER ADJUSTMENT
IS DECIDED ON EACH TIME WOULD BE ANNOUNCED AS QUOTE THE
RATE SET BY THE MARKET UNQUOTE ON THAT DAY.

FIVE USAID DEPUTY DIRECTOR DEWETT CALLED ME TODAY AND
EXPRESSED STRONG SUPPORT FOR THE PROPOSED CHANGE IN

PROCEDURE FOR SETTING EXCHANGE RATE

SIX. MINISTER OF FINANCE IS BEING CALLED BEFORE CONGRESS

NEXT WEEK TO ANSWER WHAT HE THINKS WILL BE CHALLENGES TO

POLICY OF FLEXIBLE EXCHANGE RATE AT HIS REQUEST I HAVE

PREPARED FOR HIM DETAILED LAYMAN LIKE EXPLANATION OF NEED

FOR FLEXIBLE RATE

SEVEN GOVERNMENT IS OPINION THE USAID OF ADJUSTMENT OF

RICE ALLOWANCE. IN DISCUSSION WITH BENNETT I HAVE TAKEN

THE POSITION THAT UNDER PRESENT CONDITIONS ONE SHOULD

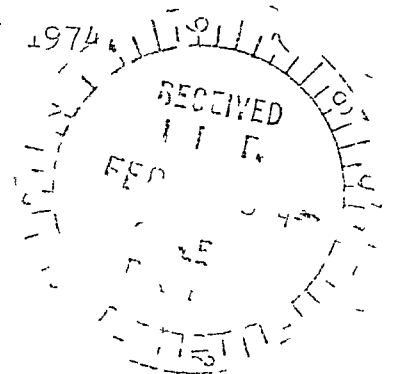
CONSIDER IT A DEFENSIVE VICTORY IF ADJUSTMENTS CAN BE

LIMITED TO THE RICE ALLOWANCE, WITH CONSIDERATION OF BROADER

BASED ADJUSTMENTS BEING DEFERRED UNTIL SECOND HALF OF 1974

RECORDS TO ASSON

220040 FEB 2 1974



OFFICIAL

OUTGOING MESSAGE

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By TELEX

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

Cleared with

ETR
LEG

Handwritten initials

INTERNATIONAL MONETARY FUND

WASHINGTON DC

Handwritten: C. M. Bran

To Tomasson

BANVINA, Saigon (Viet-Nam)

No. 15

One

Staff welcomes

~~Fund does not object to~~ change described in

para 4 of your 12 Fund should be informed in advance of
introduction of the practice in order to ~~notify~~ *obtain approval of* Executive
Board

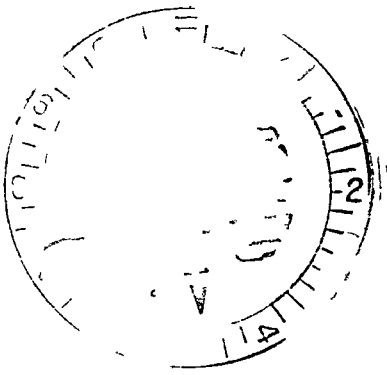
Two Forthcoming CBS mission will bring literature

on Brazilian and other experiences on interest rates

Three Indo-China aid meeting postponed till May or June

Chabrier will explain reasons Regards

Woodley
Interfund



Handwritten: FEB 3 - 1974
CC ASD
LEG
ETR
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Drafted by PChabrier/hs

Descent Asian

Date February 5, 1974

AUTHORIZATION

Handwritten signature: J. Woodley
Signature
/s/ J. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 09-20 A.M., 2/6/74
Time Dispatched 10-25 A.M.
Number of Words (5 Min) Basic
Log 215726-215727
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3

INTERNATIONAL MONETARY FUND

WASHINGTON D.C.

CC: LEG

ETR

ASD

cc: W.A. Bran

FOR PREPARING OFFICER

- Night Letter
- Full Rate
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SPECIAL INSTRUCTIONS

By Telex

[Code]

Cleared with Donald K. Palmer

To: Tomasson

BANVINA Saigon (Viet-Nam)

No. 13

One

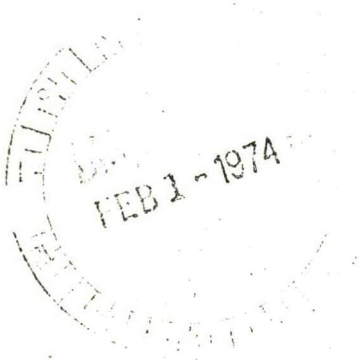
Staff reviewing interest rate issue of your cable 10 in light experience of other countries. We are favorable to more flexibility in interest rate levels in sympathy with inflation rates.

Two

We have doubts as to price index proposed by Minister. Confining price index to selected few basic commodities runs two risks. First, prices of basic commodities may show sharp fluctuations, in part related to prices on world markets. Second, use of this index may prevent authorities from adjusting prices to realistic levels. We would favor price index broadly based. Forthcoming CBS mission will provide concrete proposals on this issue.

Three

Present situation [urgently calls for tightening] of all aspects of financial policies and we feel interest [rate increase long overdue]. We would press for [early increase of all] rates. We have in mind new prime rate [of 35] and rate on 12 months time deposits [of 35]. Other rates to be [adjusted accordingly]. Regards.



Drafted by PChabrier/lp

Department Asian

Date February 1, 1974

AUTHORIZATION

W. Woodley
Signature
W. John R. Woodley

Second Signature When Required

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Time received 5:30 P.M.
 Time dispatched 6:50 P.M.
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Woodley
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Mr. Palms,
for your info.

Ed Joan

① Mr. Chabrier
② File

(cc to M. Takeda)

7

Kato V. d.

NR15/282 05/2/74

Orig: ETR
cc: Mr. Kharmawan
ASD
Mr. de Looper

211600

MR ERNEST STURC

STARTING FEBRUARY 3, 1974 THE OFFICIAL RATE OF VNPIASTRE

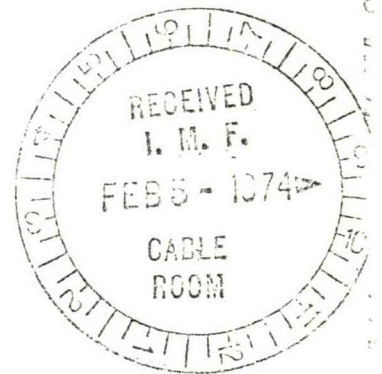
CHANGED FROM 560 TO 575 PER USDOLLAR STOP A SPECIAL

SUBSIDY OF VNPIASTRES 85 PER USDOLLAR REMAINED UNCHANGED

AND WILL BE PAID ON COMMODITY AID IMPORTS UNDER CIP

PROGRAM STOPEND

BANVINA



1709 L St. N. Washington L Phone 296-6200 296-6200



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Department/Division/ Collection	Exchange and Trade Relations Department Records/fonds/1946-1995
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Box number	A41291-290
File number	1
ADLIB ref number	54235
File title & dates	Vietnam - Correspondence and Memos/file January-September 1974
Doc title & dates	Date February 4 1974 Type Letter From Gunnar Tomasson To Tun Thin Subject/Title Update from Saigon Number of Pages 5 Authority International Monetary Fund Language English
Doc Classification	Personal/Confidential Reviewed April 2021

WITHDRAWAL NOTICE**PROJECT**

Project number 2005-004
Project name ASDAI/Asian Department/All subseries
Project tab number 725
Project box number 9

DOCUMENT

Series / File Vietnam Correspondence and Memos (54235)
Original box / file No 290 / 1
Date 1974 01 31
Type Memo
From Gunnar Tomasson
To Minister of Finance
Subject / Title Revised BOP Estimates for 1974
Number of pages 6
Classification STRICTLY CONFIDENTIAL
Authority Asia & Pacific Department

COMMENTS

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Entered by jdurkin

Entered on 2006 07 12

Saigon
February 1, 1974

Governor Uyen, National Bank

Gunnar Tomasson, IMF Resident Representative

System for exchange rate management

1. As requested, I have described below an alternative system of exchange rate management similar to the one which was introduced successfully in the Khmer Republic in October 1971.
2. Under the system, importers who want to import with GVN exchange would be required to submit Exchange Purchase Applications (EPA) to their commercial bank. The EPA would state the required amount of foreign exchange in dollars, the commodity and its customs tariff number, the FOB and CIF value, country of origin and shipment etc. The importers would also declare the most depreciated exchange rate which they would be prepared to pay.
3. The commercial banks would present the EPA's to the National Bank, say, three times each week, together with summary tables showing the various exchange rates declared by the importers and the cumulative amount of dollars requested at each exchange rate (i.e., for any given exchange rate, the commercial banks would show the amount requested by importers at that rate and at more depreciated rates).
4. The National Bank staff would combine the information provided in the EPA's submitted by the various commercial banks in a single table, showing the total cumulative demand at each given exchange rate. The exchange rate would then be set on the basis of total demand as shown in this table and of the availability of foreign exchange as shown in the Foreign Exchange Budget. For example, if it is decided that the amount of EPA's approved on a given day should be ^{\$1.5 million,} the exchange rate for the day would be placed at the level where total cumulative demand is equal to that amount. All importers, who had indicated this exchange rate or a more depreciated one, would be sold foreign exchange at that single exchange rate.
5. In order to discourage speculative bids, importers would be required to authorize their commercial banks to debit their accounts with the full piaster value of the EPA immediately upon its approval by the National Bank. Similarly,

the National Bank would debit automatically the accounts of the various commercial banks for the counterpart of the Foreign exchange sold to their clients on each market day.

6. A further means of discouraging speculative bids would be for the commercial banks to require a deposit of, say, 20 per cent of the EPA at the time of its submission by the importer. The deposit could be calculated at the prevailing exchange rate and it would be credited towards the full payment for approved EPA's and returned to the importer for unapproved EPA's. Any importer who does not have sufficient funds to pay the piaster value of an approved EPA on the day of approval would forfeit his deposit to the National Bank.

7. The importers would not be in actual possession of the foreign exchange, but would be able to proceed with the opening of an import letter of credit only after the EPA had been approved by the National Bank. Payment of the Foreign exchange by the National Bank would take place when the letter of credit became due.

8. As noted in 4 above, the level of the exchange rate would be decided partly in view of the availability of foreign exchange for import financing as projected in a Foreign Exchange Budget which the National Bank should prepare at least monthly. The Budget should include a forecast for the current and the next quarter, and a more tentative forecast for the next twelve months. The decision on the exchange rate from day to day would be guided by the need to limit total import demand over time to an amount which the Foreign Exchange Budget suggests can be financed consistently with the government's target for foreign exchange reserves for the period ahead.

9. The EPA system would apply only to imports against GVN exchange. However, all other exchange transactions, including those involving foreign aid, would be effected at the single exchange rate established through the system.

10. Application of the EPA system would not necessarily imply that the exchange rate would change every market day. As at present, the exchange rate would still be administered by the authorities. The benefits of the EPA system over the present system are essentially twofold:

(a) the range of exchange rates bid by importers in their EPA's would give a clearer picture of the underlying demand situation which would be helpful for deciding on an appropriate adjustments of the exchange rate;

(b) The charge could no longer be made that adjustments of the exchange rate were arbitrary since, on the one hand, the authorities would act on the basis of bids submitted by the importers themselves, and, on the other hand, they would consider the availability of foreign exchange resources as reflected in the Foreign Exchange Budget.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

Telex

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

 in code

Cleared by

ETR SM
LEG

WJRWoodley/PChabrier

Drafted by EBrau/hs

Department Asian

Date February 12, 1974

AUTHORIZATION

JW
Signature

Second Signature When Required

FOR CODE ROOM

Time Received _____

Time Dispatched _____

Number of Words _____

Log _____

Route _____

Operator _____

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

To: Tomasson
BANVINA, Saigon (Viet-Nam)

One Fund approval for change in practice for aid imports payments will be taken on lapse of time basis in next few days.

Two We are concerned by developments described in your cables 12 and 13 on intended shifts in tactics in exchange rate management. We generally feel present system has worked adequately. The increasing political challenge to recent adjustments which you describe in your 12 indicate that more frequent changes suggested in your 13 may face even stronger opposition. We are concerned that desire of authorities to adopt new tactics may be disturbing to market by itself and may reflect their unwillingness to devalue by adequate amounts. We thus advise that present procedures be kept unchanged.

Three We see difficulties with bid system as you describe in your cable. Chabrier will brief you on Khmer experience. Also, if exchange rate is to be adjusted in the broader perspective of the trend of demand for foreign exchange and outlook for foreign aid, we doubt usefulness of observing bid ranges.

Four Your 13 puts heavy emphasis on quarterly--and annual--projections of use and availability of foreign exchange.

DO NOT TYPE BELOW THIS LINE

Telex

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

 in code

Cleared by

ETR
LEG

WJRWoodley/PChabrier

Drafted by EBrau/hs

Department Asian

Date February 12, 1974

AUTHORIZATION

Woodley
Signature

Second Signature When Required

FOR CODE ROOM

Time Received _____

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Number of Words _____

Log _____

Route _____

Operator _____

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

To: Tomasson
BANVINA, Saigon (Viet-Nam)

- 2 -

Given uncertainties of availability, in particular of aid funds, we feel this procedure risky and ignores monetary projections.

Five Adoption of bid system has disadvantage of differing from the one communicated to Fund Board at time discussion exchange reform.

Six We fear that additional export subsidy specifically for fishing industry will lead to undesirable proliferation of such subsidies for other sectors. We stress that incentives to exports should be achieved through exchange rate adjustments. Regards.

Woodley
Interfund

DO NOT TYPE BELOW THIS LINE

Orig ASD
 cc MD
 DMD
 Mr Kharmawan
 IEG
 ETR
 SEC
 TRE

✓
 21 FEB 1974
 cc: Mr Bran

NRO1/322 07/2/74

INTERFUND WASHINGTON DC

CONFIDENTIAL

IN THE CONTEXT OF ITS STABILIZATION PROGRAM, THE GOVERNMENT
 OF THE REPUBLIC OF VIETNAM PROPOSES TO INTRODUCE THE

FOLLOWING MODIFICATION IN THE EXCHANGE SYSTEM ON FEBRUARY
 11, 1974 IMPORTERS USING FOREIGN COMMODITY AID FUNDS

WILL BE ~~CHARGED~~ CHARGED FULL LOCAL CURRENCY VALUE FOR AN
 WILL BE CHARGED THE FULL LOCAL CURRENCY VALUE PER AN
 IMPORT TRANSACTION AT THE TIME OF EXCHANGE PAYMENT ABROAD
 AT THE EXCHANGE RATE PREVAILING AT THE TIME OF SUCH PAYMENT.

AT PRESENT, THE TIMING OF THE LOCAL CURRENCY PAYMENT IS
 THE SAME BUT THE APPLICABLE EXCHANGE RATE IS THAT WHICH
 PREVAILED AT THE TIME OF THE OPENING OF THE IMPORT LETTER
 OF CREDIT ON BEHALF OF THE GOVERNMENT OF THE REPUBLIC
 OF VIETNAM, I HEREBY REQUEST APPROVAL BY THE INTERNATIONAL
 MONETARY FUND OF THE ABOVE PROPOSAL

LEQUANGUYEN GOVERNOR NATIONAL BANK OF VIETNAM

RECEIVED
 I. M. E.
 FEB 7 - 1974
 CABLE
 ROOM

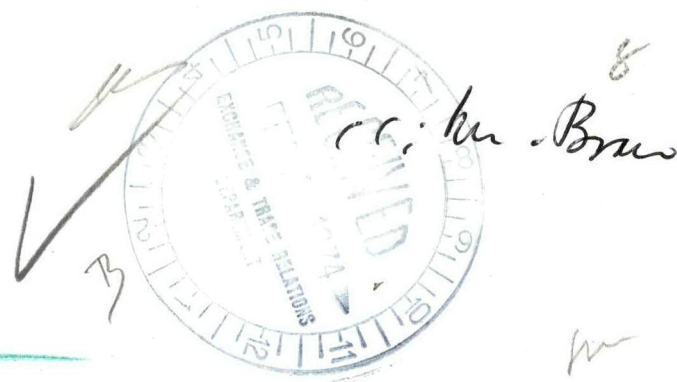
1709 L St NW Washington DC Phone 226-1100

159 L S
 50-310-110
 29 29 2

NRO1/321 07/2/74

WOODLEY

Orig: ASD
cc: LEG
ETR



NUMBER 13

211752

ONE. ECONOMIC POLICY TEAM TODAY APPROVED GOVERNORS PROPOSAL TO TIGHTEN IMPORT CREDIT. BEGINNING ABOUT ONE WEEK FROM TODAY, BANK CREDIT WILL BE PROHIBITED FOR GOODS IN CATEGORIES C AND D, AND CEILING ON CREDITS FOR IMPORTS IN CATEGORIES A AND B WILL BE REDUCED FROM 80 TO 50 PERCENT. CREDITS FOR FERTILIZERS AND CERTAIN OTHER ITEMS PRESENTLY HORS-RATIO ARE EXEMPTED FROM THE CHANGE.

TWO. POLICY TEAM AGREED TO DEFER QUESTION OF INTEREST RATE ADJUSTMENT UNTIL NEXT WEEK. I MET YESTERDAY WITH MINISTER OF FINANCE TO DISCUSS THE MATTER AND TO PRESS FOR ACTION ALONG LINES SUGGESTED IN YOUR CABLE 13. BANKING

1700... C. Phone 253-6200

Washington, D.C. Phone 261-6200

1709 L St NW Wa

ITT World Communications Co.

0020 296 6200
Ninglon C C ops 296 6200

COMMUNITY IS MOBILIZING OPPOSITION TO ANY INCREASE AND I
GAVE MINISTER POINT-BY-POINT BRIEFING PAPER IN PREPARATION
FOR HIS FORTHCOMING MEETING WITH PRESIDENT OF BANKERS
ASSOCIATION.

THREE. POLICY TEAM ALSO APPROVED THE APPLICATION OF CHANGE
DESCRIBED IN PARA 4 OF MY CABLE 12. EXPECT REQUEST FOR FUND
APPROVAL TO BE FORWARDED TODAY OR TOMORROW.

FOUR. POLICY TEAM ALSO AGREED IN PRINCIPLE TO INTRODUCTION
OF SYSTEM REFERRED TO IN PARA 1 OF MY CABLE 12 HOWEVER
CERTAIN QUESTIONS ON POTENTIAL FOR DESTABILIZING SPECULATION
UNDER THE SYSTEM NEED TO BE CLARIFIED BEFORE TEAM WILL SUBMIT
PROPOSAL TO PRIME MINISTER AND PRESIDENT FOR FINAL APPROVAL.

MY POSITION HAS BEEN THAT AUTHORITIES NEED NOT RESPOND TO
WHAT APPEARS TO BE TEMPORARY SPECULATION, BUT CAN DECIDE ON

10-10-77
10-10-77
10-10-77

RATE ADJUSTMENTS IN THE BROADER PERSPECTIVE OF THE TREND
OF DEMAND AND THE OUTLOOK FOR THE FOREIGN EXCHANGE RESERVES
POSITION, IN ADDITION TO THE SPECIFIC LEVEL OF DEMAND ON
ANY GIVEN MARKET DAY. PERHAPS A GOOD APPROACH WOULD BE TO
PROJECT ON A CONTINUING BASIS WHAT THE REQUIRED EXCHANGE
RATE ADJUSTMENT IS LIKELY TO BE FOR THE NEXT THREE MONTHS
AND THEN MAKE FREQUENT (SAY WEEKLY) RELATIVELY SMALL (SAY
FIVE PIASTERS) ADJUSTMENTS TO KEEP THE RATE ON THE PROJECTED
QUARTERLY TREND. IN TURN, THE PROJECTED QUARTERLY TREND
SHOULD BE IN LINE WITH LONGER PERIOD EXPECTATION ON
DEMAND AND SUPPLY OF FOREIGN EXCHANGE. WHATEVER ADJUSTMENT
IS DECIDED ON EACH TIME WOULD BE ANNOUNCED AS QUOTE THE
RATE SET BY THE MARKET UNQUOTE ON THAT DAY.
FIVE. USAID DEPUTY DIRECTOR BENNETT CALLED ME TODAY AND
EXPRESSED STRONG SUPPORT FOR THE PROPOSED CHANGE IN

1/09 L St NW W2
Washington D C Phone 226 5250
1/09 L St NW W2

1/09 L St NW W2
Washington D C Phone 226 5250
1/09 L St NW W2

PROCEDURE FOR SETTING EXCHANGE RATE.

SIX. MINISTER OF FINANCE IS BEING CALLED BEFORE CONGRESS

NEXT WEEK TO ANSWER WHAT HE THINKS WILL BE CHALLENGES TO

POLICY OF FLEXIBLE EXCHANGE RATE. AT HIS REQUEST I HAVE

PREPARED FOR HIM DETAILED LAYMANLIKE EXPLANATION OF NEED

FOR FLEXIBLE RATE.

SEVEN. GOVERNMENT IS WORKING WITH USAID ON ADJUSTMENT OF

RICE ALLOWANCE. IN DISCUSSION WITH BENNETT I HAVE TAKEN

THE POSITION THAT UNDER PRESENT CONDITIONS ONE SHOULD

CONSIDER IT A DEFENSIVE VICTORY IF ADJUSTMENTS CAN BE

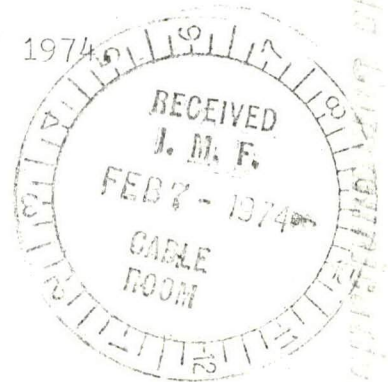
LIMITED TO THE RICE ALLOWANCE, WITH CONSIDERATION OF BROADER

BASED ADJUSTMENTS BEING DEFERRED UNTIL SECOND HALF OF 1974.

REGARDS TOMASSON

⊕

440040 FUND UI



St. N.W. Washington D.C. Phone 296-6200

1700 L St. N. Washington D. Phone 296-6200

Mr. Palmer

MEMORANDUM FOR FILES

February 5, 1974

Subject: Indexed Financial Assets

In a cable dated January 29, 1974, Mr. Tomasson, Fund resident representative in Saigon, informed that the Vietnamese authorities inquired about the possibility of introducing deposits and loans with index clause in Viet-Nam. The following is a brief survey of experiences of indexed deposits and bonds in some countries.^{1/}

1. Experiments with an index clause in the credit market

After the World War II when many countries experienced serious inflation, indexation was introduced on a large scale on various capital markets. Apart from France, application of the index clause to financial contracts has been most common in Finland and Israel. To a lesser extent, indexation has also been employed in Chile, Mainland China and Iceland; and there have been scattered examples of it in Argentina, Brazil, Denmark, Greece, Mexico, Morocco, Poland, Swenden and Switzerland.

The first index bonds of the postwar period were issued in Finland in 1945 and in France the following year. However, these issues were not offered for subscription. In Finland the bonds were issued to the refugees from the lost territories, and in France to the former stockholders of the nationalized coal, electric and gas industries. Indexed bonds were first offered for subscription in Israel in 1948, in Mainland China in 1949, in Finland, France and Sweden in 1952, and in Austria in 1953. Index-linked bonds represented the bulk of new issues in Finland, France and Israel in certain years during the late 1950s.

The central government has often taken the lead in offering indexed bonds, and in Finland has been virtually the sole issuer of such securities. In Israel, semi-governmental agencies and local authorities also have issued this type of bond. In France, on the other hand, the major part of index-tied borrowing has been done by both private and nationalized industry.

In both Finland and Sweden the national pension schemes have been provided with index clauses, as have private life insurance policies in Finland and various life and annuity policies in Denmark, France and Israel. Other forms of savings, including savings deposits, have also been index-linked in various countries. The linking of deposits was first introduced by Mainland China in 1949 but has been used most widely in Finland under a scheme which started in 1955. In Iceland, index-linking has been applied to the savings deposits of school children. Special contractual savings programs with built-in index features have been popular in Israel, such as regular savings plans for the acquisition of citrus groves or of apartments in new building developments. In France, savings banks similarly have made available special indexed accounts for savings that are accumulated for home-building purposes.

2. Types of indexed used

The 1952 and 1958 Pinay loans in France provide modern examples of the gold clause, although both issues were linked to the price of the FF20 gold coin

^{1/} It is reported that the Vietnamese authorities are especially interested in the Brazilian experience. However, information on this case is extremely meagre, at least in English and French literatures.

rather than that of gold. In Finland some bonds have been linked to the rate for the British pound, and in Argentina a private stock issue, provided for dividend payments linked to the peso-dollar rate. In Israel subscribers to nearly all indexed bond issues have been given the choice between a dollar clause and a price-index clause, while the government's citrus-grove loans are linked to changes in the exchange rate at which the government converts the proceeds of citrus exports.

A large number of index clauses provide for adjustments in terms of a price index. The cost of living index has generally served as the base of reference in Finland, Iceland, Israel, Mexico and Sweden, although in Finland the wholesale price index has also been used. In some countries much simpler reference index - but presumably equally representative of domestic purchasing power in that particular environment - have been used. For example, in Mainland China the reference index for savings deposits has been the daily computed price index for a "basket" of essential commodities composed of stipulated quantities of medium-grade rice, cotton, peanut oil and coal briquettes. Different provinces later used "baskets" more typical of goods consumed there. Chile has used as an index the price of wheat for agricultural development bonds and of concrete construction for housing bonds. In some countries, moreover, indexation has been in terms of the price of the borrower's own product - such as electricity in Austria, coal, electricity and railroad travel in France, and cement in Israel. Certain Israeli debentures have been convertible into common stock or directly into the borrower's product - such as plots of land, citrus groves, or apartments - at the prices prevailing at the time of issue.

Some countries have adopted index formulae linked to the expansion of economic activity in general or to the growth of the borrower's business in particular. Three French government issues, floated in 1956 and 1957, were linked to the industrial production index, the combined indexes of French stock and (indexed) bond prices, and the stock price index alone. Various issues of French nationalized industries have been linked more directly to the volume of business of borrower by using as reference index, for example, output of electricity, coal industry, and production volume in the automobile and steel industries.

3. The extent of index-linking

The index link generally applies to the principal alone, with indexation of both principal and interest limited to a few Finnish, French and Israeli bond issues. Indexation of interest only is seldom used, except in the case of the one index-tied Swiss bond issue, and for one Israeli issue whereby the coupon entitled the bondholders to purchase cement at a price fixed in advance. Bonds or deposits which carry an index clause regulating interest only, or principal only, would create difficulties; first, the payments on bonds or deposits which carry only one type of regulation are sometimes difficult to estimate the prospective yield. Secondly, it is quite difficult for a buyer to evaluate a market in which these two types of bonds exist side by side.

The actual extent of linkage is usually restricted further by confining indexation to only part of the covered component such as a specified percentage

of either interest or principal. In the case of the Israeli government's long-term development loans, for example, the index coverage increases gradually with the life of each loan, reaching a maximum of 70 per cent for maturities of 8 years or longer. The extent of index coverage may also be affected by the fiscal treatment given to the indexed asset. For example, in Finland, savers at one time had the choice between deposits that were fully protected against loss or purchasing power but subject to all income and property tax and deposits that were only 50 per cent covered but fully tax-exempt.

In some cases, the index link becomes operative only after the reference index has broken through a specified floor, and in others the link ceases to apply after a specified ceiling has been reached. For instance, in Finland the index clause applicable to savings deposits was to become effective only when the cost of living had risen by certain amount over its level at the time indexed deposits were introduced. In Sweden, on the other hand, the terms of a consumer co-operative loan, issued in 1952, stipulated that repayment of principal could not exceed 150 per cent of the amount subscribed.

4. Alleged advantages and disadvantages of indexed financial debts

a. Advantages

- (1) reduce the inequalities of inflation for the poor,
- (2) reduce the risks of predicting the fluctuations in future prices,
- (3) allow the government to pursue full employment policies without having to fear inflation's adverse consequences on income distribution and resource allocation;
- (4) help the government to implement an anti-cyclical policy by inducing individuals not to increase their rate of consumption of real goods and services when there is an increase in the expected rate of price increase,
- (5) reduce the political opposition to anti-inflationary measures by those groups who are able to borrow at subsidized interest rates,
- (6) make it economically easier for the government to reduce the rate of inflation both by affecting people's price expectations and by providing an alternative hedge against inflation besides consumer durables and inventories;
- (7) reduce the private demand for gold and foreign assets and for some types of domestic assets - such as urban real estate - whose production the government consider a waste of scarce resources,
- (8) (the use of the exchange rate as the price index) will represent a precisely defined and sensitive index of inflation,

b. Disadvantages

(1) make it politically more difficult to adopt anti-inflationary measures by reducing the support for these measures by those normally hurt by inflation,

(2) make it economically more difficult to stop inflation both by indicating to the private sector that the government felt unable to prevent inflation and by increasing aggregate demand for real goods and services if individuals reduced their cash balances when buying indexed government bonds,

(3) spread to the whole economy and have unforeseeable consequences, as there exists always a tendency for the use of the clause to spread from one application to another.

(4) encourage people to speculate on the price level,

(5) disillusion unsophisticated savers when the price index fell,

(6) be unequitable because all taxpayers would be protecting some people against inflation,

(7) make it difficult for the governments to increase its savings by increasing taxes, since higher debt service charges would absorb much of the increase in tax revenues,

(8) unable to raise the saving ratio of the economy as a whole unless indexed clause are applied extensively, for an increase in indexed deposits may be accompanied by a decrease in non-indexed deposits,

(9) (the use of the exchange rate as the price index) would increase the reluctance of the government to devalue,

(10) make it difficult for banks to obtain a balance of assets and liabilities in this new form to avoid gambling on the future value of money the problem of balancing would be aggravated for banks by the marked difference between the liquidity of their assets and the liquidity of their liabilities,

(11) problem of confidence in the index that is used. Doubts about its reliability might hinder the prevalence of financial assets with an index clause. Moreover, even when the index is considered adequate, there necessarily remains some possibility that it will be distorted by price control and subsidy measures concentrated on certain items included in it.

In addition, although this is not a disadvantage per se, the scope for application of indexed clauses brings about a difficult problem, that is, whether the purchasing power device should be applied not only to private contracts but to government securities. If this would be applied also to government, the burden of debt to the government will increase substantially. If not, the issue of government securities would be extremely difficult.

5. Examples of indexed deposits^{1/}

a. Savings accounts in Finland

In May 1955, most Finnish credit institutions have offered deposit facilities with a purchasing power clause. The deposits had to be made for a fixed term of one year, and the minimum deposit permitted was 30,000 markkas (US\$130 at that time). The interest return was $4\frac{3}{4}$ per cent, in comparison with $6\frac{1}{4}$ per cent on six-month time deposits without the guarantee. The guarantee provided that, if the cost of living should rise by 2 per cent or more over the October 1954 level, the value of the deposit in money terms would be increased proportionately. There was no provision for a reduction of the deposit if the cost of living index should fall. At the beginning of 1956 the amount of indexed deposits was still insignificant but in the first quarter of 1957 had reached 43 billion markkas, while during the same period the amount of non-indexed deposits had been reduced from 320 billion markkas to 291 billion markkas. Loans provided by the banks are indexed to the extent made necessary by the compensation paid on deposits. The borrower therefore contracts a loan without knowing how much he is going to pay even if he has definite expectations about the future price movements.

b. Savings deposits in Mainland China

During a rapid inflation in 1949, the Peoples Bank in Mainland China introduced the Parity Deposit System, under which time deposits were calculated in terms of commodity units. In Shanghai each commodity unit consisted of a fixed quantity of medium-grade rice, cotton fabric, peanut oil, and coal briquettes. The price of the basket was estimated daily and used for immediate adjustment of the deposits. Workers with incomes beyond a certain minimum had to deposit a part thereof. Bank loans have also been converted to a purchasing power basis, thereby providing the banks with the necessary hedge. The adjustment for price movements worked in both directions. Accordingly, when prices started to fall in 1950, this type of deposit lost its attraction and was not used any more. The parity deposits were therefore abandoned and replaced by "guaranteed" deposits adjustable only upward and linked to commodity prices selected according to their importance for different regions. In the cotton region, for example, the value of the deposits was linked to the price of raw cotton to induce farmers to accept deposits instead of keeping their product for speculation in the event of price increases. The indexed deposits were abandoned in 1952.

T. Takeda 

cc: Mr. Palmer ✓
Mr. Chabrier
Mr. Brau
South Asia Division

^{1/} For indexed financial assets in general, see "Index clause in deferred payments" in Economic Bulletin for Latin America, Vol. II, No. 2, October 1957.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

By **TELEX**

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

Cleared with:

ETR
LEG

Handwritten initials

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

cc: Mr. Brown

To: Tomasson
BANVINA, Saigon (Viet-Nam)

No. 15
One: *staff welcomes*
~~Fund does not object to~~ change described in para 4 of your 12. Fund should be informed in advance of introduction of the practice in order to *obtain approval of* ~~notify~~ Executive Board.

Two: Forthcoming CBS mission will bring literature on Brazilian and other experiences on interest rates.

Three: Indo-China aid meeting postponed till May. or June. Chabrier will explain reasons. Regards.

Woodley
Interfund



CC: ASD

LEG
ETR

Handwritten initials

Drafted by PChabrier/hs

Department Asian

Date February 5, 1974

AUTHORIZATION

Signature
Signature

Handwritten initials
/s/ J. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 09:20 A.M., 2/6/74

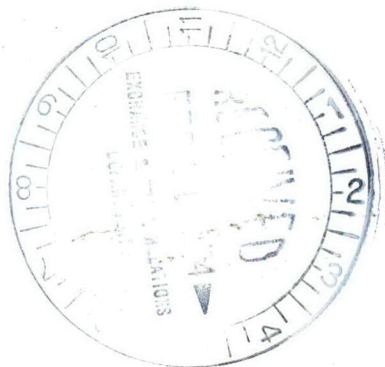
Time Dispatched 10:25 A.M.

Number of Words (5 Min.) Basic

Log 215726-215727

Route RCA, TLX

Operator JE



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WITHDRAWAL NOTICE**PROJECT**

Project number 2005 004
Project name ASDAI/Asian Department/All subseries
Project tab number 725
Project box number 9

DOCUMENT

Series / File Vietnam Correspondence and Memos (54235)
Original box / file No 290 / 1
Date 1974-01 31
Type Memo
From Gunnar Tomasson
To Minister of Finance
Subject / Title Revised BOP Estimates for 1974
Number of pages 6
Classification STRICTLY CONFIDENTIAL
Authority Asia & Pacific Department

COMMENTS

**THIS DOCUMENT IS IN THE COURSE OF A SYSTEMATIC
PUBLIC DISCLOSURE REVIEW PROCESS**

Entered by jdurkin

Entered on 2006-07 12

BANVINA 798203

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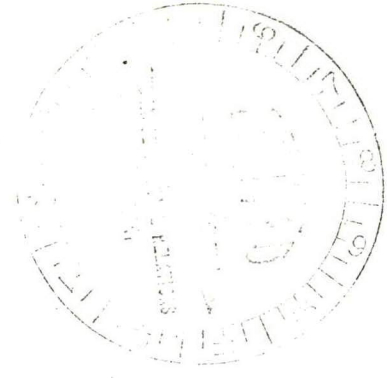
*cc: Mr. Bran
(Mr. Chagnon)*

THIS IS NATIONAL BANK OF VIETNAM SAIGON

9:45AM

NRO1/264 02/2/74

INTERFUND WASHINGTONDC



WOODLEY

Orig: ASD
cc: LEG
ETR

211449

NUMBER 12

ONE. FURTHER TO MY CABLE NUMBER 11 PARA THREE, I HAVE DISCUSSED EXCHANGE RATE POLICY WITH MINISTERS OF FINANCE AND TRADE AND GOVERNOR. A BASIC CONCERN OF ALL THREE HAS BEEN HOW TO CUT BACK IMPORT DEMAND TO AVAILABLE RESOURCES WITHOUT RESORT TO INCREASED RESTRICTIONS. IN VIEW OF INCREASING POLITICAL CHALLENGE TO RECENT EXCHANGE RATE ADJUSTMENTS, THE GOVERNOR AND MINISTER OF TRADE HAVE BEEN CONSIDERING POSSIBLE ALTERNATIVE ADJUSTMENT PROCEDURES. AT GOVERNORS REQUEST, I PREPARED MEMO ON THE SYSTEM INTRODUCED

Communications Inc.

World Communications Inc.

1709 L St. N.W. Washington D.C. Phone 296-6200

1709 L St. N.W. Washington D.C. Phone 296-6200

World Communications Inc.

IN KHMER REPUBLIC IN OCTOBER GROUP FOR SETTING RATE ON BASIS
OF BIDS SUBMITTED BY IMPORTERS AND OF AVAILABILITY OF
RESOURCES AS SHOWN IN FOREIGN EXCHANGE BUDGET WHICH WOULD
BE REVISED AND UPDATED REGULARLY. COPY OF MY MEMO WILL BE
AIRMAILED FROM BANGKOK MONDAY. GOVERNOR IS INTERESTED IN
ADOPTING THIS SYSTEM AND PLANS TO SEEK APPROVAL OF
MINISTERS NEXT WEEK.

TWO. I HAVE MADE REVISED ESTIMATES OF 1974 BALANCE OF
PAYMENTS OUTLOOK AFTER REVIEWING AID PROSPECTS WITH USAID
STAFF AND ASSUMING NO IDA CREDIT IN 1974. ACHIEVEMENT OF
1974 IMPORT LEVEL PROJECTED LAST DECEMBER WOULD NOW IMPLY
LOSS OF RESERVES OF 211 REPEAT 211 MILLION DOLLARS AS
COMPARED TO MY JANUARY 17 ESTIMATE OF 108 MILLION. (=28))
AIRMAIL MONDAY.

no sense

THREE. I HAVE STARTED FULL REVIEW OF 1974 FINANCIAL
PROSPECTS ON BASIS OF CHANGED EXPECTATIONS. MINISTER OF
FINANCE WILL CONVENE MEETING OF MINISTERS AND GOVERNOR
AND MYSELF NEXT WEEK TO DISCUSS AND AGREE ON AGENDA FOR

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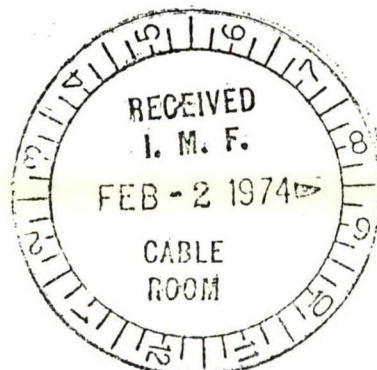
COMPREHENSIVE POLICY REVIEW. THE OBJECTIVE WOULD BE TO
HAVE DEVELOPED COMPREHENSIVE POLICY OPTIONS BY END OF
FEBRUARY.

FOUR. MINISTER OF TRADE HAS ASKED WHETHER FUND STAFF
WOULD OBJECT IF IMPORTERS USING CIP WOULD BE REQUIRED
TO PAY PIASTER COUNTERPART AT EXCHANGE RATE IN EFFECT AT
TIME OF EXCHANGE PAYMENT ABROAD. AT PRESENT, SUCH IMPORTERS
MAKE PIASTER PAYMENT WHEN PAYMENT IS MADE ABROAD, BUT THE
EXCHANGE RATE IS THAT WHICH PREVAILED AT TIME OF LC OPENING.
PLEASE ADVISE.

FIVE. FOLLOWING FRIEDMANS ARTICLE IN NEWSWEEK THE OTHER
DAY, VIETNAMESE OFFICIALS HAVE ASKED THAT I OBTAIN FROM
HE
DQUARTERS ANY AVAILABLE INFORMATION ON BRAZILIAN
INDEXING SYSTEM. PLEASE SEE WHAT IS AVAILABLE AND SEND
IT TO ME.

REGARDS TOMASSON

SENT 1



NEW YORK

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PPS.

D.C. Phone 296-6200

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170

INTERNATIONAL MONETARY FUND

WASHINGTON D.C.

CC: LEG
ETR
ASD

cc: Mr. Bran

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

By Telex

[Code]

Cleared with
Donald K. Palmer

To: Tomasson

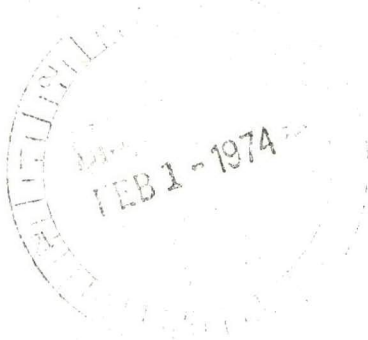
BANVINA Saigon (Viet-Nam)

No. 13

One Staff reviewing interest rate issue of your cable 10 in light experience of other countries. We are favorable to more flexibility in interest rate levels in sympathy with inflation rates.

Two We have doubts as to price index proposed by Minister. Confining price index to selected few basic commodities runs two risks. First, prices of basic commodities may show sharp fluctuations, in part related to prices on world markets. Second, use of this index may prevent authorities from adjusting prices to realistic levels. We would favor price index broadly based. Forthcoming CBS mission will provide concrete proposals on this issue.

Three Present situation [urgently calls for tightening] of all aspects of financial policies and we feel interest [rate increase long overdue]. We would press for [early increase of all] rates. We have in mind new prime rate [of 35] and rate on 12 months time deposits [of 35]. Other rates to be [adjusted accordingly]. Regards.



Drafted by PChabrier/lp

Depart. Asian

Date February 1, 1974

AUTHORIZATION

W. Woodley
Signature
W. John R. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 5:30 P.M.
 Time Dispatched 6:50 P.M.
 Number of Words (5 Min.)
 Log 215574
 Route RCA, TLX
 Operator AT

Woodley
Interfund

DO NOT TYPE BELOW THIS LINE

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ITT W

440040 FUND UIO
0443 EDT
440040 FUND UI
440040 FUND UI
BANVINA 798203

THIS IS NATIONAL BANK OF VIETNAM SAIGON

4:50PM

Orig: ASD
cc: LEG
ETR

440040 FUND UI

NRO1/236 30/1/74

INTERFUND WASHINGTONDC

WOODLEY

2-1172

NUMBER ELEVEN

REFERENCE YOUR CABLE JANUARY 29.

ONE. YOUR POINT IN PARA 1 IS WELL TAKEN. MY USE OF WORDS

QUOTE AGREED WITH IMF MISSION UNQUOTE REFLECTS POOR

DRAFTING RATHER THAN ANY DIFFERENCE WITH OUR BASIC POSTURE

OF AVOIDING ENDORSEMENT OF SPECIFIC AID REQUIREMENTS. IN

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FACT, I TOOK NO POSITION ON US AID LEVEL IN TWO-HOUR

MEETING ON JANUARY 29 WITH USAID DIRECTOR AND HIS STAFF

AT WHICH WE DISCUSSED BOP OUTLOOK. WHILE ADDITIONAL AID

RESOURCES WOULD BE A THEORETICWL POLICY ALTERNATIVE,

I HAVE ADVISED THE VIETNAMESE NOT TO PLAN ON IT. HOWEVER

IN MEETING WITH USAID WE AGREED THAT AID OUTLOOK WOULD BE

CLEARER BY END OF FEBRUARY WHEN PROSPECTS FOR IDA CREDIT

AND MULTILATERAL AID GROUP COULD BE BETTER ASSESSED.

UNTIL THEN, EMPHASIS SHOULD BE PLACED ON CONTINGENCY

PLANNING RATHER THAN ON BASIC POLICY ADJUSTMENTS ON

THE BOP SIDE.

TWO. FURTHER TO PARA ONE ABOVE, I DO NOT SEE PRESENT

DIFFICULTIES AS BEING TEMPORARY WHICH COULD BE SOLVED BY

INJECTING MORE AID. A BIT MORE AID WOULD ALLEVIATE THE

PROBLEMS OF THE NEXT FEW MONTHS BUT WOULD LEAVE FUNDAMENTAL

PROBLEM UNAFFECTED. THAT PROBLEM AS I SEE IT IS THE BASIC

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INCONSISTENCY BETWEEN THE REQUIREMENTS OF THE ENORMOUS
MILITARY AND CIVILIAN ESTABLISHMENTS AND THE AMOUNT OF
DOMESTIC AND FOREIGN RESOURCES AVAILABLE AT PRESENT OR
LIKELY TO BE AVAILABLE IN THE FUTURE FOR SUPPORTING THE
ASSOCIATED EXPENDITURES. ACCORDINGLY, IN MY DISCUSSIONS
WITH USAID ON JANUARY 29 AS WELL AS IN TALKS WITH
VIETNAMESE OFFICIALS I HAVE EMPHASIZED THE NEED FOR
ACTION OF THE POLICY PROBLZM OUTLINED IN PARA 8 OF MY
MEMORANDUM OF JANUARY 17. THE ARGUMENT AGAINST CURTAILING
THE MILITARY ESTABLISHMENT, REPEATED BY USAID DIRECTOR
ON JANUARY 29, IS THAT IT IS TANTAMOUNT TO INVITING
MILITARY TAKEOVER BY THE OTHER SIDZ. OBVIOUSLY I DO NOT
HAVE ANY JUDGMENT ON THIS BUT, TAKING THE LEVEL OF FOREIGN
AID AS GIVEN, THE ECONOMIC CONSEQUENCES OF INACTION ON
MILITARY AND CIVILIAN MANPOWER WOULD PROBABLY ENTAIL THE
INFLATIONARY RESULTS SUGGESTED IN SUBPARA ONE OF PARA

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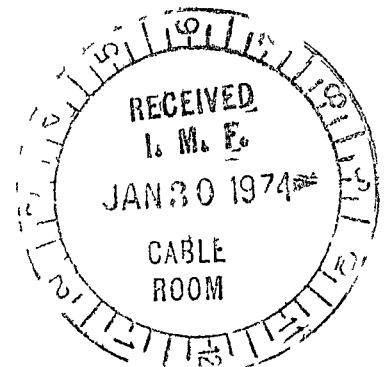
1709 L St N W Wash

SEVEN OF JANUARY 17 MEMO. I HAVE BEEN MAKING THIS POINT SINCE MY ASSIGNMENT TO VIETNAM BUT AS THE 1974 BUDGET INDICATES IT HAS NOT YET BEEN REFLECTED IN BASIC POLICY CHANGES. IN MY MEMO OF JANUARY 17 AS WELL AS IN MY TAKLS WITH USAID ON JANUARY 29 I WANTED TO MAKE SURE THAT THERE WOULD BE NO ILLUSION ON THIS SUBJECT BY THOSE WHO ADVICE OR DECIDE ON MANPOWER POLICIES.

THREE. I HAVE BEEN DISCUSSING SUBJECT MATTER OF PARA FOUR OF YOUR CABLE WITH VIETNAMESE OFFICIALS AND AM MEETING WITH MINISTER OF FINANCE TOMORROW TO DISCUSS THIS AND OTHER ISSUES. I SHOULD NOTE THAT FREQUENCY OF ADJUSTMENTS BETWEEN SEPTEMBER AND JANUARY WAS PARTLY DUE TO EXPLICIT RECOGNITION BY VETNAMESE OFFICIALS THAT ADJUSTMENTS HAD BEEN INADEQUATE EARLIER IN THE YEAR. WPLL ADVISE.

REGARDS TOMASSON

SENT 1



200

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Import Level

Clearer link of import level to aid receipts is on p. 12; Staff Report:

"For 1974, the amount of foreign aid estimated by the Vietnamese would help to finance a total level of imports of US\$910 million, which would be 14 per cent higher in dollar terms than in 1973."

and two major uncertainties regarding aid and oil price:

"Pending further policy decisions, it is difficult to assess the precise impact of these developments on the 1974 balance of payments outcome."

There is no statement in the Minutes or the Concluding Observations that the IMF mission has "agreed to an import forecast." There are, of course, many statements concerning excessive credit for import financing.

Also Briefing Paper, p. 7:

"The level of foreign aid receipts, supplemented by Viet-Nam's own exchange receipts, will effectively determine the feasible import value during 1974, even though this may imply a decline in imports in real terms."

Frequency of exchange rate adjustments

There is never any mention of specific time periods but reference to:

- periodic adjustments (Staff Appraisal)
- adjustments from time to time (Letter)
- adjustments as required to avoid any significant loss of reserves (Staff Report)

From September 6, 1973 to January 6, 1974 there were six exchange rate adjustments, i.e., an average of one every two and a half weeks.

From December 30, 1972 to September 5, 1973, there were five adjustments, i.e., one every six and a half weeks: on this staff commented that:

"During the middle months of 1973, exchange rate adjustments may not have been as large and timely as would have been desirable under the circumstances; however, in recent months more frequent adjustments have occurred." (p. 13, Staff Report).

Just

INTERNATIONAL MONETARY FUND

Mr. Foran

January 29, 1974

Mr. Chabrier:

Mr. Brau:

Attached is a rough draft which I have dictated but have not read. I would like to get together with both of you as early as possible this afternoon to go over it so that we could give Woodley a telegram this afternoon. I have already described the basic problem to him and he agrees that we should send a message, if possible today.

Donald K. Palmer

DRAFT

To: Tomasson
BANVINA, Saigon, South Viet-Nam

No. _____. Following comments relate to your January 17 memo on balance of payments outlook.

1. Para 1 states "estimate agreed with the IMF mission in December of import requirements other than POL and PL 480 remains reasonable." At all times, December mission careful to avoid any impression that it was agreeing with or endorsing Vietnamese import forecast. Recall specifically that when some officials questioned inconsistency between mission recommendation for lower bank credit with Vietnamese import forecast, mission replied that import level could not be taken as a given and would have to be adjusted to level of resources available for financing.
2. We recognize that aid outlook has worsened since early December discussions and staff report (page 12) indicated likelihood that US aid would be lower than envisaged. We do not believe it wise for you to take adversary position (as is done in your para 7 (i)) to effect that US must provide substantially higher aid level. Our understanding of US aid availabilities is that USAID officials are being realistic in advising Vietnamese to plan on somewhat lower aid level. While staff report described Vietnamese aid objectives for 1974, it carefully refrained from endorsing any particular level as necessary or essential. We suggest you take same general posture.

If higher aid forthcoming, that's all the better

3. Agree your para 7 (iii) (iv) regarding interest rates and fiscal and monetary policy.

4. Re your para 7 (v), agree with first sentence but are concerned that your second sentence could be interpreted as favorable longer intervals between exchange rate adjustments than we would think desirable. In this connection page 13 of staff report took view that "During the middle months of 1973, exchange rate adjustments may not have been as large and timely as would have been desirable under the circumstances; however, in recent months more frequent adjustments have occurred." During four months from September 6 to January 6, there were six adjustments or on average of every two and a half weeks. As regards frequency, we believe this timing pattern should be followed in 1974. While we went along with failure to move to 575 in connection with exchange reform, we did so on the working assumption that this move would take place before end of month. If it does not you should remind authorities of our original understanding.

military manpower proposals; fine but not his business

NRO1/221 29/1/74

Orig ASD
cc LEG
ETR

TUN THIN

21 1083

Re-Vietnam

NUMBER TEN -

ONE. MINISTER OF TRADE HAS AGREED TO PROCEDURES FOR

EXPORT SUBSIDIES OUTLINED IN YOUR CABLE NUMBER 7. ACTUAL

IMPLEMENTATION IS NOW BEING PREPARED.

TWO. IN CONNECTION WITH REVIEW OF INTEREST RATES, MINISTER

OF FINANCE HAS RAISED POSSIBILITY OF APPLYING RELATIVELY

LOW BASIC INTEREST RATES TO ALL BANK LOANS AND DEPOSITS

PLUS AN INTEREST COMPONENT WHICH WOULD VARY IN LINE WITH

CHANGES IN A SPECIAL PRICE INDEX. THIS INDEX MIGHT BE

SPECIALLY CONSTRUCTED FOR THIS PURPOSE AND MIGHT INCLUDE

SELECTED BASIC COMMODITY PRICES, FOR EXAMPLE MINISTER OF

TRADE BELIEVES THIS IDEA IS WORTH CONSIDERING AND POINTS TO

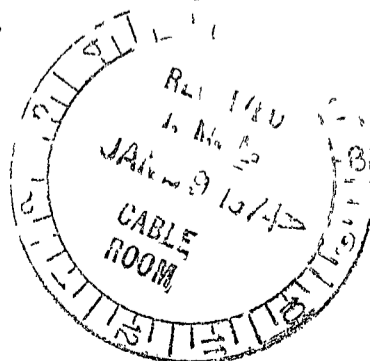
BRAZIL AS A COUNTRY WHERE A SIMILAR ARRANGEMENT IS REPORTEDLY

IN EFFECT. PLEASE ADVISE OF STAFF VIEWS ON THIS PROPOSAL.

IF POSITIVE, I WOULD APPRECIATE RECEIVING SPECIFIC

SUGGESTIONS FOR OPERATIONAL GUIDELINES. REGARDS

TOMASSON



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NRO1/220 29/1/74

Orig: ASD
cc: LEG
ETR

TUN THIN



21 1082

NUMBER NINE -

ONE. OIL PRICES WERE INCREASED AS FOLLOWS ON JANUARY 26 :

SUPER GASOLINE FROM 145 PIASTERS TO 240 PIASTERS PER LITER,

REGULAR GASOLINE FROM 125 TO 235, KEROSNENE FROM 68 TO 140,

DIESEL OIL FROM 68 TO 125, AND FUEL OIL FROM 25 TO 60.

TWO. HIGHER INTERNATIONAL PRICES WERE GIVEN AS REASON FOR

THE INCREASE BUT I AM ADVISED THAT ON BASIS OF 1974 VOLUME

OF CONSUMPTION ASSUMED IN DECEMBER FOR PURPOSE OF PROJECTING

1974 BUDGET RECEIPTS OF 302 BILLION, TOTAL RECEIPTS FROM OIL

LEVIES WOULD GO FROM 98 BILLION PIASTERS TO ABOUT [180]

BILLION

THREE. QUANTITATIVE RESTRICTIONS OF 2 LITERS AND 10 LITERS

FOR EACH SALE TO MOTORCYCLES AND AUTOMOBILES RESPECTIVELY

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INTRODUCED DECEMBER 4, 1973, WERE REMOVED AT SAME TIME, BUT
BAN ON FUEL SALES ON SATURDAYS AND SUNDAYS REMAINS IN
EFFECT.

FOUR. IN VIEW OF LIKELY IMPACT OF HIGHER PRICES ON VOLUME OF
CONSUMPTION, BUDGET RECEIPTS WOULD BE LOWER THAN INDICATED
IN TWO ABOVE. CONSIDERING ALSO INTENSIFIED PRESSURES FOR
SALARY ADJUSTMENTS, UNCERTAIN OUTLOOK FOR IMPORT FINANCING
IN 1974, AND STILL PENDING RICE FINANCING ESTIMATES, I
WOULD AWAIT RELATED POLICY DECISIONS DURING NEXT FEW WEEKS
BEFORE REVISING FINANCIAL PROJECTIONS FOR 1974 CONTAINED

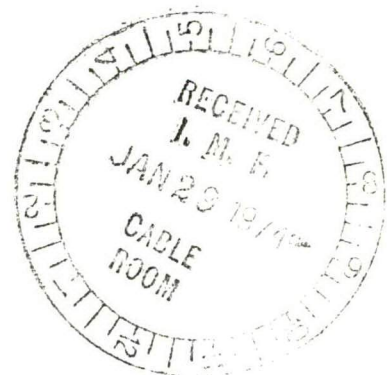
IN RECENT FUND PAPER. REGARDS

TOMASSON

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Mr. Bran

NRO1/220 29/1/74

Orig: ASD
cc: LEG
ETR

TUN THIN

21 1082

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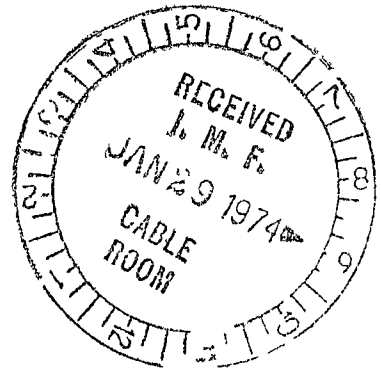
IN RECENT FUND PAPER. REGARDS

TOMASSON

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1709 L St. N.W. Washington D.C. Phone 296-6200

ITT World Communications Inc. 1709 L St. N.W. Washington D.C. Phone 296-6200

Mr. Palmer
cc: Mr. Bran

440040 FUND UIO
0405 EDT
440040 FUND UI
40040 FUND UI
BANVINA 798203

THIS IS NATIONAL BANK OF VIETNAM SAIGON

21 1081

4:05PM
Orig: ASD
cc: LEG
ETR

NRO1/219 29/1/74

INTERFUND WASHINGTONDC

TUN THIN

NUMBER EIGHT STOP

REFERENCE FUND CABLES OF JANUARY 15 AND 22 ON PAYMENT

OF INITIAL CURRENCY SUBSCRIPTION STOP PLEASE CLARIFY

WHETHER PAYMENT CAN ONLY BE MADE IN CONNECTION WITH

ESTABLISHMENT OF INITIAL PAR VALUE OR EXCHANGE

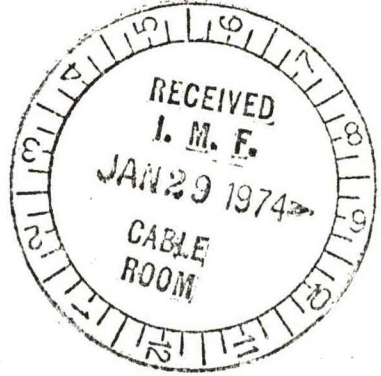
TRANSACTION STOP IF THESE ARE THE ONLY CIRCUMSTANCES

UNDER WHICH PAYMENT OF INITIAL CURRENCY SUBSCRIPTION

CAN BE EFFECTED COMMA GOVERNOR WOULD NOT PROPOSE TO

PROCEED AT THIS TIME STOP REGARDS

TOMASSON



440040 FUND UI

NRO1/221 29/1/74

Orig: ASD
cc: LEG
ETR

TUN THIN

21 1083

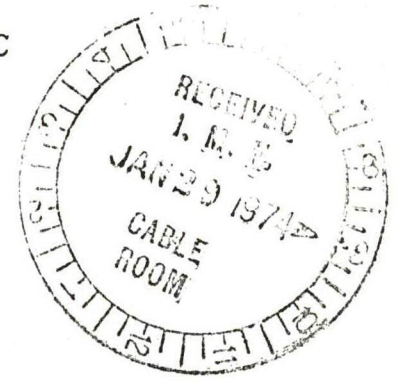
NUMBER TEN -

ONE. MINISTER OF TRADE HAS AGREED TO PROCEDURES FOR EXPORT SUBSIDIES OUTLINED IN YOUR CABLE NUMBER 7. ACTUAL IMPLEMENTATION IS NOW BEING PREPARED.

TWO. IN CONNECTION WITH REVIEW OF INTEREST RATES, MINISTER OF FINANCE HAS RAISED POSSIBILITY OF APPLYING RELATIVELY LOW BASIC INTEREST RATES TO ALL BANK LOANS AND DEPOSITS PLUS AN INTEREST COMPONENT WHICH WOULD VARY IN LINE WITH CHANGES IN A SPECIAL PRICE INDEX. THIS INDEX MIGHT BE SPECIALLY CONSTRUCTED FOR THIS PURPOSE AND MIGHT INCLUDE SELECTED BASIC COMMODITY PRICES, FOR EXAMPLE MINISTER OF TRADE BELIEVES THIS IDEA IS WORTH CONSIDERING AND POINTS TO BRAZIL AS A COUNTRY WHERE A SIMILAR ARRANGEMENT IS REPORTEDLY IN EFFECT. PLEASE ADVISE OF STAFF VIEWS ON THIS PROPOSAL.

IF POSITIVE, I WOULD APPRECIATE RECEIVING SPECIFIC SUGGESTIONS FOR OPERATIONAL GUIDELINES. REGARDS

TOMASSON



OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

CC: LEG
 ETR
 ASD

INTERNATIONAL MONETARY FUND
 WASHINGTON D.C.

To: Mr. Gunnar Tomasson
IMF Representative
c/o National Bank of Viet-Nam
17 Ben Chuong-Duong
Saigon, Viet-Nam

No. 11

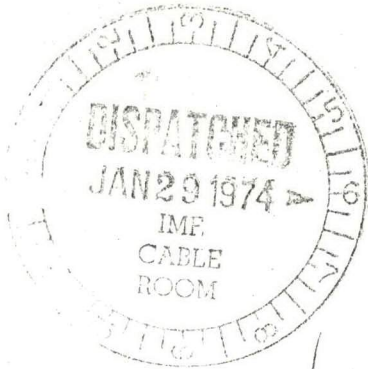
Reference your cable No. 8.

Fund notes that Vietnamese authorities do not intend
 to proceed with payment of initial currency subscription.

INTERFUND

Test No.

Main Language



Drafted by AWatkins/ch

Department Treasurer's

Date January 29, 1974

AUTHORIZATION

David Williams
 Signature

/s/DWilliams

Second Signature When Required

FOR CODE ROOM

Time Received 6:30 pm
 Time Dispatched 6:55 pm
 Number of Words 9 min Combined
 Log 215254
 Route WUI TLX
 Operator FJ

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OUTGOING MESSAGE

OFFICIAL

Mr. Palmer

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

To: Tomasson
BANVINA, Saigon, South Viet-Nam

Telex

No. ____.

Clearance:

Mr. Chabrier
Mr. Brau

Following comments relate your January 17 memo on balance of payments outlook.

1. Para 1 states "estimate agreed with the IMF mission in December of import requirements other than POL and PL 480 remains reasonable." On the contrary, December mission careful to avoid any impression that it was agreeing with or endorsing Vietnamese import forecast. When some officials questioned apparent inconsistency between mission recommendation for reducing planned level of import credit financing with achievement of Vietnamese import forecast, mission replied that import level could not be taken as given and would have to be adjusted to level of resources available for financing.

2. We recognize that aid outlook has worsened since early December discussions and staff report (page 12) indicated likelihood that US aid would be lower than envisaged. We do not believe it would be wise for you to take strong position (as implied your para 7 (i)) to effect that US must provide

Drafted by DKPalmer:jb

Dep ant ETR

Date January 29, 1974

AUTHORIZATION

Signature

W. John R. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received _____

Time Dispatched _____

Number of Words _____

Log _____

Route _____

Operator _____

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- Full Rate
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

To: _____

- 2 -

substantially higher aid level. Nooter has informed us (in connection aid situation in Khmer Republic) that USAID officials are being realistic in advising Vietnamese to plan on lower aid level in 1974. While staff report described Vietnamese aid objectives for 1974, it refrained from endorsing any particular level as necessary or essential. We suggest you adopt same general posture.

3. Agree your para 7 (iii) (iv) regarding interest rates and fiscal and monetary policies.

4. Re your para 7 (v), agree with first sentence but note your second sentence could be misinterpreted as favoring longer intervals between exchange rate adjustments than we would think desirable. Page 13 of staff report took view that "During the middle months of 1973, exchange rate adjustments may not have been as large and timely as would have been desirable under the circumstances; however, in recent months more frequent adjustments have occurred." During four months from September 6 to January 6, there were six adjustments or an average of every two and a half

Drafted by _____

Department _____

Date _____

AUTHORIZATION

Signature

Second Signature When Required

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Time Received _____

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Operator _____

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- Full Rate
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND

WASHINGTON D.C.

To: _____

- 3 -

weeks. As regards frequency, we believed in early December that this timing pattern should be followed in 1974. While we went along with delay in moving to 575 in connection with exchange reform, we did so on working assumption that a significant adjustment would take place before end of month. In view of worsened aid and price outlook, believe pace of depreciation will need to be more accelerated than envisaged early December. Please discuss along these lines and advise reactions.

Woodley

Drafted by _____

Department _____

Date _____

AUTHORIZATION

Signature _____

Second Signature When Required _____

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Time Received _____

Time Dispatched _____

Number of Words _____

Route _____

Operator _____

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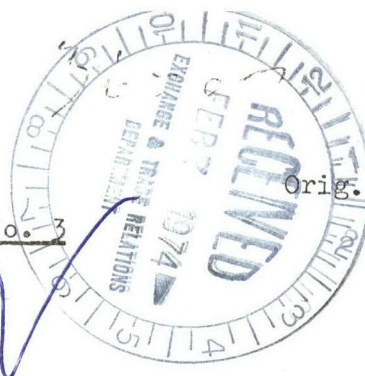
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INTERNATIONAL
MONETARY FUND

FEB 6 4 06 PM '74

COMMUNICATIONS
DIVISION

Dear Mr. Tun Thin:

Letter No. 3



Apia,
January 28, 1974

Orig. & enc: ASD
cc: LEG
ETR

cc: Mr. Engstrom
BnAB

Since I wrote you last, the most important event here has been the passage on December 21, 1973 of the 1974 budget, about which I had already cabled you. As indicated in my last letter, the approval of the budget was not unexpected, but the manner in which it was done was quite surprising. From December 10 to December 21, the Parliament discussed intensively various aspects of the Government's economic policies, but without really getting down to the business of discussing the budget in detail. Further, although several opposition members had complained about the "meagerness" of the budget, especially the development budget, when the chips were down, the budget passed was even smaller than that proposed, with small cuts in several expenditure items. When the budget debate opened on December 10, a leading opposition member had moved separate "no confidence" motions against the Finance Minister and the entire Cabinet. At one point, it seemed that these motions would be carried, but, in the event, they were not even taken up for debate. Several opposition members took the stance that it was not "FA'A SAMOA" (the Samoan way) to topple the Government by no confidence motions, and that any such action should be undertaken only if there was a consensus for it. Much of the credit for the budget passage goes to the Prime Minister, thanks to his great prestige (he comes from the highest princely family), political adroitness (he has been the Prime Minister of W. Samoa since Independence, except for three years), very pleasant personality, and great sense of humor. The Finance Minister also gave some cogent arguments in defense of the Government's fiscal and monetary policies, which the opposition labeled, quite unjustifiably in my opinion, as excessively restrictive. I must add at this point that although the opposition attacks on the Government were mainly politically motivated, in the entire history of Samoa since Independence, this budget session was the first occasion when so many legitimate public grievances were so openly aired (the inefficiency of several government services, the appalling condition of the public road system in Apia, the unhygienic public water supply, shortages of several essential imported goods, rising prices, rampant profiteering by many traders, etc.).

After the budget session, I have had several meetings with the Finance Minister, and, indeed, he seemed very pleased with the budget outcome. He now feels confident that he can initiate during the current year several important economic policy measures. Thus, he proposes to introduce as soon as possible legislation seeking some long overdue changes in the income tax system, directed at improving the progressivity of the system and combating tax evasion. An in-depth study of the import duty structure is also under way, and if the Minister can have his say in the Cabinet, he plans to modernize that structure. Thought is also being

given to abolishing or reducing drastically preferential treatment for Commonwealth imports. Further, the Minister wants to finalize soon his thinking on the touchy questions of a second commercial bank for W.Samoa and the establishment of a Central Monetary Authority (he is solidly in favor of both). He would like the Cabinet to take decisions on these matters by the middle of the year. (In this connection, I would like to inform that the Vice President of the First National City Bank of New York in charge of Australia and the South Pacific Islands, one Mr. John Murphy, visited here last week to press vigorously his bank's plan to establish a branch here. I had a long talk with him.) Finally, the Minister is anxious to push forth his favorite project of establishing an Industrial Free Trade Zone in W.Samoa. He strongly believes that Japanese and several other foreign investors will be attracted by this project. (A large Japanese trade and business mission visiting several South Pacific Islands came to Samoa about six weeks ago. I met one member of this mission who told me that at this stage they were mainly engaged in learning all about the general economic and business conditions and prospects in W.Samoa).

In a note on "The Highlights of the Finance Minister's 1974 Budget Statement" which I had sent you along with my last letter, I had indicated that the Finance Minister was thinking of aborting the present Second Five-Year Plan, 1971-1975, at the end of the current year. Since then, the Minister has succeeded in securing the unanimous approval of the Economic Development Board, composed of five Ministers, for this idea, and last week the entire Cabinet also okayed this move. He now plans to present a new Plan document to the Cabinet by the end of June this year. He has requested me to help on the financial side of the Plan, and I have already begun this work by initiating discussions in this regard with the principal financial institutions here (the Bank of W.Samoa, the National Provident Fund, and the Development Bank). I have also met the New Zealand High Commissioner and the UNDP Regional Representative in order to obtain information about the New Zealand and UNDP assistance to W.Samoa in the past 10 years and about their assistance programs for the next five years, both of them have promised full cooperation in this respect. The Government is also seeking technical assistance from the AsDB in Plan preparation. The idea is that if a working Plan document can be made ready by the end of June, and if cabinet and preliminary parliamentary approval can be obtained for it in the following month or two, the Prime Minister and Finance Minister will visit several countries and international financial institutions to seek substantial soft-term foreign assistance for the Plan. Both the Minister and his parliamentary critics recognize the urgent necessity of securing such assistance. However, the Minister believes that he cannot really proceed far in this matter unless he is able to give solid enough assurance to potential foreign donors, creditors, and investors that the new Plan is well prepared with appropriate priorities, that the Government will make maximum efforts to raise domestic

non-inflationary resources, and that the government administration will be sufficiently streamlined so as to undertake a much more ambitious Plan than hitherto.

In my last letter, I had mentioned that, in cooperation with the officials of the Economic Development Department, I was preparing estimates of probable foreign exchange earnings and expenditures in 1974 in connection with the problem of exchange allocations for the current year. I completed a preliminary note on this subject on December 10, and a revised one on December 27, a copy of the latter is enclosed. The Finance Minister and the Financial Secretary have expressed general agreement with the conclusions of this note. Largely for administrative reasons, however, the new exchange allocations have not yet been announced, but this is now expected soon.

Three AsDB missions have been visiting Apia during the past two weeks. (i) an Economic Survey Mission, (ii) a mission to discuss a possible supplementary loan to cover the cost overrun for the airport expansion project originally financed by the AsDB, and (iii) a beef cattle loan re-appraisal mission. At the request of the Treasury officials, I have been cooperating closely with the Economic Survey Mission (the leader of this mission, Mr. Kantner (an Austrian) was formerly a CBS expert in Equatorial New Guinea, another member of the mission is Mr H.J. Polak, son of Mr J.J Polak, and the third member, Mr. Coue, is a Korean who until last March was an Economist in the Bank of Korea).

At my suggestion, fully approved by the Finance Minister and the Financial Secretary, we have now begun a detailed study of the Westerberg Report on the improvement of the W.Samoan budgetary system. Several senior Treasury officials are now meeting with me once a week to discuss various aspects of the report, these meetings have developed into a kind of training seminar, and the participants' response is very encouraging. If everything goes well, we expect to complete at least the first stage of this work by the end of April. The Minister is very enthusiastic about this project, and told me that if this study yields some practical results he will instruct the Treasury to incorporate them in the preparation of the 1975 Budget. Any revision of the budget format would, however, have to be approved by the Cabinet, and even more importantly, by the Public Accounts Committee of the Parliament, which in the last budget session had become the focal point of opposition to the Government.

In addition to the subjects mentioned above, I am now engaged in three other tasks at the request of the Financial Secretary (i) a study of the working of the Sterling Balances Agreement between W.Samoa and the U.K., (ii) the improvement of the system of recording all statistical and other information concerning foreign loans, and (iii) the updating of my "Economic Survey of Western Samoa 1971-73", which I had submitted to the Minister toward the end of October 1973. Hopefully, all these tasks will be completed by mid-March. I would also like to mention that I recently

met with the Government Statistician and his U.N. Statistical Adviser, Mr. George Tampoe (a Ceylonese national), in connection with improving the fiscal, monetary, and foreign reserves data published in the Quarterly Bulletin of the Department of Statistics. I have proposed to them that in addition to the various data already published, the Bulletin should also include summary tables on the monetary survey and government finances. I have urged that these two tables be prepared monthly and made available to the Minister, all concerned government officials, and large foreign creditors and donors on a regular basis even if it was considered not feasible at present to publish them promptly in the Quarterly Bulletin itself. The Government Statistician has promised full cooperation in this respect, and with the Minister's full support to my proposal I am hopeful of some good results in this regard in the near future. Next week, I will discuss the formats of these two tables with the Statistics Department.

Since December 28, 1973, Mr. Hutchison, the Financial Secretary, has been away on a five-week home leave in New Zealand. During his absence, the newly appointed Deputy Secretary, Mr. Sailele Malielegaoi, is the Acting Secretary. The new Deputy Secretary, a Samoan, is an extremely pleasant person with considerable experience in government service; in the past two years, he was the Deputy Secretary of the Economic Development Department. He has an M.Com. degree in Accounting (1969), with Economics as his minor, from the University of Auckland. The UNDP Regional Representative and the many high ranking Samoan officials I have talked to in the past three weeks are very pleased with Mr. Malielegaoi's appointment. I have developed close friendship with him.

On a personal note, on December 18, we moved to another government house which in every respect is much better than our previous residence. We are also by now more or less fully settled here, especially after the arrival of our sea shipment on December 28. Our car, however, has not yet arrived. Both of us are enjoying our stay here. A few days ago, I sent my Performance Report for 1973 enclosed in a letter to Mrs. John. Mr. Kanesa-Thasan had asked me to send it directly to you. I received the performance report form only on January 21, and returned it two days later.

With best regards,

Yours sincerely,

(S.A. Pandit)

Mr. Tun Thin
Director
Asian Department
International Monetary Fund
Washington, D.C. 20431
U.S.A.
Enclosur (1)

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

Cc: Mr. Brau
✓

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

By Telex

Cleared with

Donald K. Palmer

CC: ASD
LEG
ETR



To: Tomasson
BANVINA, Saigon (Viet-Nam)

No. 10

1. Reference foreign borrowing policy guidelines, your cables 14 and 5.
2. We continue to believe that it would be desirable to have an integrated approach to foreign borrowing control. Therefore Foreign Credit Committee should have general authority over both concessional and commercial borrowing. Perhaps we misunderstand, but Cable 5, para 1 seems to imply an undesirable separation of such functions.
3. After reviewing your points, we continue to recommend a registration procedure for purely private sector borrowing at this time and not a full-fledged control system as in your cables 14 and 5. Consequently, we see no need for time being for quantitative guidelines for private sector borrowing.
4. Granting of public guarantee to private sector commercial borrowing should be decided by Committee on merits of project; this would not be inconsistent with general policy to obtain loans on concessional terms. In practice, this might mean that only small amounts might be approved, but we see no reason in principle to exclude all private sector borrowing. Complete exclusion might well receive objection from donor countries as matter of principle.

Draft: by PChabrier/Brau:lc

Department Asian

Date January 25, 1974

AUTHORIZATION

W. John R. Woodley
Signature
~~W. John R. Woodley~~
W. John R. Woodley

Second Signature When Required

FOR CODE ROOM

Time received 6:31 P.M.
 Time dispatched 7:00 P.M.
 Number of Words (5 Min.)
 Log 215039
 Route ITT, TLX
 Operator JE/AT

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OUTGOING MESSAGE

OFFICIAL

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

By Telex

To: Demasson
BANVINA (Saigon)

- 2 -

5. Para. 8 of our cable inferred that import letters of credit are short-term trade credits. We agree that open account import financing or documents against acceptance financing is undesirable at this time.

Regards.

Woodley
Interfund

Cleared with
Donald K. Palmer

Drafted by PChabrier/Brau:lp

Department Asian

Date January 25, 1974

AUTHORIZATION

P Chabrier
Signature

Second Signature When Required

FOR CODE ROOM

Time Received 6:31 P.M.

Time patched 7:00 P.M.

Number of Words (5 Min.)

Log 215099

Route ITP, TLX

Operator JE/AT



DO NOT TYPE BELOW THIS LINE

INTERNATIONAL MONETARY FUND

January 25, 1974

Mr. Chabrier:

Mr. Brau: ✓

I have done some redrafting of your cable which I do not believe affects the substance, but let's discuss. I have dropped the last two sentences of your para. 3 because of the feeling that they became unnecessary if we stick to the first two sentences of that paragraph. Perhaps I am wrong. In para. 4 I have added two sentences to try to provide some reasoning for our position.

Attachment

Donald K. Palmer

gmp

DRAFT

Tomasson

BANVINA

Saigon

1. Reference foreign borrowing policy guidelines, your cables 14 and 5.
2. We continue to believe that it would be desirable to have an integrated approach to foreign borrowing control. Therefore Foreign Credit Committee should have general authority over both concessional and commercial borrowing. Perhaps we misunderstand, but Cable 5, para 1 seems to imply an undesirable separation of such functions.
3. After reviewing your points, we continue to recommend a registration procedure for purely private sector borrowing at this time and not a full-fledged control system as in your cables 14 and 5. Consequently, we see no need for time being for quantitative guidelines for private sector borrowing.
4. Granting of public guarantee to private sector commercial borrowing should be decided by Committee on merits of project; this would not be inconsistent with general policy to obtain loans on concessional terms. In practice, this might mean that only small amounts might be approved, but we see no reason in principle to exclude all private sector borrowing. Complete exclusion might well receive objection from donor countries as matter of principle.
5. Para. 8 of our cable inferred that import letters of credit are short-term trade credits. We agree that open account import financing or documents against acceptance financing is undesirable at this time. Regards.

Woodley
INTERFUND

M. Brau

Tomasson, BANVINA, Saigon.

1. Reference foreign borrowing policy guidelines, your cables 14 and 5.
2. We again feel strong need integrated approach to foreign borrowing control. Therefore Foreign Credit Committee should have general authority over both concessional and commercial borrowing. Your cable 5 para 1 implies an undesirable separation of such functions.
3. We again recommend a registration procedure for purely private sector borrowing at this time and not a full-fledged control system as in your cables 14 and 5. Consequently, we see no need for time being for quantitative guidelines for private sector borrowing as in para 4 and 5 of cable 14. Moreover we have serious reservations on the quantitative guidelines you have recommended. We feel a private sector borrowing problem unlikely to develop under current circumstances in Viet-Nam.
4. Granting of public guarantee to private sector commercial borrowing should be decided by Committee on merits of project. This is not inconsistent with general policy to obtain loans on concessional terms.
5. Para. 8 of our cable inferred that import letters of credit are short-term trade credits. We agree that open account import financing or documents against acceptance financing is undesirable at this time. Regards

Woodley
Interfund

Drafted by
E. Brau - P. Chebrier

EHB/ms
DRAFT
1-22-74

Tomasson, BANVINA, Saigon.

1. Reference foreign borrowing policy guidelines, your cables 14 and 5.
2. We feel strong need for integrated approach to foreign borrowing control. Therefore Foreign Credit Committee should have general authority over both concessional and commercial borrowing. Your cable 5 para. 1 implies an undesirable separation of functions.
3. We again recommend a registration procedure for purely private sector borrowing at this time and not a full-fledged control system as in your cables 14 and 5. Consequently, we see no need for quantitative guidelines for private sector borrowing until ^(for intervention) time of clear cut need. Moreover, a private sector borrowing problem is unlikely to develop under current circumstances in Viet-Nam.
4. We re-emphasize need for competent project appraisal staff for Foreign Credit Committee.
5. Granting of public guarantee to private sector commercial borrowing should be decided by Committee on merits of project. This is not inconsistent with general policy to obtain loans on concessional terms.
6. Para. 8 of our cable 4 had in mind that import letters of credit are short-term trade credits. We agree that open account import financing or documents against acceptance financing is undesirable at this time.

Reaction to financial

- 1) public and private borrowing to be reviewed by Committee
public will also do commercial borrowing
- 2) fears over excessive borrowing are not allayed by rule that debt service be no more than 50% of exchange earnings
- 3) Scope for commercial borrowing on basis of project analysis
- 4) Quantitative guidelines ok, no straightjacket ref. to letter is
- 5) gratuitous slip
repetition of cement loan
scandal has nothing to do with public guarantee of loan
- 6) para seven 2, 2, 2, I don't get it
- 7) 4C's are short-term trade credits
()/A, open account v-n does not have

INTERNATIONAL MONETARY FUND

(E) Sumner does not get point that private commercial loans are only to be registered, pending clear case for intervention

NRO1/155 16/1/74

cc Mr Brown ✓

INTERFUND WASHINGTONDC

WOODLEY

NUMBER FIVE STOP

21 0276

Orig ASD
cc LEG
ETR

RECEIVED YOUR TELEX NUMBER FOUR STOP

ONE STOP I AM AFRAID MY CABLE NUMBER 14 HAS SOMEHOW

(oh, really?)

BEEN MISUNDERSTOOD STOP IT DID NOT REFER TO OFFICIAL

(was did the reply)

BORROWING AT CONCESSIONAL TERMS FROM CREDITOR GOVERNMENTS

AND INTERNATIONAL BANKING AGENCIES FOR WHICH PROCEDURES

AND GUIDELINES HAVE ALREADY BEEN ADOPTED STOP INSTEAD

THE TASK IS MAINLY TO PREPARE POLICY GUIDELINES FOR

1974 ON FOREIGN BORROWING AT COMMERCIAL TERMS BY FOREIGN

(what reply did also)

AND DOMESTIC INVESTORS STOP

09 L St
 ITT World Communications Inc.
 St N NW Washington D C Phone 256 6200

2
 1974 JAN 16 10 58 AM
 TELETYPE UNIT

TWO STOP SOME OFFICIALS ARE HIGHLY RELUCTANT TO AUTHORIZE
PRIVATE FOREIGN BORROWING AT CURRENT HIGH COMMERCIAL
INTEREST RATES STOP PARA FOUR OF MY CABLE NUMBER 14 IS
INTENDED TO ALLAY THEIR CONCERN OVER FUTURE BALANCE OF
PAYMENTS CONSEQUENCES STOP THE SUBJECT OF INTEREST RATES
IS SUBSEQUENTLY MENTIONED EXPLICITLY IN PARA SIX STOP
PARA FIVE IS INTENDED TO GIVE SCOPE FOR LIMITED FOREIGN
BORROWING AT COMMERCIAL TERMS IN 1974 FOR FINANCING
PROJECTS WHICH DO NOT EARN FOREIGN EXCHANGE DIRECTLY
STOP ALSO RE PARAS FOUR AND FIVE COMMA SOMME SUCH QUANTITATIVE
AND OTHER GUIDELINES SEEM NECESSARY IF RELATED POLICY
STATEMENT IN PARA EIGHT OF LETTER TO FUND ON THE EXCHANGE
REFORM IS TO HAVE SOME MEANING STOP PROPOSAL IN PARA THREE
IS AIMED AT AVOIDING REPETITION OF RECENT CEMENT LOAN

why if it
finances projects
with higher
rate of return
as such
entirely
inadequate

why these
numbers, who
decided them?

yes, but
they
decide,
not you

frankly

1709 L

1701 St NW Washington DC Phone 296 6200

World Communications Inc

scandal is not related to guarantee

OF DECISION NOT TO PROVIDE OFFICIAL GUARANTEES ON PRIVATE FOREIGN BORROWING STOP POLICY STATEMENT IN PARA SEVEN

IS DESIGNED TO HELP AUTHORITIES TO RESIST PRESSURES BY REGIONAL AUTHORITIES ETC FOR PERMISSION TO CONTRACT OSTENSIBLY JUSTIFIABLE SUPPLIER CREDITS FOR PROJECT

what are ostensibly justifiable credits?

FINANCING STOP AGAIN CABINET BACKING IS CONSIDERED HELPFUL ON THIS POSITION STOP FINALLY COMMA PARA EIGHT

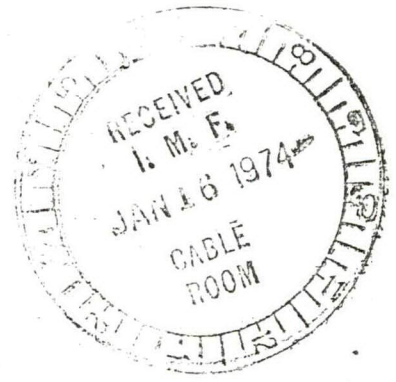
of course they are i/c's are obligatory even

OF YOUR TELEX ASSUMES THAT SHORT TERM PRIVATE TRADE CREDITS ARE CURRENTLY PERMITTED IN VIETNAM STOP THIS IS

INCORRECT STOP PROPOSAL IN PARA EIGHT OF MY CABLE IN FACT WOULD LEAVE CURRENT SITUATION UNCHANGED STOP

REGARDS TOMASSON

SENT 2 4:25PM



440385 FUND UI

1709 L St. N.W. Washington D.C. Phone 296-6200

1709

Tomasson
BANVINA, Saigon

(Viet-Nam)

1. Have reviewed proposed guidelines of your 14. Would ask following recommendations be made.

2. Generally, in assessing criteria justifying foreign borrowing emphasis should be placed on careful scrutiny and coordination of foreign borrowing operations of the public sector and of private sector for which public guarantee is sought. We would not preclude a priori extending public guarantee for private sector borrowing which is not part of aid package negotiated on government-to-government basis, as in your para 3.

3. We believe a registration procedure should be established for purely private sector operations, but doubt feasibility and usefulness of full-fledged control system for such borrowing as in your para 2.

4. All foreign borrowing by public sector entities or extension of repayment guarantee for private sector operations should be subject to the prior approval of an inter-agency "Committee." Committee should have discretionary authority rather than be bound by ^{rigid} quantitative and other guidelines as in your paras 4 and 5. "Prior approval" would include both authorization to negotiate and final approval of loan contract. In general, Committee should not approve foreign borrowing (or extension of guarantees) except where the terms clearly are concessional or where the credit (whether for imports or local cost financing) has been negotiated on a government-to-government basis as part of a "package" whose average terms imply high concessional element. "Committee" should be coordinator of all public sector borrowing and be consulted in determining project priorities and preparation of proposals to be discussed with creditor governments and international

banking agencies. It would require highly competent technical staff.

5. Comprehensive registration procedures for foreign borrowing by private sector not publicly guaranteed, other than trade credits up to one-year maturity and financial credits taken up by banks, should be implemented by Central Bank or Finance Ministry under general jurisdiction of the "Committee." For amounts above say US\$50,000 there should be precontract registration procedure whereby borrower would provide detailed information on sources, terms (including commitment fees, downpayment, etc.) and purpose of the credit prior to the signing of the loan contract, subsequently, a copy of the loan contract would be registered with the appropriate office. Smaller amounts would be subject only to final registration.

6. The registration procedure could be enforced in various ways although use of foreign exchange control might be most feasible in the context of Viet-Nam. For example, final registration of credits in excess of say US\$50,000 would be given only for new credits which have followed precontract registration procedure, and proof of final registration would be prerequisite to transfer of foreign exchange for service of the obligations.

7. The designated office should report to the "Committee" frequently both with respect to precontract and final registration and the aggregate debt service schedule arising from such obligations. Should the supply of private borrowing without guarantee be thought too large in context of general economic policies the Committee may, on basis of registration data, decide to intervene. This could take several forms, including establishment of minimum grace and amortization periods or a system of prior deposits, the rates of which could be scaled according to original maturities, or be lower for export-oriented or high priority import substituting sectors, etc. However, you should not encourage the Government to institute direct or indirect control

procedures for purely private transactions until such time as there is established a clear cut case of need.

8. With respect to foreign financial credits taken up by commercial (or government) banks, authorities should consider direct limitations on banks' foreign liabilities consistent with domestic monetary objectives (i.e., present prohibitions). With respect to short-term trade credits referenced in your para 8 including import financing of up to one year at the outside, one would expect the "float" of such credit to be directly related to volume of commercially financed imports. A sharp increase in this float would not occur out of step with growing imports, unless there are domestic excess demand pressures or a highly suspect exchange rate or some combination of the two. It is not to be recommended that special measures be taken to decrease the float of such import credit or to prevent the importer from obtaining goods on terms which are normal for the given type of commodity being imported.

In cases like this
9. ~~In view of above changes made in your recommendations~~ would appreciate in future that you consult with headquarters before submitting major policy recommendations. Regards.

Woodley and Palmer
Interfund

INTERNATIONAL MONETARY FUND

December 19, 1973

Mr. Mohammed:
Mr. Williams:

We have just received the attached telegram from Tomasson regarding possible guidelines for foreign borrowing by Viet-Nam. There is no immediate rush, since Tomasson will be away from Saigon until January 7, but I would like to see a draft reply which we might send him about January 7 or 8. Messrs. Chabrier and Brau were with me on the mission and are both fully informed on this subject. I should also mention that both will be away on leave during the next two weeks returning to the office on January 7.

cc: Mr. Chabrier
Mr. Brau ✓

Attachment

Donald K Palmer

440040 FUND UI

cc: Mr. Brown



4

208179

NRO1/3474 12/19/73

TUN THIN

Orig: ASD
cc: LEG
ETR

NUMBER 14 STOP

ONE STOP VIETNAMESE AUTHORITIES ARE FORMULATING POLICY

GUIDELINES FOR FOREIGN BORROWING RELATED TO FOREIGN AND

LOCAL INVESTMENT PROJECTS STOP I HAVE SUGGESTED FOLLOWING

BASIC GUIDELINES WHICH ARE TO BE INCORPORATED IN DRAFT

POSITION PAPER STOP

TWO STOP FOREIGN CREDIT COMMITTEE SHOULD BE ESTABLISHED

WITH REPRESENTATIVES OF MINISTRY OF FINANCE COMMA MINISTRY

OF INDUSTRY AND TRADE COMMA COMMISSARIAT GENERAL OF

PLANNING COMMA NATIONAL BANK COMMA AND FOREIGN INVESTMENT

SERVICES CENTER STOP ALL FOREIGN BORROWING BY PRIVATE

SECTOR SHOULD BE SUBMITTED TO THE COMMITTEE FOR PRIOR

1709 L St. N. Washington

ITT World Communications Inc.

Washington D.C. Phone 296-6200

APPROVAL STOP

THREE STOP NO GUARANTEE WILL BE GIVEN BY THE GOVERNMENT

OR ITS AGENCIES ON ANY FOREIGN BORROWING FOR PROJECT

FINANCING EXCEPT AS THESE MAY REPRESENT PART OF AID

PACKAGE NEGOTIATED ON GOVERNMENT TO GOVERNMENT BASIS STOP

IF PUBLIC SECTOR AGENCIES ON THEIR OWN OR JOINTLY WITH

FOREIGN INVESTORS WISH TO OBTAIN FOREIGN CREDITS COMMA

THEY SHALL BE SUBJECT TO SAME CONDITIONS AS APPLIED

TO PRIVATE SECTOR STOP

FOUR STOP FOR FOREIGN COMMA JOINT OR VIETNAMESE PROJECTS

WHICH EARN FOREIGN EXCHANGE COMMA FOREIGN CREDITS WILL BE

AUTHORISED PROVIDED THAT AMOUNT OF ANNUAL REPAYMENT DOES

NOT EXCEED 50 PER CENT OF EXCHANGE EARNINGS AS MEASURED

BY SURRENDER OF FOREIGN EXCHANGE TO BANKING SYSTEM STOP

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1709 L St. N.W. Washington D.C. Phone 252-6200

Id Com m unications Inc.

1709 L St. N.W. Washington D.C. Phone 252-6200

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NO CREDITS FOR LESS THAN 5 YEARS WILL BE APPROVED COMMA
AND PRIORITY WILL BE GIVEN IN DESCENDING ORDER TO CREDITS
WITH REPAYMENT PERIODS OF 12 YEARS AND ABOVE COMMA FROM
7 TO 12 YEARS COMMA AND BETWEEN 5 AND 7 YEARS STOP
FIVE STOP FOR PROJECTS EARNING LITTLE OR NO FOREIGN EXCHANGE
COMMA A CEILING OF USDLRS 25 MILLION WILL BE APPLIED TO
APPROVALS OF FOREIGN CREDITS IN 1974 STOP SAME PROVISIONS
WOULD APPLY AS IN FOUR ABOVE CONCERNING REPAYMENT PERIODS
STOP
SIX STOP THE FOREIGN CREDIT COMMITTEE WILL NOT CONTROL
THE RATE OF INTEREST ON APPROVED LOANS PROVIDED THAT IT IS
SHOWN THAT THESE ARE MARKET RATES OF INTEREST STOP FOR
FOREIGN INVESTMENT PROJECTS UTILIZING FOREIGN CREDITS
COMMA THE PROVISIONS OF THE FOREIGN INVESTMENT LAW WILL
APPLY IN ADDITION TO THE ABOVE STOP

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JIT WOR

111 FEUI

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ITT World Communications Inc.

ITT World Communications Inc.

1709 L St. N.W. Washing

SEVEN STOP FOR PROJECTS IN THE PUBLIC SECTOR COMMA THE
 GOVERNMENTS POLICY WILL BE TO FINANCE THESE WITH LONG
 TERM LOANS ON CONCESSIONARY TERMS STOP
 EIGHT STOP SHORT TERM TRADE CREDITS OR OTHER PRIVATE
 SECTOR BORROWING NOT COVERED BY THE ABOVE WILL NOT BE
 AUTHORISED IN 1974 STOP
 NINE STOP PLEASE COMMENT ON THESE RECOMMENDATIONS STOP
 I EXPECT FINAL GOVERNMENT POSITION ON THE MATTER TO BE
 TAKEN ONLY AFTER MY RETURN FROM VACATION AFTER FIRST
 WEEK OF JANUARY STOP REGARDS

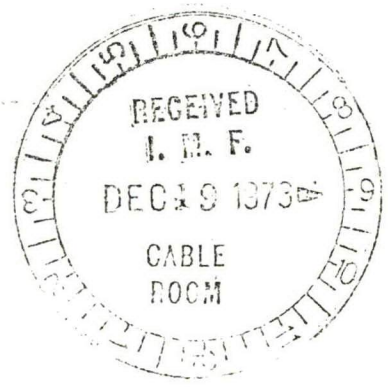
TOMASSON

SENT 2

BANVINA 798203

⊕

440040 FUND UI



1709 L St. N.W. Washington D.C. Phone 296-6200

INTERNATIONAL MONETARY FUND

WASHINGTON D.C.

cc: MD

DMD

Mr. Kharmawan

ASD

LEG

RES

ETR

SEC

TRE

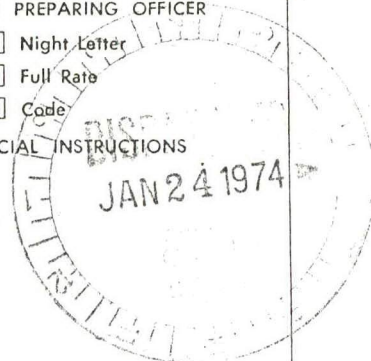
FOR PREPARING OFFICER

Night Letter

Full Rate

Code

SPECIAL INSTRUCTIONS



To: National Bank of Viet-Nam
17 Ben Chuong-Duong
Saigon, Viet-Nam

No: 1

Plain Language

** SEC*

To be cleared with Secretary's Dept.

For dispatch after 5:30 p.m.

Drafted by WFWalsh/ch

Department Treasurer's

Date January 24, 1974

AUTHORIZATION

David Williams
Signature

/s/ David Williams
Second Signature When Required

FOR CODE ROOM

Time Received 7:00 PM

Time Dispatched 7:38 PM

Number of Words 122-132

Log 214781-82

Route RCA

Operator PD

1. Reference your cable January 21, 1974. Executive Board took following decision on January 24, 1974:

QUOTE

Pursuant to Article IV, Section 8(b)(ii), the Fund's holdings of Vietnamese piastres shall be provisionally adjusted in accordance with a rate of ^{Vietnamese piastre,} SDR 0.00148026 per ~~VN\$~~. The adjustment is to take effect as of close of business on the date of this decision.

UNQUOTE

2. According to Fund's records, balance No. 1 Account VN piastres 23,288,564,920.
3. Please adjust by crediting VN piastres 1,791,488,581.36 to Fund's No. 1 Account.
4. Please cable date of adjustment and balance after adjustment.

INTERFUND

Test No.

Please repeat cable to: Mr. Gunnar Tomasson
IMF Representative
c/o National Bank of Viet-Nam
Saigon, Viet-Nam

DO NOT TYPE BELOW THIS LINE

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

By Telex

CC: ASD
LEG
ETR

Cleared by: *JW*
D. K. Palmer

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

To: Tomasson
BANVINA

Saigon, South Viet-Nam

No. 9
NO 9

Board approved January 23 proposed decision exchange rate reform. Executive Directors of U.S., Japan, France and Germany spoke. Comments highly favorable. Japanese ED stressed importance reform in facilitating more efficient aid absorption. Regards.

Woodley
Interfund

Drafted by PChabrier:jb

Department Asian

Date January 23, 1974

AUTHORIZATION

J Woodley
Signature

/s/ J. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 5:31 P.M.
Time Dispatched 6:05 P.M.
Number of Words 46
Log 214322
Route RCA
Operator MW/ER



DO NOT TYPE BELOW THIS LINE

INTERFUND WASHINGTONDC

cc: Mr. Toran

cc: MD
DMD
Mr. Kharmawan
ASD
LEG
RES
ETR
SEC

DR H. JOHANNES WITTEVEEN MANAGING DIRECTOR

GRATEFUL SUBMIT OUR FOLLOWING PROPOSAL FOR CONSIDERATION

BY EXECUTIVE BOARD PRIMO FUNDS HOLDINGS OF VIETNAMESE

PIASTRES AT PRESENT ACCOUNTED FOR AT RATE OF SDR

0.00159413 PER VNPIASTRE STOP EFFECTIVE JANUARY 14, 1974

OFFICIAL RATE OF VNPIASTRE FIXED AT VNPIASTRES 560 PER

USDOLLAR SECUNDO WE THEREFORE REQUEST THAT THE FUND

CONSIDER PROVISIONAL ADJUSTMENT OF ITS HOLDINGS OF

VNPIASTRES IN ACCORDANCE WITH ARTICLE IV SECTION 8 OF

FUND AGREEMENT ON BASIS OF SDR 0.00148026 PD

NVNQIASTRE

STOP TERTIO ADJUSTMENT WOULD BE MADE ON BASIS OF FUNDS

HOLDINGS OF VNPIASTRES AS OF CLOSE OF BUSINESS ON DATE OF

EXECUTIVE BOARD DECISION STOP HIGH CONSIDERATION STOPEND

LEQUANGUYEN GOVERNOR BANVINA



Communications Inc.

World Communications Inc.

1709 L St. N.W. Washington D.C. Phon

1709 L St. N.W. Washington D.C.

1709 L St. N.W. Washington D.C. Phone 296-6200

World Communications Inc.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

Cc: Mr. Brau

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

By Telex

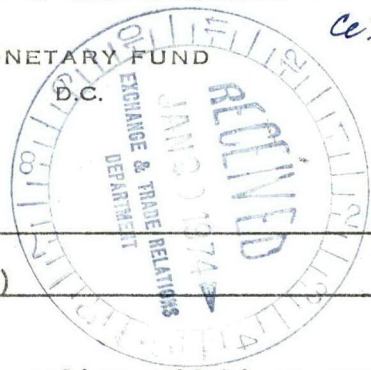
Cleared with

Donald K. Palmer

CC: ASD
LEG
ETR



INTERNATIONAL MONETARY FUND
WASHINGTON D.C.



To: Tomasson
BANVINA, Saigon (Viet-Nam)

No. 10

1. Reference foreign borrowing policy guidelines, your cables 14 and 5.
2. We continue to believe that it would be desirable to have an integrated approach to foreign borrowing control. Therefore Foreign Credit Committee should have general authority over both concessional and commercial borrowing. Perhaps we misunderstand, but Cable 5, para 1 seems to imply an undesirable separation of such functions.
3. After reviewing your points, we continue to recommend a registration procedure for purely private sector borrowing at this time and not a full-fledged control system as in your cables 14 and 5. Consequently, we see no need for time being for quantitative guidelines for private sector borrowing.
4. Granting of public guarantee to private sector commercial borrowing should be decided by Committee on merits of project; this would not be inconsistent with general policy to obtain loans on concessional terms. In practice, this might mean that only small amounts might be approved, but we see no reason in principle to exclude all private sector borrowing. Complete exclusion might well receive objection from donor countries as matter of principle.

Drafted by PChabrier/Brau:lc

Department Asian

Date January 25, 1974

AUTHORIZATION

[Signature]
Signature
~~W. John R. Woodley~~
W. John R. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 6:31 P.M.
 Dispatched 7:00 P.M.
 Number of Words (5 Min.)
 Log 215099
 Route ITT, TLX
 Operator JE/AT

DO NOT TYPE BELOW THIS LINE

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

By Telex

Cleared with
Donald K Palmer

INTERNATIONAL MONETARY FUND
WASHINGTON DC

To ~~Bomasson~~
BANVINA (Saigon)

- 2 -

5. Para. 8 of our cable inferred that import letters of credit are short-term trade credits. We agree that open account import financing or documents against acceptance financing is undesirable at this time.

Regards.

Woodley
Interfund

Drafted by ~~PChabrier/Brau lp~~

Department ~~Asian~~

Date ~~January 25, 1974~~

AUTHORIZATION

P. Chabrier
Signature

Second Signature When Required

FOR CODE ROOM

Time Received 6:31 P.M.

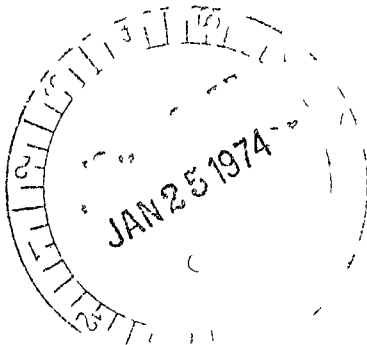
Time Dispatched 7:00 P.M.

Number of Words (5 Min.)

Log 215099

Route ITT, TLX

Operator JE/AT



DO NOT TYPE BELOW THIS LINE

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

To: Tomasson
BANVINA

Saigon, South Viet-Nam

By Telex

Board approved January 23 proposed decision exchange rate reform. Executive Directors of U.S., Japan, France and Germany spoke. Comments highly favorable. Japanese ED stressed importance reform in facilitating more efficient aid absorption. Regards.

Woodley

Cleared by: *DKP*
D. K. Palmer

Drafted by PChabrier:jb

Department Asian

Date January 23, 1974

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM

Time Received _____

Dispatched _____

Number of Words _____

Log _____

Route _____

Operator _____

DO NOT TYPE BELOW THIS LINE

Mr. Brau

January 23, 1974

MEMORANDUM FOR FILES

Subject: Aid Meeting on Indo-China

I called Mr. Gibbs today and informed him that the Executive Board had approved the reform of the exchange system in Viet-Nam as well as the release of the Fund report (EBS/74/22) to the IBRD for the purpose of the Aid meeting on Indo-China on February 11-12, 1974 in Paris. Mr. Gibbs said that the number of Fund reports needed for that purpose would be 350. I also told Mr. Gibbs that since it was a meeting on Indo-China the Fund was prepared to release up-to-date reports on Laos and the Khmer Republic. Mr. Gibbs would mention this possibility to Mr. Goodman and would let us know in due course.

For the meeting in Paris, Mr. Gibbs mentioned that the Fund representative was expected to make a statement. He would speak after the Chairman of the meeting, Mr. Cargill, and the representative of the Asian Development Bank.

cc: Mr. Tun Thin
Mr. Woodley
Mr. Palmer
Mr. Takeda
Mr. Brau ✓

P. Chabrier



Office Memorandum

File per

TO : Mr. Palmer

DATE: January 22, 1974

FROM : T. Takeda *TT*

SUBJECT : Viet-Nam: Supplementary Statistical Information

Following is the additional information which has been received after the printing of the Viet-Nam paper.

Consumer price index in November 1973 was 56 per cent higher than in November 1972, as against 53 per cent increase during twelve months ended October 1973.

Official reserves (excluding blocked French franc) at the end of December 22, 1973 declined to US\$196 million, compared with US\$206 million at the end of October 1973.

257 in 72 - ~~206~~ since 63

Money supply rose by 16 per cent during January-November 1973, compared with an increase of 11 per cent during January-September 1973. The acceleration is mainly attributed to an increase in net claims on Government.

20% incl. foreign -

Credit to the private sector decelerated slightly in recent months; advances from the National Bank of Viet-Nam to financial institutions stood at VN\$13.6 billion at the end of November 1973, compared with VN\$20.9 billion at the end of September 1973, and commercial banks' lending to the private sector amounted to VN\$138.5 billion at the end of November 1973, approximately the same level as that of the end of September 1973.

During January 1-December 22, 1973, exports recorded US\$59 million compared with US\$24 million in 1972, while GVN imports amounted to US\$354 million as against US\$308 million in 1972. (No statistics is available on CIP imports).

cc: Mr. Chabrier
Mr. Brau
South Asia Division

The Fund does have the authority to approve a fluctuating rate as a
component of multiple currency agreement

H. L. J. L.

Viet-Nam

1. Surr says approval authority for periodic adjustment in rate is both paragraph 5 of Membership Resolution (Viet-Nam will not change rate, before par value establishment, until after consultation with Fund) and Article VIII, 2(a) and 3 (multiple currency approval authority)
2. Export subsidy scheme It is still being described as an interest cost subsidization scheme when, in fact, it has ceased to be related to export financing

Mechanics of scheme

- (1) All exporters are required to register export shipments with Customs prior to shipment abroad.
- (2) At time of export registration, exporter declares the f o b value of the shipment in piastres (and not the piastre counterpart of expected exchange proceeds. the legal distinction is there, in practice there is only slight difference mainly in respect f.o b -c.i.f)
- (3) Subsidy is expressed as percentage of declared f o b export value (we suggested 7 per cent)

Open questions - time when subsidy is paid
- whether some or all exports benefit

Description

An export subsidy scheme has been established with the aim of compensating exporters for the high cost of domestic financing of export operations. In order to circumvent administrative difficulties, the subsidy is expressed as a percentage of the declared f o b value of an export shipment in piastres. The declaration of export value in piastres is made to Customs at the time of export registration prior to shipment abroad.

WITHDRAWAL NOTICE**PROJECT**

Project number 2005 004
Project name ASDAI/Asian Department/All subseries
Project tab number 724
Project box number 9

DOCUMENT

Series / File Vietnam Correspondence and Memos (54235)
Original box / file No 290 / 1
Date 1974 01 17
Type Memo
From Gunnar Tomasson
To Minister of Finance
Subject / Title Balance of Payments Outlook for 1974
Number of pages 6
Classification STRICTLY CONFIDENTIAL
Authority Asia & Pacific Department

COMMENTS

Very poor copy of memo

**THIS DOCUMENT IS IN THE COURSE OF A SYSTEMATIC
PUBLIC DISCLOSURE REVIEW PROCESS**

Entered by jdurkin

Entered on 2006 07 12

Telex Western Union International, Inc. Telex Western Union International, Inc.



21 050 9

cc: Mr. Brown

Orig: ASD
cc: LEG
ETR

INTERFUND WSH

WU WSH

TLXA019 WAG010(0532)(1-052940(019)PD 01/19/74 0520

ICS IPMIHB 1155

SUSPECTED DUPLICATE

1155 FR WUI 19 0520

FWS WASHINGTON DC

UWC1433 THW767 PTD767/19

UWNA HL THEK 088

BANCKUK 88 19 1230

LT

WOODLEY INTERFUND

WASHINGTONDC(USA)

NUMBER SEVEN STOP ONE STOP PROPOSED

MODIFICATION OF INTEREST RATE SUBSIDY SCHEME AGREED

BY GOVERNOR AND EXPECT APPROVAL BY MINISTER OF TRADE

WHO HAS BEEN ABSENT STOP TWO STOP CAVE MINISTERS MEMO

YESTERDAY ON BOP OUTLOOK FOR 1974 AND WILL AIRMAIL

COPY MONDAY STOP RESERVES LOSS NOW

PAGE 2/38

PROJECTED AT 100 REPEAT 100 MILLION DOLLARS STOP THREE

STOP WILL STAY IN BANCKUK NEXT WEEK BECAUSE OF TET HOLIDAYS

SINCE MONDAY IS ONLY FULL WORKING DAY STOP WILL

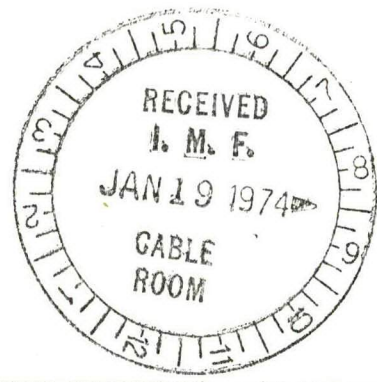
RETURN SAIGON MONDAY JANUARY 28 STOP REGARDS TOMASSON

CALL LT 1974 100 100 20

037A 19 JAN

WU WSH*

INTERFUND WSH



ITT World Communica

1709 L. N.W. Washington D.C. Ph e 296 700

shington D. Phone 296-6200

8

⊕

440385 FUND UIT

POVIN 790203⊕

cc: Mr. Bran

440385 FUND UI

THIS IS NATIONAL BANK OF VIETNAM SAIGON

BANVINA 798203

⊕

440385 FUND UI

21 0275

NRO1/154 16/1/74

Orig: ASD
cc: LEG
ETR

INTERFUND WASHINGTONDC

TUN THIN

NUMBER SIX STOP

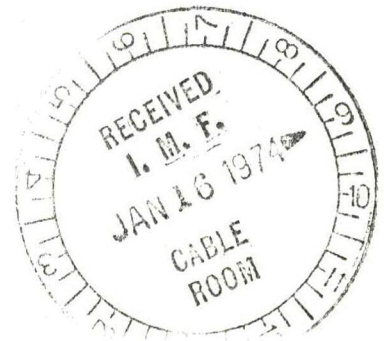
REFERENCE CABLE SIX PARA ONE STOP VIETNAMESE DO NOT

INTEND TO ENGAGE IN EXCHANGE TRANSACTION WITH FUND

BUT SIMPLY WISH TO REGULARIZE THEIR RELATIONS WITH

FUND STOP

TOMASSON



INTERNATIONAL MONETARY FUND
WASHINGTON DC

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

To Tomasson

Banvina, Saigon

BY TELEX

Alternative one in your 3 acceptable with following modification

1. At time of export declaration, exporter must declare f.o.b. value of export shipment in piastres and not the piastre counterpart of expected exchange proceeds.
2. Subsidy amount must be expressed as percentage of declared f.o.b. export value in piastres, say approximately seven per cent.
3. Please advise if can be implemented. Board paper issued ~~January 15th~~ 15th

Cleared with

D.K. Palmer
J. Evans

au/Cnabrier

EPR/Asian

Jan. 16, 1974

AUTHORIZATION

Signature

Signature When Required

FOR CODE ROOM

sd _____

hed _____

Words _____

DO NOT TYPE BELOW THIS LINE

Regards

Woodley
Interfund

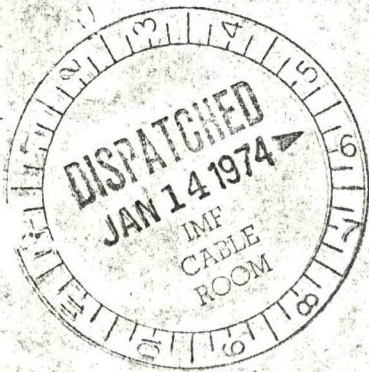
FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

BY TELEEX

Cleared with Mr. Chabrier *RC*



Drafted by DKPalmer:jb

Department ETR

Date January 14, 1974

AUTHORIZATION

Woodley
 Signature
 W. John R. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 5:00 P.M.
 Time Dispatched 6:41 P.M.
 Number of Words (6 Min.)
 Log 213761
 Route RCA, TLX
 Operator MW

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

CC: ASD
LEG
ETR

To: Tomasson
IMF Representative
C/o National Bank of Viet-Nam
Saigon, South Viet-Nam

No. 5

1. Greatly appreciate your efforts as reflected recent messages. Following receipt of Finance Minister's letter, staff report being issued dated January 14. Will airmail copy to you. Hanh's office will transmit several copies to Vietnamese officials.

2. Paper includes revised budget and monetary tables, reflecting revised information and plans. Balance of payments table not revised, but text refers to possible uncertainties arising from lower aid and higher petroleum costs.

3. Will comment separately on export subsidy question.

Woodley
INTERFUND



DO NOT TYPE BELOW THIS LINE

NRO1/155 16/1/74

cc: w Bran

INTERFUND WASHINGTONDC

WOODLEY

NUMBER FIVE STOP



21 0276

Orig: ASD
cc: LEG
ETR

RECEIVED YOUR TELEX NUMBER FOUR STOP

ONE STOP I AM AFRAID MY CABLE NUMBER 14 HAS SOMEHOW

BEEN MISUNDERSTOOD STOP IT DID NOT REFER TO OFFICIAL

BORROWING AT CONCESSIONAL TERMS FROM CREDITOR GOVERNMENTS

AND INTERNATIONAL BANKING AGENCIES FOR WHICH PROCEDURES

AND GUIDELINES HAVE ALREADY BEEN ADOPTED STOP INSTEAD

THE TASK IS MAINLY TO PREPARE POLICY GUIDELINES FOR

1974 ON FOREIGN BORROWING AT COMMERCIAL TERMS BY FOREIGN

AND DOMESTIC INVESTORS STOP

8

TWO STOP SOME OFFICIALS ARE HIGHLY RELUCTANT TO AUTHORIZE
PRIVATE FOREIGN BORROWING AT CURRENT HIGH COMMERCIAL
INTEREST RATES STOP PARA FOUR OF MY CABLE NUMBER 14 IS
INTENDED TO ALLAY THEIR CONCERN OVER FUTURE BALANCE OF
PAYMENTS CONSEQUENCES STOP THE SUBJECT OF INTEREST RATES
IS SUBSEQUENTLY MENTIONED EXPLICITLY IN PARA SIX STOP
PARA FIVE IS INTENDED TO GIVE SCOPE FOR LIMITED FOREIGN
BORROWING AT COMMERCIAL TERMS IN 1974 FOR FINANCING
PROJECTS WHICH DO NOT EARN FOREIGN EXCHANGE DIRECTLY
STOP ALSO RE PARAS FOUR AND FIVE COMMA SOMME SUCH QUANTITATIVE
AND OTHER GUIDELINES SEEM NECESSARY .IF RELATED POLICY
STATEMENT IN PARA EIGHT OF LETTER TO FUND ON THE EXCHANGE
REFORM IS TO HAVE SOME MEANING STOP PROPOSAL IN PARA THREE
IS AIMED AT AVOIDING REPETITION OF RECENT CEMENT LOAN

1709 L

1705 L St NW Washington D C Phone 296 6200

World Communications Inc

SCANDAL AND ECONOMIC MINISTERS DESIRE CABINET BACKING

OF DECISION NOT TO PROVIDE OFFICIAL GUARANTEES ON PRIVATE

FOREIGN BORROWING STOP POLICY STATEMENT IN PARA SEVEN

IS DESIGNED TO HELP AUTHORITIES TO RESIST PRESSURES

BY REGIONAL AUTHORITIES ETC FOR PERMISSION TO CONTRACT

OSTENSIBLY JUSTIFIABLE SUPPLIER CREDITS FOR PROJECT

FINANCING STOP AGAIN CABINET BACKING IS CONSIDERED

HELPFUL ON THIS POSITION STOP FINALLY COMMA PARA EIGHT

OF YOUR TELEX ASSUMES THAT SHORT TERM PRIVATE TRADE

CREDITS ARE CURRENTLY PERMITTED IN VIETNAM STOP THIS IS

INCORRECT STOP PROPOSAL IN PARA EIGHT OF MY CABLE IN

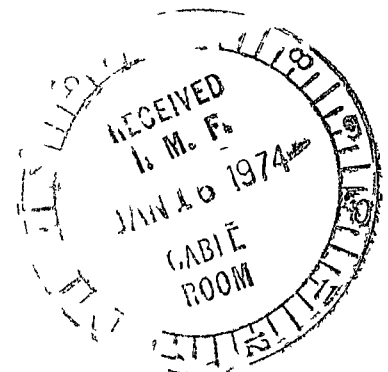
FACT WOULD LEAVE CURRENT SITUATION UNCHANGED STOP

REGARDS TOMASSON

SENT 2 4 25PM

✚

440385 FUND UI



1709 L St NW Washington DC Phone 296-6200

1709 L St NW Washington DC Phone 296 6200

1709



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Series/Subseries	Exchange and Trade Relations Department Immediate Office Records/sous-fonds/1946-1992 --- -ETRAI Country Files/ ETR Files /series/1953-1990
Box number	A41291-290
File number	1
ADLIB ref number	54235
File title & dates	Vietnam - Correspondence and Memos/file January-September 1974
Doc title & dates	Date January 14 1974 Type Letter From Donald K Palmer To Gunnar Tomasson Subject/Title Update on a medical issue Number of Pages 1 Authority International Monetary Fund Language English Concern Medical issue



21-2-74
Transcribed from tape, 1/21/73/lp
Mr Palmer
Attachments to follow

INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

Don't know
File in Vietnam

CABLE ADDRESS
INTERFUND

Orig ASD
cc LEG
ETR

Bangkok, January 14, 1974

Letter No 10

Dear Mr Tun Thin

There has been some time since my last letter because of the visit of the Fund mission in early December and my two-week vacation over Christmas. I have cabled the revised budget revenue and expenditure projections for 1974 and the latest information on the balance of payments outlook. Together with the analysis of Mr Palmer's mission, these should permit you to have a good idea about the outlook for the Vietnamese economy in 1974. The latest estimates indicate an increase of approximately 20 per cent in monetary liabilities in 1974 after allowing for a loss of foreign exchange reserves of about \$50 million. Although the present position of the Government is that there shall not be any supplementary budget expenditures during the year, this may prove untenable especially if inflation continues at a high rate as now seems likely. It would be surprising if the pressures for supplementary salary increases would not result in substantial additional budget expenditures in 1974. I am still working with the Vietnamese on the estimates for the financing of the rice program, but it would appear that the net financial requirements may be substantially higher than the present forecast of VN\$15 billion. Considering also that the Government is not likely to accept a loss of reserves of \$50 million, the above monetary outlook would seem to be unduly optimistic. Monetary expansion of say 30 per cent might be a more reasonable estimate for 1974. Considering the rapid changes in petroleum prices and other world market prices and the probable need to take measures to reduce substantially the projected loss of foreign exchange reserves, the outlook is for a continued high rate of inflation and other economic difficulties in 1974.

On the positive side, the introduction of the exchange reform on January 12 will have simplified substantially the exchange system and thereby should facilitate effective management of the exchange rate and the balance of payments in 1974. Concerning the proposal by the Vietnamese for an interest rate subsidy scheme which would be linked to the surrender of export proceeds, I had at the time of the mission told the Governor that such a scheme would represent a multiple currency practice and that alternative solutions would have to be found. I was therefore surprised when the Governor and the Minister of Trade outlined to me the proposal which I communicated in my cable No 2. I had told them that they could expect a negative reaction by the Fund staff and therefore they were not surprised when I received advice from headquarters to this effect. The proposal for the exchange reform had received final approval by the Prime Minister

including the principle of an interest rate subsidy for exports. The Governor and the Minister of Trade both stated that the final details of a subsidy scheme would only be announced after these have been cleared with the Fund staff so as to avoid a possible multiple currency practice. Therefore, it was considered desirable to proceed with the introduction of the reform on January 12, and to send the letter to the Fund on January 14, although the details of the interest rate subsidy scheme have not been finalized. The proposal by the Governor to link the interest rate subsidy to the submission by exporters of export declarations to the National Bank before shipment takes place hopefully provides a solution which would be acceptable from the Fund's point of view. In addition, this system would be very easy to implement. I should add that the Vietnamese, including in particular the Governor and the Minister of Trade are very satisfied to have agreed with the Fund on an exchange system which can be approved by the Executive Board.

As I have reported before, the Government and especially the Minister of Trade has been considering changes in official rice policies to encourage production and distribution of rice and to assure adequate supplies in the urban areas and other deficit regions at reasonable prices. Within the past two or three weeks, the President has approved important adjustments of previous rice policies including the announcement of a guaranteed minimum price for paddy at the farm level. This minimum price will be reviewed from time to time and adjusted upwards as necessary. It has also been agreed that the procurement of rice by the Government will take place on a fair competitive basis with the private rice trade which will continue to play an important role in overall rice distribution. After the Tet holidays there will also be an adjustment of consumer prices of rice by some 15 per cent, I believe. The President had also agreed that movement of rice from one district and province to another would no longer be subject to prior authorization by the district and province chiefs who are usually military officers. The military people reacted adversely to this change and insisted that the old system should continue. In response to this, the President sent the Ministers of Trade, Finance and Agriculture, together with other officials, down to the Mekong Delta during this past week for a series of conferences with the military officers on the matter. I am told that a likely compromise will be to permit the district and province chiefs to complete procurement of rice on account of the Government which they had already been asked to do and for which money had already been advanced to them. Once these transactions have been completed the idea would be to substantially remove control over the rice trade from the hands of the district and province chiefs. The Minister of Trade is very happy with the recent adjustment of rice policies which he described to me as representing a 180 degree change in the policies adopted by the Government last August and which have been severely criticized by the Economic Ministers and others.

The new rice policy will be executed through the newly created National Food Administration which has taken over the functions of the general supply agency. As you may know, the agency was responsible for official rice procurement and distribution on behalf of the Ministry of Trade. The head of the NFA is a young man in his 30s by the name of Mr. Minh. He was before Vice-Minister of Agriculture and before that Director-General of Agriculture. His qualifications are very good and the Economic Ministers think highly of him.

The Minister of Trade asked me last week to meet with Mr Minh to discuss the quantitative program for rice procurement and distribution in 1974 and to assist him in developing a system for financial management of the program itself. I have had two meetings with Mr Minh on this subject and find him very cooperative and anxious to manage the NFA in a manner which would help both rice production and distribution while minimizing operational losses. I have started to work with him on a financial management scheme which he hopes to have in place within a few weeks. From a financial point of view, this would enable us to make more dependable forecasts of the net financing requirement of the rice program given the quantitative targets and the procurement and sale prices.

On the foreign aid side, the agreement on French aid for 1973 was signed in Paris in early December. The total amount of the aid was F 110 million, including F 10 million for humanitarian assistance, F 30 million grant and F 35 million each concessional official aid and credit on commercial terms. I have not received information on the details of the terms of the credit portion, but will send them to you when I have received them. Shortly after the Vietnamese had signed the agreement in Paris a delegation from North Viet-Nam signed a similar agreement with the French Government. I am told that the overall grant element in the French aid package which is about 60 per cent which is substantially higher than has been expected before the negotiation took place. The Vietnamese are very satisfied with the favorable attitude of the French Government on aid to Viet-Nam and feel reasonably confident that France will provide a substantially higher amount of assistance in 1974.

In a meeting which I had with U S AID and representatives of the Embassies of France, Japan, Australia and the United Kingdom on December 21, the Commercial Attache of the French Embassy complained that the Vietnamese were not able to specify which commodities they wanted to be financed under the French aid. The First Secretary of the Japanese Embassy similarly noted that through months of discussions the Vietnamese have not been able to submit any concrete proposals as to which commodities should be financed under Japanese aid. Both the French and the Japanese expressed some annoyance on this issue and the Japanese pointedly noted that Japan would like to finance certain items on import lists A and B which presently were included on the exclusive list to be financed under U S economic aid. Mr Sharpe of the U S AID said that it should not be too difficult to agree on a commodity list for Japan since obviously Japan would simply continue to supply the commodities which they "normally" supply to Viet-Nam. In effect, this means commodities of import lists C and D which represent less essential and luxury items which the Vietnamese Government is doing its best to limit. The U S AID representatives at this meeting stated that they were in the process of revising their exclusive lists so as to permit meaningful negotiations to begin with other donor countries on the commodities which Viet-Nam might finance under their assistance. I said that in the view of the Fund staff it would be highly desirable to apply a single common commodity list to most aid imports which would apply to all donor countries and institutions. Recognizing that an agreement on such a list might not be reached soon, I suggested that one possible solution would be for the United States to suspend the application of the exclusive lists for American aid for the commodity aid portion of the Japanese and French aid for calendar year 1973.

I was not surprised when this suggestion received a cold silence from the representative of U.S. AID and did not pursue the matter further. Subsequently, however, I learned that U.S. AID had advised the Commissioner of Planning, who is now in charge of the negotiations on Japanese aid to suggest that Japanese commodity aid be limited to items on Lists C and D at least as far as 1973 aid is concerned. I intend to speak to the Commissioner-General of Planning later this week to see if in fact he intends to request Japanese financing of items on lists C and D exclusively. In addition to being politically absurd such a position would overlook the fact that total imports of these two categories are officially projected at only \$23 million in 1974.

The meeting on December 21st was organized by U.S. AID. In addition to the participants already mentioned a representative of the UNDP was also there. Mr. Bennet, Deputy Director of U.S. AID, had suggested to me before the meeting that the IMF representative should perhaps be the Chairman of such meetings on a regular basis. As I have already cabled, I replied that I did not consider that to be an appropriate role for the Fund representative at the present time. During the meeting itself there was general agreement that in the future similar meetings would be helpful from time to time to permit the interested parties to coordinate their aid activities better. During this past week, the Resident Representative of the UNDP, Mr. Sales, told me that he was interested in organizing regular meetings among major donor countries and international institutions represented in Saigon. In addition to special meetings on technical assistance from the various parties, he proposed the establishment of a group including the Economic Ministers and the Governor on the Vietnamese side and the representatives of donors and international institutions on the other side. This group he proposed should meet from time to time to review economic developments and consider appropriate policy measures. I told him that I considered this inappropriate to establish such a group which inevitably would develop into a forum in which the donors would call upon the policy makers on the Vietnamese side to justify their actions or inactions. I described briefly what I considered the disadvantages of the FEOF group in Laos and he agreed that a similar set-up should be avoided in the case of Viet-Nam. On the other hand, I expressed my full support to the general idea of regular meetings between representatives of donor countries and international institutions in Saigon to consider the economic situation and prospects. Within such a group I said that the Fund representative would be prepared to cooperate fully. He agreed to leave the Vietnamese out of any proposed group to discuss the economic situation.

Following the recommendations of the Palmer mission, I have suggested to the Vietnamese Government that interest rates should be increased substantially to approximately 30 per cent on one-year time deposits and about 35 per cent on general bank loans. U.S. AID support this position, but there has been opposition by some people within the Vietnamese Government to any adjustment of interest rates of this kind. In a discussion which I had with a key policy maker, he indicated that the opposition was primarily based on the question of timing rather than the substance of interest rate adjustment. Interestingly enough, the U.S. AID in Washington had suggested that no interest rate adjustments be made until after Tet by which time also the White House was supposed to have submitted the draft budget for fiscal year 1975 in a State of the Union

message to Congress I don't see the link between the two but in any case I took the initiative to suggest that final decision on the interest rate question be delayed until after the Tet holidays. Another Vietnamese policy maker told me privately that Mr Hung, our former colleague and now Special Assistant to the President, has opposed any interest rate adjustment partly on the grounds that the Vietnamese Government should not accept every recommendation made by the IMF. I had earlier discussed this question very briefly with Mr Hung at a breakfast meeting in December. At that time he told me that he did not support any substantial increase in interest rates but it did not seem to be a major issue as far as he was concerned. Mr Hung is actively seeking to build up his own position by, among other things, creating his own economic policy staff. He has not made much progress so far and presumably the question of interest rates is a politically attractive issue on which to differ with the Governor and the Economic Ministers. As I have indicated in a cable, I am reasonably hopeful that some adjustment of interest rates will be accepted after Tet especially in light of the worsening outlook for the balance of payments.

The political situation remains unsettled. The Government as a whole successfully formulated policies in the discussions with the missions of the Fund and the Bank in December. Subsequently, however, the lack of leadership on economic policy matters has become clearer. No single Minister nor the Commissioner-General of Planning has the authority to coordinate economic policy which leaves the situation pretty much as it was before the Government change last October. The Americans are trying to solve this problem by building up the position of the Commissioner General which is recognized by the others as being incompetent technically and owing his influential position in recent years primarily to the backing of the U S Embassy. Earlier this month U S AID met with the Economic Ministers and the Commissioner-General and the Governor of the National Bank. The results of this meeting are outlined in the attached note (Attachment 1) which has been prepared by the staff of the Commissioner-General. In this document the Vietnamese have undertaken to cooperate with U S AID in preparing programs and procedures for achieving certain objectives in the fiscal field and to cooperate with U S AID also on exchange rate management and other policy variables relating to the balance of payments. I observed during a private discussion with a key Vietnamese official that such assistance by the U S AID did not seem to leave much scope for policy advice by the Fund representative. In effect, I was told not to pay any attention to the document which was a joint product of the Commissioner and the U S AID without any implication for other agencies. Presumably, there will continue to be lack of effective leadership on economic policy matters until the final position of the Commissioner-General has been decided. As far as the other policy makers are concerned they do not expect his position to become stronger, while U S AID has recently been insisting that it should be strengthened. One must presumably expect therefore a continued period of weak policy coordination and leadership on economic issues.

With best regards,

Yours truly,

Gunnar Tomasson,

P S I am attaching also the draft "Proposal for Utilization of Aid

(cont'd)

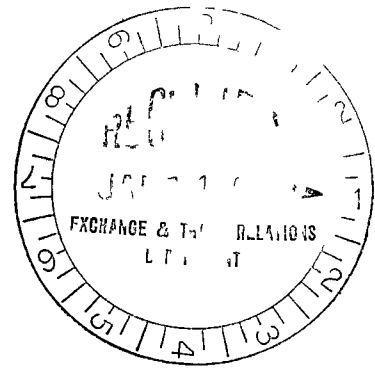
P S (Cont'd)

Counterpart Funds" (Attachment 2) The principles outlined in this memorandum were discussed with Mr Palmer and the Vietnamese are now circulating this memorandum to representatives of donor countries Attachment 3 outlines in some detail the latest budgetary estimates and shows how these differ from the estimates that were presented to the recent Fund mission by the Vietnamese Government

G Tomasson

THIS IS NATIONAL BANK OF VIETNAM SAIGON

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Mr Kharmawan
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cc, W. Brown

INTERFUND WASHINGTONDC

CONFIDENTIAL

FOLLOWING LETTER MAILED TODAY QUOTE THE MANAGING DIRECTOR

INTERNATIONAL MONETARY FUNDS WASHINGTONDC

DEAR MR. WITTEVEEN

1. THE REPUBLIC OF VIETNAM HAS SOUGHT TO SIMPLIFY PROGRESSIVELY ITS EXCHANGE SYSTEM, WITH THE EVENTUAL AIM OF A UNIFIED EXCHANGE RATE STRUCTURE. IN RECENT WEEKS CERTAIN REFORMS HAVE BEEN INTRODUCED, AND IN THIS LETTER THE GOVERNMENT OF THE REPUBLIC OF VIETNAM SUBMITS ITS EXCHANGE REFORM FOR APPROVAL BY THE FUND EXECUTIVE BOARD OF THOSE MEASURES THAT

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ARE SUBJECT TO ACTION BY THE FUND. UNDER THIS REFORM, THE

EXCHANGE RATE SYSTEM HAS BEEN LARGELY UNIFIED

2 THE RECENT REFORM MEASURES INCLUDE (A) THE ELIMINATION
OF EXPORT SUBSIDIES WHICH CONSTITUTED MULTIPLE CURRENCY PRACTICES
AND THE INTRODUCTION OF A SYSTEM FOR SUBSIDIZING THE INTEREST
COST ON EXPORT FINANCING, (B) THE REPLACEMENT ON NOVEMBER 22,
1973, AND ON DECEMBER 29, 1973, OF ALL PEREQUATION TAXES ON
IMPORTS WHICH ALSO CONSTITUTED MULTIPLE CURRENCY PRACTICES BY
AD VALORE SURCHARGES TO BE COLLECTED BY CUSTOMS, AND IN
ADDITION (C) REDUCTION OF THE VALIDITY PERIOD OF SO-CALLED
' IMPORT CREDITS' UNDER WHICH IMPORTS AGAINST FREE FOREIGN
EXCHANGES ARE EFFECTED FROM ONE YEAR TO 30 DAYS

3. ON JANUARY 12, 1974, THE PRESENT PREFERENTIAL EXCHANGE
RATE (VN PIASTRES 465 PER USDOLLAR ONE) APPLIED TO CERTAIN
TIED COMMODITY AID IMPORTS FROM THE UNITED STATES WAS
ELIMINATED, THEREBY ESTABLISHING A UNIFIED EXCHANGE RATE

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SYSTEM. THE UNIFIED EXCHANGE RATE HAS BEEN INITIALLY SET AT VN PIASTERS 500 PER US DOLLAR ONE AND WILL BE APPLIED TO ALL EXCHANGE TRANSACTIONS WITHOUT EXCEPTION.

4. IN ORDER TO OFFSET THE RELATIVE DISADVANTAGES TO IMPORTERS OF USING TIED COMMODITY AID FUNDS AS AGAINST FREE EXCHANGE AND TO ENSURE SATISFACTORY UTILIZATION OF AVAILABLE AID RESOURCES, A SYSTEM OF SUBSIDIES WILL BE INTRODUCED FOR CERTAIN COMMODITY IMPORTS FINANCED WITH TIED COMMODITY AID FUNDS UNDER THIS SYSTEM A FLAT PIASTRE AMOUNT PER DOLLAR VALUE OF IMPORTS, AS ESTABLISHED FOR CUSTOMS PURPOSES, WILL BE PAID TO IMPORTERS AFTER CUSTOMS CLEARANCE OF THE GOODS THE AMOUNT OF THE SUBSIDY WILL VARY ON THE BASIS OF GEOGRAPHICAL OR OTHER CRITERIA, AND IT WILL BE ADJUSTED AS NECESSARY TO ENSURE ADEQUATE UTILIZATION OF TIED-AID FUNDS. INITIALLY, A SUBSIDY WILL BE PAID ON CERTAIN TIED

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YONGS INC.

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SECRET

4
COMMODITY AID IMPORTS FROM THE UNITED STATES IN THE AMOUNT
OF VNPIASTRES 85 PER USDOLLAR ONE OF THE CUSTOMS VALUE
POSSIBLE SUBSIDY RATES FOR TIED COMMODITY AID IMPORTS FROM
OTHER GEOGRAPHICAL AREAS MAY BE DECIDED LATER

5 THE REPUBLIC OF VIETNAM EXPECTS TO RECEIVE COMMODITY
AID FUNDS FROM SEVERAL COUNTRIES AND INTERNATIONAL FINANCIAL
INSTITUTIONS IN FUTURE YEARS THE FINANCING OF COMMODITY AID
IMPORTS WILL, TO THE MAXIMUM EXTENT FEASIBLE, BE BASED ON A
BROAD COMMODITY LIST FOR THE ITEMS ON WHICH IMPORTERS WILL
HAVE A FREE CHOICE AS BETWEEN THOSE SUPPLYING COUNTRIES
WHICH HAVE COMMITTED AID TO FINANCE COMMODITY IMPORTS, AS
WELL AS ANY COUNTRIES DESIGNATED AS ELIGIBLE BY AN AID
DONOR

6 THE ADVANCE IMPORT DEPOSIT OF VN PIASTERS 100 PER
USDLR ONE WHICH WAS HELD BY THE NATIONAL BANK FOR A PERIOD

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OF SIX MONTHS FOR IMPORTS OF CERTAIN ITEMS UNDER U.S
 COMMODITY AID HAS BEEN ELIMINATED. THE COST EFFECT OF
 ELIMINATING THIS ADVANCE IMPORT DEPOSIT HAS BEEN CONSIDERED
 IN ESTABLISHING THE SUBSIDY ON CERTAIN TIED COMMODITY AID
 IMPORTS FROM THE UNITED STATES REFERRED TO IN PARAGRAPH 4
 ABOVE FOR THIS REASON, THERE WILL BE NO NET EXPANSIONARY
 MONETARY EFFECT DUE TO THE ELIMINATION OF THIS ADVANCE
 IMPORT DEPOSIT HOWEVER, THE PRESENT ADVANCE IMPORT DEPOSITS
 OF VN PIASTRES 200 AND VN PIASTRES 600 PER USDOLLAR ONE WHICH
 ARE HELD BY THE NATIONAL BANK FOR A PERIOD OF TWELVE MONTHS
 FOR CERTAIN LESS ESSENTIAL IMPORTS FINANCED BY FREE EXCHANGE
 WILL BE RETAINED FOR THE TIME BEING. THE FUTURE APPLICATION
 OF THESE ADVANCE IMPORT DEPOSITS WILL BE REVIEWED AT THE TIME
 OF THE NEXT ARTICLE XIV CONSULTATION, AS WILL ALSO THE 2
 PER CENT SPREAD BETWEEN THE BUYING AND SELLING RATES OF THE
 NATIONAL BANK.

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7. AT THE PRESENT TIME, IMPORT PROHIBITIONS APPLY TO A NUMBER OF IMPORT ITEMS. HOWZVER, AS A MATTER OF GENERAL POLICY, NO NEW QUANTITATIVE OR OTHER RESTRICTIONS ON IMPORTS, OR ON PAYMENTS OR TRANSFERS FOR IMPORTS, WILL BE IMPOSED FOR BALANCE OF PAYMENTS REASONS, AND THE LIST OF PROHIBITED IMPORTS WILL CONTINUE TO BE PROGRESSIVELY REDUCED AT THE SAME TIME, IT IS OUR GENERAL POLICY NOT TO INTRODUCE NEW OR TO INTENSIFY EXISTING RESTRICTIONS ON CURRENT INVIS BLE PAYMENTS

8. THE CAPACITY OF THE VIETNAMESE ECONOMY TO SERVICE FOREIGN DEBT WILL BE RELATIVELY LIMITED DURING 1974 AND SUBSEQUENT YERARS, CONSIDERING THE HIGH IMPORT REQUIREMENTS OF THE POAST-WAR RECONSTRUCTION AND DEVELOPIENT EFFORTS AND LOW INITIAL EXPORTS AND FOREIGN EXCHANGE EARNINGS. GREAT IMPORTANCE IS ATTACHED TO LIMITING THE BURDEN OF FUTURE

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DEBT SERVICE TO A REASONABLE PROPORTION OF THE COUNTRY'S

FOREIGN EXCHANGE EARNINGS.

UNDER EXISTING POLICY, THE COMMERCIAL BANKS ARE NOT PERMITTED TO BORROW ABROAD. APPROVALS OF SHORT-TERM AND MEDIUM-TERM COMMERCIAL CREDITS WILL BE LIMITED.

9. IN VIEW OF THE PRESENT INFLATIONARY CONDITIONS IN THE REPUBLIC OF VIETNAM, THE EXCHANGE RATE WILL CONTINUE TO BE ADJUSTED FROM TIME TO TIME. ADJUSTMENTS WILL BE MADE IN LIGHT OF DOMESTIC FINANCIAL DEVELOPMENTS AND OF THE GOVERNMENT'S POLICY OBJECTIVE OF AVOIDING ANY NET LOSS OF FOREIGN EXCHANGE RESERVES DURING 1974

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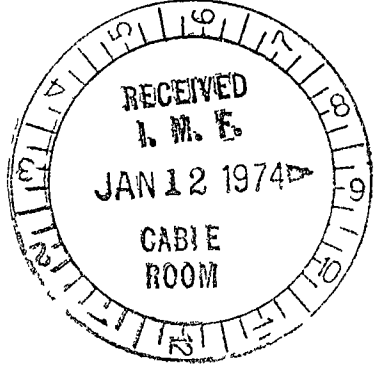
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Com. Relations Inc.

10. ON BEHALF OF THE GOVERNMENT OF THE REPUBLIC OF
 VIETNAM, I HEREBY SUBMIT OUR EXCHANGE REFORM FOR APPROVAL
 BY THE EXECUTIVE BOARD OF THE INTERNATIONAL MONETARY FUND
 OF THOSE EXCHANGE PRACTICES THAT ARE SUBJECT TO ACTION BY
 THE FUND STOP CHAU KHI NHAN MINISTER OF FINANCE UNQUOTE
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cc: W Bran

FURTHER REQUEST OF MR. CHABRIER BY TELEX OF JAN 14TH

7

WE REPEAT THE TOMASSON'S CABLE NO 3

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INTERFUND WASHINGTONDC

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PALMER

NUMBER THREE STOP URGENT STOP HAVE DISCUSSED YOUR

CABLE NUMBER THREE WITH GOVERNOR STOP HE CONSIDERS

SCHEME OUTLINED IN PARAGRAPH ONE ADMINISTRATIVELY

COMPLICATED BUT SUGGESTS TWO ALTERNATIVES BELOW

WITH PREFERENCE FOR FIRST ALTERNATIVE STOP

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ONE STOP UNDER PRESENT REGULATIONS COMMA EXPORTER
MUST SUBMIT EXPORT DECLARATION TO BE REGISTERED
BY NATIONAL BANK BEFORE SHIPMENT CAN TAKE PLACE
STOP AT THE TIME OF REGISTRATION COMMA NATIONAL
BANK WOULD PAY FLAT PIASTER SUBSIDY PER DOLLAR
OF VALUE OF EXPORT DECLARATION STOP INITIAL LEVEL
OF SUBSIDY WOULD BE FORTY REPEAT FORTY PIASTERS
COMMA BUT WOULD BE SUBJECT TO ADJUSTMENT IN LIGHT
OF CHANGES IN INTEREST RATES AND/OR ESTIMATED
EXPORT FINANCING PERIOD STOP EXPORT SHIPMENT WOULD
TAKE PLACE SUBSEQUENTLY AND EXPORTER WOULD IN DUE
COURSE SURRENDER EXPORT PROCEEDS TO COMMERCIAL
BANKS IN ACCORDANCE WITH EXISTING REGULATIONS STOP
TWO STOP ALTERNATIVELY PROCEDURE WOULD BE AS ABOVE

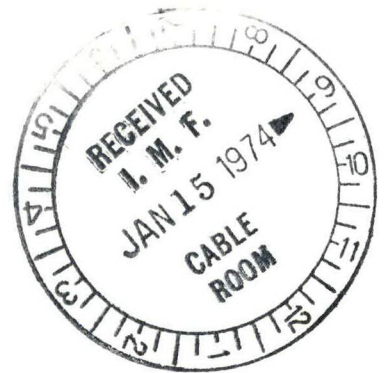
EXCEPT THAT SUBSIDY WOULD BE CALCULATED FOR EACH EXPORT DECLARATION BY APPLYING PREVAILING ANNUAL INTEREST RATE PRORATED FOR THREE MONTHS TO VALUE OF EXPORT DECLARATION CALCULATED AT THE PREVAILING EXCHANGE RATE STOP PLEASE ADVISE URGENTLY STOP DATE OF REFORM WOULD STILL BE JANUARY 12 AND LETTER WOULD BE SENT AS DRAFTED ON JANUARY 14 IF EITHER OF THESE ALTERNATIVES ARE ACCEPTABLE TO FUND STOP IF NEITHER IS ACCEPTABLE COMMA REFORM WOULD STILL BE INTRODUCED JANUARY 12 ACCOMPANIED BY GOVERNMENT ANNOUNCEMENT THAT DETAILS OF INTEREST RATE SUBSIDY SCHEME WERE BEING WORKED OUT FOR EXPORTS STOP

REGARDS TOMASSON

REPEQT ONE

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Mr. Brau

January 10, 1974

MEMORANDUM FOR FILES

Subject: Khmer Republic and Viet-Nam - Blocked French Francs

Messrs. Wedeman and Kamens, officers in charge of Vietnamese and Cambodian affairs at the State Department, called to inform me about the issue of blocked French francs belonging to Viet-Nam and the Khmer Republic and representing assets of the old Indo-China Monetary Authority. At present, amounts of \$7-8 million in French francs are kept with the French Treasury in account for Viet-Nam and the Khmer Republic, respectively. The distribution of such assets has been a matter of dispute in the last twenty years.

Both Messrs. Kamens and Wedeman told me that the U.S. Embassy in Saigon had sent a cable on Tuesday mentioning that the settlement of the issue was in a stalemate, that Evers and Tomasson were in disagreement on the issue and that the dispute could only be settled by the Fund headquarters, and that Tomasson had mentioned to U.S. officials that he would go to Phnom Penh to meet the Khmer officials on this issue if the Fund headquarters instructed him to do so. Both Messrs. Kamens and Wedeman wanted to know the Fund position on this issue and whether we planned to instruct Mr. Tomasson to go to Phnom Penh to discuss the issue with the Khmer authorities. I told them that I would refer this to the Front Office and would let them know shortly.

The issue is not new and both Tomasson and Evers represent the points of view of their respective "clients". I discussed the issue in Phnom Penh with the Khmer authorities, in Bangkok with both Tomasson and Evers who indicated the respective views of Cambodia and Viet-Nam. I also discussed the issue with Governor Sok Chhong in August and October 1973; Governor Sok Chhong told me that the Khmer Government was not ready to settle for anything less than its original position; the same position was also taken by Governor Uyen of the National Bank of Viet-Nam. The issue is highly political and should be dealt on a government-to-government basis; at present, it seems to me that it would be unwise for the Fund to be directly involved in the matter, unless both governments formally ask the Fund to be the mediator. I did not get the impression from Governor Sok Chhong that the Khmer Government desired such mediation.

P. Chabrier
Paul Chabrier

cc: Mr. Tun Thin
Mr. Woodley
Mr. Palmer
Mr. Mattera
Mr. Takeda
Mr. Handy
✓ Mr. Brau
Mr. Johnson

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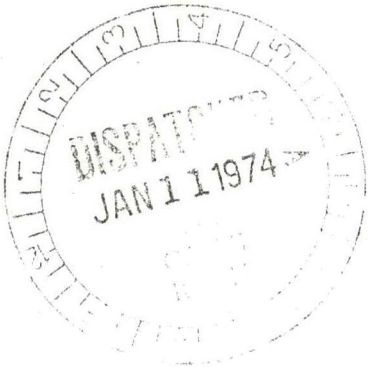
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BY TELEX

Cleared with:
ETR *DWS*



INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

cc: ASD
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To: Tomasson
BANVINA, Saigon (Viet-Nam)

No. 4

1. Have reviewed proposed guidelines of your 14. Would ask following recommendations be made.
2. Generally, in assessing criteria justifying foreign borrowing emphasis should be placed on careful scrutiny and coordination of foreign borrowing operations of public sector and of private sector for which public guarantee is sought. We would not preclude a priori extending public guarantee for private sector borrowing which is not part of aid package negotiated on government-to-government basis, as in your para 3.
3. We believe a registration procedure should be established for purely private sector operations, but doubt feasibility and usefulness of full-fledged control system for such borrowing as in your para 2.
4. All foreign borrowing by public sector entities or extension of repayment guarantee for private sector operations should be subject to prior approval of an inter-agency "Committee." Committee should have discretionary authority rather than be bound by rigid quantitative and other guidelines as in your paras 4 and 5. "Prior approval" would include both authorization to negotiate and final approval of loan contract.

Prepared by EBrau/PChabrier
Department ETR/Asian
Date January 9, 1974

AUTHORIZATION

J. Woodley
Signature

/s/ J. Woodley
Second Signature When Required

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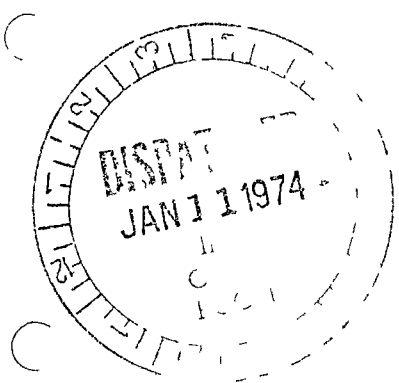
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To Tomasson
BANVINA, Saigon (Viet-Nam)

- 2 -

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In general, Committee should not approve foreign borrowing (or extension of guarantees) except where the terms clearly are concessional or where the credit (whether for imports or local cost financing) has been negotiated on a government-to-government basis as part of a "package" whose average terms imply high concessional element. "Committee" should be coordinator of all public sector borrowing and be consulted in determining project priorities and preparation of proposals to be discussed with creditor governments and international banking agencies. It would require highly competent technical staff



Prepared by EBrau/PChabrier
 Department ETR/Asian
 Date January 9, 1974

5. Comprehensive registration procedures for foreign borrowing by private sector not publicly guaranteed, other than trade credits up to one-year maturity and financial credits taken up by banks, should be implemented by Central Bank or Finance Ministry under general jurisdiction of "Committee." For amounts above say US\$50,000 there should be precontract registration procedure whereby borrower would provide detailed information on sources, terms (including commitment fees, downpayment, etc.) and purpose of credit prior to signing of loan contract, subsequently, a copy of loan contract would be registered with appropriate office. Smaller amounts would be

AUTHORIZATION

Signature

/s/ J Woodley

Second Signature When Required

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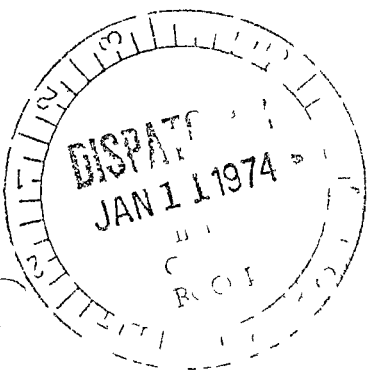
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Dispatched by EBrau/PChabrier
 Department ETR/Asian
 Date January 9, 1974

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/s/ J Woodley
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INTERNATIONAL MONETARY FUND
WASHINGTON DC

To Tomasson
BANVINA, Saigon (Viet-Nam)

- 3 -

subject only to final registration.

6. Registration procedure could be enforced in various ways although use of foreign exchange control might be most feasible in the context of Viet-Nam. For example, final registration of credits in excess of say US\$50,000 would be given only for new credits which have followed precontract registration procedure, and proof of final registration would be prerequisite to transfer of foreign exchange for service of the obligations.

7. The designated office should report to "Committee" frequently both with respect to precontract and final registration and aggregate debt service schedule arising from such obligations. Should supply of private borrowing without guarantee be thought too large in context of general economic policies Committee may, on basis of registration data, decide to intervene. This could take several forms, including establishment of minimum grace and amortization periods or a system of prior deposits, the rates of which could be scaled according to original maturities, or be lower for export-oriented or high priority import substituting sectors, etc. However, you should not encourage Government to institute direct or

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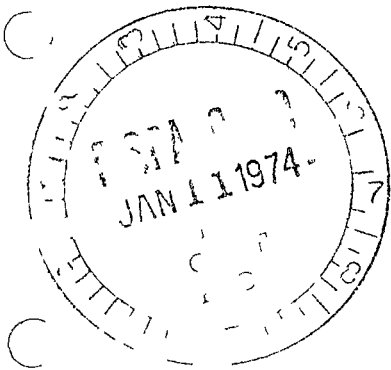
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BY TELEX

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INTERNATIONAL MONETARY FUND
WASHINGTON DC

To Tomasson
BANVINA, Saigon (Viet-Nam)

- 4 -

indirect control procedures for purely private transactions until such time as there is established a clear cut case of need.

8 With respect to foreign financial credits taken up by commercial (or government) banks, authorities should consider direct limitations on banks' foreign liabilities consistent with domestic monetary objectives (i.e., present prohibitions). With respect to short-term trade credits referenced in your para 8 including import financing of up to one year at the outside, one would expect the "float" of such credit to be directly related to volume of commercially financed imports. A sharp increase in this float would not occur out of step with growing imports, unless there are domestic excess demand pressures or a highly suspect exchange rate or some combination of the two. It is not to be recommended that special measures be taken to decrease the float of such import credit or to prevent the importer from obtaining goods on terms which are normal for the given type of commodity being imported

Dr. by E Brau/P Chabrier
 Department ETR/Asian
 Date January 9, 1974

AUTHORIZATION

Signature
/s/ J Woodley
 Second Signature When Required

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SPECIAL INSTRUCTIONS

BY TELELEX

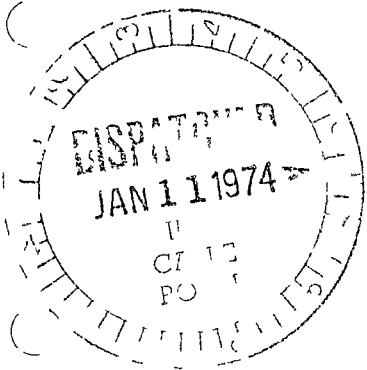
Cleared with:
ETR

To Tomasson
BANVINA, Saigon (Viet-Nam)

- 5 -

9. In view of above changes made in your recommendations would appreciate that in cases like this you consult with headquarters before submitting major policy recommendations.
Regards.

Woodley
Interfund



Dr. by EBrau/PChabrier

Department ETR/Asian

Date January 9, 1974

AUTHORIZATION

J Woodley
Signature
/s/ J Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 6 00 P M
Time Dispatched 7 10 P M
Number of Words (16 Min)
Log 213721
Route WUI, TLX
Operator FJ

DO NOT TYPE BELOW THIS LINE

Mr. Brau

Mr. Palmer

January 22, 1974

T. Takeda *[Signature]*

Viet-Nam: Supplementary Statistical Information

Following is the additional information which has been received after the printing of the Viet-Nam paper.

Consumer price index in November 1973 was 56 per cent higher than in November 1972, as against 53 per cent increase during twelve months ended October 1973.

Official reserves (excluding blocked French franc) at the end of December 22, 1973 declined to US\$196 million, compared with US\$206 million at the end of October 1973.

Money supply rose by 16 per cent during January-November 1973, compared with an increase of 11 per cent during January-September 1973. The acceleration is mainly attributed to an increase in net claims on Government.

Credit to the private sector decelerated slightly in recent months; advances from the National Bank of Viet-Nam to financial institutions stood at VN\$13.6 billion at the end of November 1973, compared with VN\$20.9 billion at the end of September 1973, and commercial banks' lending to the private sector amounted to VN\$138.5 billion at the end of November 1973, approximately the same level as that of the end of September 1973.

During January 1-December 22, 1973, exports recorded US\$59 million compared with US\$24 million in 1972, while GVN imports amounted to US\$354 million as against US\$308 million in 1972. (No statistics is available on CIP imports).

cc: Mr. Chabrier
Mr. Brau ✓
South Asia Division



(Transcribed from tape: 1/28/74/lp)

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

Mr. Talmon
361547
cc: Mr. Borau

CABLE ADDRESS
INTERFUND

Orig: ASD
cc: ETR
LEG

Bangkok, January 21, 1974

Letter No. 11

Dear Mr. Tun Thin:

As reported in my cable No. 7, I have made a revised forecast for the foreign exchange reserves outlook for 1974 as further outlined in my memorandum to the economic team "Balance of Payments Outlook for 1974" dated January 17, 1974 (Attachment 1). When the Fund mission visited Saigon in December the projected loss of reserves in 1974 was \$20 million. However, after the U.S. Congress had given approval to a lower aid figure than had been expected and in view of the higher world market prices of petroleum products, U.S. AID in Saigon and the Vietnamese economic team agreed on a revised forecast. After adjusting the various components of the foreign exchange budget and the level of the import bill, they still projected a loss of reserves of only \$20 million in 1974. This projection is included in the note attached to my letter No. 10. (On page 3 of my memorandum, attachment 1, I mistakenly stated that the U.S. AID/Vietnamese forecast was for a loss of reserves of \$40 million.) The latest forecast which I worked out with the staff of the National Bank indicates a much larger loss of reserves of \$108 million.

The unfavorable outlook for foreign exchange reserves for 1974 represents a major economic policy problem. U.S. AID in Saigon reportedly with the support of Mr. Cooper and others in Washington is advising the Vietnamese that they should not hesitate to draw down their reserves as necessary in 1974. To the Vietnamese this advice suggests that the United States will not be able to provide the expected amount of balance of payments support in 1974. Considering also the failure of promised support to materialize fully in 1973, the Vietnamese seem determined not to reduce sharply the level of their reserves in 1974 in the hope that foreign aid will become more plentiful in 1975.

There are only few alternatives: the level and composition of budget expenditures in 1974 are already decided and, if anything, present expenditure estimates are likely to be on the low side especially if import shortages become an additional inflationary factor which would intensify the pressures for substantial salary increases. If absolute import supply shortages were to develop, depreciation of the exchange rate might have to be quite large if equilibrium were to be restored between demand and supply of foreign exchange. My personal evaluation is that in such circumstances the economic team would not be in a position to defend the present liberal import system. As you know, there has been strong pressure in the recent past for more restricted import policies; at best, one would expect import licensing to be introduced; at worst, the unified flexible exchange rate could be replaced by a system of multiple exchange rates aimed at assuring preferential prices for basic commodities.

As noted in paragraph 1 of my memorandum of January 17, a basic assumption underlying the projected loss of reserves is that in real terms the import forecast agreed with the IMF mission in December remains a reasonable one. The level of GVN imports projected in my memorandum, Tables 1 and 2, would seem to require that U S AID agree to the financing with free exchange of imports for which CIP funds may not be available. To the extent that such an agreement is not forthcoming, a corresponding reduction would be implied in the projected loss of reserves at the expense of supply shortages and accelerated inflation. I should also point out that the realization of projected non-U S aid imports of \$100 million on a payment basis in 1974 would require extensive reduction in the exclusive lists of U S commodity aid. As indicated in my letter No 10 this fact may not yet be fully appreciated by U S AID in Saigon. Moreover, there should not be any significant delay beyond the first quarter of the year in the approval of the proposed IDA credit of \$50 million.

I expect to meet with the Economic Minister and the Governor after the Tet holidays to review the findings of my memorandum. A copy of the memorandum was passed on to U S AID by the Commissioner-General of Planning and perhaps they will also participate in the review although they consistently avoid any initiative to discuss with me the balance of payments and other financial policy issues. Until this review has taken place, there is no point in revising the monetary projections for 1974 since it is closely dependent on the import level and the prospective exchange rate depreciation. Total import absorption in 1974 may well be lower than now projected because of more restrictive import policies on the Vietnamese side and delays in reducing the exclusive lists for American aid on the U S side. If accompanied by salary adjustments which may prove politically unavoidable, the lower import absorption would clearly result in a very substantial rate of inflation.

The various policy recommendations noted briefly in my memorandum reflect the concerns expressed above. First, there must be an increase in foreign aid availabilities if potentially serious supply shortages are to be avoided and every effort should be made to facilitate the utilization of commodity aid from non-U S sources. On the Vietnamese side, the case for a substantial adjustment for interest rates has become even stronger and the need for fiscal and monetary discipline has been reinforced. To the extent that policy action in these areas does not provide sufficient relief for the balance of payments the rate of exchange rate depreciation would have to be accelerated. The position was taken in the meeting between the U S AID and the Vietnamese on January 3 that direct restrictions and controls on imports should be avoided (see Attachment to my letter No 10). I will continue to strongly support this position but in discussions with Mr. Quan who is an influential advisor in economic matters, he indicated that like it or not the Vietnamese would have to make contingency plans to cut back import demand. He made it clear however that any such contingency plans would be discussed in detail with me before any decision were to be taken.

On a more general level, the concluding paragraph of my memorandum of January 17 is addressed to what must be considered the fundamental problem of the Vietnamese economy, namely the high cost of public sector employment for both military and civilian purposes in terms of budget expenditures and lower domestic production. You will recall that I had extensive discussions with

Professor Smithies and other U S AID personnel on this issue during the first part of my assignment in Viet-Nam. At that time the U S side was not prepared to acknowledge the importance of this problem and I have been told subsequently that the Vietnamese were told by U S military advisors that quite simply the level of the armed forces must not be reduced in 1974. In light of the present aid prospects, it is clear that the Vietnamese are being advised to maintain a level of military forces which the U S Congress is no longer prepared to support with matching economic aid. Instead of addressing this issue directly and throwing the obvious policy conclusions, the civilian side of the U S Government, while bemoaning the aid cut by Congress, continues to take an optimistic position on the longer-term aid outlook, urging that in the meantime the Vietnamese should not hesitate to drawdown their foreign exchange reserves to a very low level. Perhaps, there will be a light at the end of the tunnel and undue pessimism will prove to be unwarranted. However, if such is not the case, the longer the necessary economic policy adjustments are delayed, the more severe and disruptive will the eventual adjustments have to be.

With best regards

Yours sincerely,

Gunnar Tomasson

Attachment

RECEIVED
INTERNATIONAL
MONETARY FUND

JAN 28 4 23 PM '74

COMMUNICATIONS
DIVISION

WITHDRAWAL NOTICE**PROJECT**

Project number 2005 004
Project name ASDAI/Asian Department/All subseries
Project tab number 724
Project box number 9

DOCUMENT

Series / File Vietnam - Correspondence and Memos (54235)
Original box / file No 290 / 1
Date 1974 01 17
Type Memo
From Gunnar Tomasson
To Minister of Finance
Subject / Title Balance of Payments Outlook for 1974
Number of pages 6
Classification STRICTLY CONFIDENTIAL
Authority Asia & Pacific Department

COMMENTS

Very poor copy of memo

**THIS DOCUMENT IS IN THE COURSE OF A SYSTEMATIC
PUBLIC DISCLOSURE REVIEW PROCESS**

Entered by jdurkin

Entered on 2006 07 12

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

BY TELEX

Cleared with:

D.K. Palmer *DM*
 J. Evans *JE*

Drafted by Brau/Chabrier
 De nt ETR/Asian
 Date Jan. 16, 1974

AUTHORIZATION

J. Woodley
 Signature
 /s/ J. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received 6:00 P.M.
 Time Dispatched 6:35 P.M.
 Number of Words (2 Min.)
 Log 213898
 Route RCA, TLX
 Operator AT/JE

INTERNATIONAL MONETARY FUND

WASHINGTON

D.C.

CC: ASD
 LEG
ETR

To: Tomasson
Banvina, Saigon

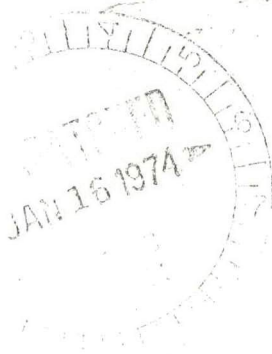
No. 7

Alternative one in your 3 acceptable with following modification

1. At time of export declaration, exporter must declare f.o.b. value of export shipment in piastres and not the piastre counterpart of expected exchange proceeds.
2. Subsidy amount must be expressed as percentage of declared f.o.b. export value in piastres, say approximately seven per cent.
3. Please advise if can be implemented. Board paper issued ~~February 15th~~ 15th.

Regards

Woodley
Interfund



DO NOT TYPE BELOW THIS LINE

248331 IMF URV

DISCO

RCAD344/15#

248331 IMF UR#

248331 IMF UR

BANVINA 798203

THIS IS NATIONAL BANK OF VIETNAM SAIGON

3:50PM

NR15/143 15/1/74

INTERFUND WASHINGTONDC

MR ERNEST STURC

STARTING* JANUARY 14, 1974 THE OFFICIAL RATE OF

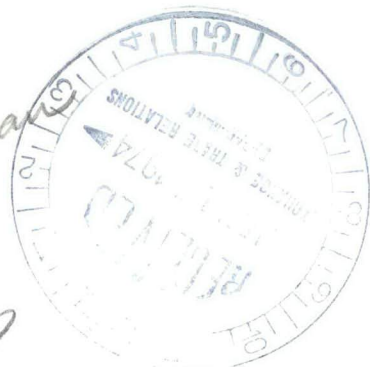
VNPIASTE IS SET AT 560 PER USDOLLAR STOP A SPECIAL

SUBSIDY OF VNPIASTRES 85 PER USDOLLAR WILL BE PAID

ON COMMODITY AID IMPORTS UNDER CIP PROGRAM STOPEND

BANVINA

cc: Mr. Kharmawan
Mr B

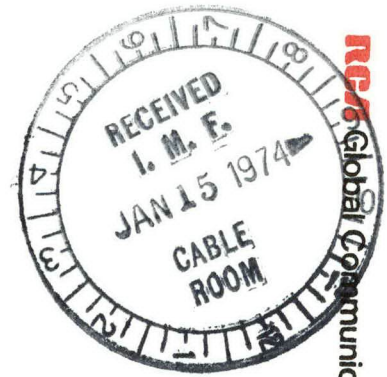


AA *cc*

210175

Orig: ETR
cc: Mr. Kharmawan
ASD
Mr. de Looper

✓



OFFICIAL

OUTGOING MESSAGE

OFFICIAL

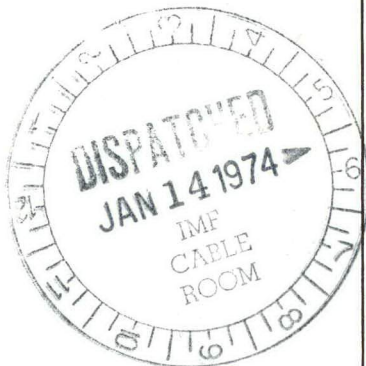
FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

BY TELETYPE

Cleared with Mr. Chabrier



Drafted by DKPalmer:jb

Department ETR

Date January 14, 1974

AUTHORIZATION

Woodley
 Signature
 W. John R. Woodley

Second Signature When Required

FOR CODE ROOM

Time Received _____
 Time Dispatched 5:00 P.M.
 Number of Words 6:41 P.M.
 Log (6 Min.)
 Route 213761
 Operator RCA, TLX
MW

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

CC: ASD
LEG
ETR

Mr. Brown ↑

To: Tomasson

IMF Representative

C/o National Bank of Viet-Nam

Saigon, South Viet-Nam

No. 5

1. Greatly appreciate your efforts as reflected recent messages. Following receipt of Finance Minister's letter, staff report being issued dated January 14. Will airmail copy to you. Hanh's office will transmit several copies to Vietnamese officials.

2. Paper includes revised budget and monetary tables, reflecting revised information and plans. Balance of payments table not revised, but text refers to possible uncertainties arising from lower aid and higher petroleum costs.

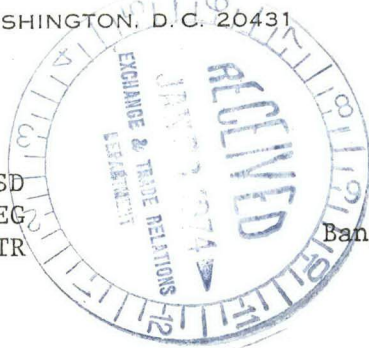
3. Will comment separately on export subsidy question.

Woodley
INTERFUND

DO NOT TYPE BELOW THIS LINE



JAN 22 3 13 PM '74

COPY TO DIRECTOR
GENERALINTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431Orig: ASD
cc: LEG
ETR

Bangkok, January 14, 1974

CABLE ADDRESS
INTERFUNDLetter No. 10

Dear Mr. Tun Thin:

There has been some time since my last letter because of the visit of the Fund mission in early December and my two-week vacation over Christmas. I have cabled the revised budget revenue and expenditure projections for 1974 and the latest information on the balance of payments outlook. Together with the analysis of Mr. Palmer's mission, these should permit you to have a good idea about the outlook for the Vietnamese economy in 1974. The latest estimates indicate an increase of approximately 20 per cent in monetary liabilities in 1974 after allowing for a loss of foreign exchange reserves of about \$50 million. Although the present position of the Government is that there shall not be any supplementary budget expenditures during the year, this may prove untenable especially if inflation continues at a high rate as now seems likely. It would be surprising if the pressures for supplementary salary increases would not result in substantial additional budget expenditures in 1974. I am still working with the Vietnamese on the estimates for the financing of the rice program, but it would appear that the net financial requirements may be substantially higher than the present forecast of VN\$15 billion. Considering also that the Government is not likely to accept a loss of reserves of \$50 million, the above monetary outlook would seem to be unduly optimistic. Monetary expansion of say 30 per cent might be a more reasonable estimate for 1974. Considering the rapid changes in petroleum prices and other world market prices and the probable need to take measures to reduce substantially the projected loss of foreign exchange reserves, the outlook is for a continued high rate of inflation and other economic difficulties in 1974.

On the positive side, the introduction of the exchange reform on January 12 will have simplified substantially the exchange system and thereby should facilitate effective management of the exchange rate and the balance of payments in 1974. Concerning the proposal by the Vietnamese for an interest rate subsidy scheme which would be linked to the surrender of export proceeds, I had at the time of the mission told the Governor that such a scheme would represent a multiple currency practice and that alternative solutions would have to be found. I was therefore surprised when the Governor and the Minister of Trade outlined to me the proposal which I communicated in my cable No. 2. I had told them that they could expect a negative reaction by the Fund staff and therefore they were not surprised when I received advice from headquarters to this effect. The proposal for the exchange reform had received final approval by the Prime Minister

including the principle of an interest rate subsidy for exports. The Governor and the Minister of Trade both stated that the final details of a subsidy scheme would only be announced after these have been cleared with the Fund staff so as to avoid a possible multiple currency practice. Therefore, it was considered desirable to proceed with the introduction of the reform on January 12, and to send the letter to the Fund on January 14, although the details of the interest rate subsidy scheme have not been finalized. The proposal by the Governor to link the interest rate subsidy to the submission by exporters of export declarations to the National Bank before shipment takes place hopefully provides a solution which would be acceptable from the Fund's point of view. In addition, this system would be very easy to implement. I should add that the Vietnamese, including in particular the Governor and the Minister of Trade are very satisfied to have agreed with the Fund on an exchange system which can be approved by the Executive Board.

As I have reported before, the Government and especially the Minister of Trade has been considering changes in official rice policies to encourage production and distribution of rice and to assure adequate supplies in the urban areas and other deficit regions at reasonable prices. Within the past two or three weeks, the President has approved important adjustments of previous rice policies including the announcement of a guaranteed minimum price for paddy at the farm level. This minimum price will be reviewed from time to time and adjusted upwards as necessary. It has also been agreed that the procurement of rice by the Government will take place on a fair competitive basis with the private rice trade which will continue to play an important role in overall rice distribution. After the Tet holidays there will also be an adjustment of consumer prices of rice by some 15 per cent, I believe. The President had also agreed that movement of rice from one district and province to another would no longer be subject to prior authorization by the district and province chiefs who are usually military officers. The military people reacted adversely to this change and insisted that the old system should continue. In response to this, the President sent the Ministers of Trade, Finance and Agriculture, together with other officials, down to the Mekong Delta during this past week for a series of conferences with the military officers on the matter. I am told that a likely compromise will be to permit the district and province chiefs to complete procurement of rice on account of the Government which they had already been asked to do and for which money had already been advanced to them. Once these transactions have been completed the idea would be to substantially remove control over the rice trade from the hands of the district and province chiefs. The Minister of Trade is very happy with the recent adjustment of rice policies which he described to me as representing a 180 degree change in the policies adopted by the Government last August and which have been severely criticized by the Economic Ministers and others.

The new rice policy will be executed through the newly created National Food Administration which has taken over the functions of the general supply agency. As you may know, the agency was responsible for official rice procurement and distribution on behalf of the Ministry of Trade. The head of the NFA is a young man in his 30s by the name of Mr. Minh. He was before Vice-Minister of Agriculture and before that Director-General of Agriculture. His qualifications are very good and the Economic Ministers think highly of him.

The Minister of Trade asked me last week to meet with Mr Minh to discuss the quantitative program for rice procurement and distribution in 1974 and to assist him in developing a system for financial management of the program itself. I have had two meetings with Mr Minh on this subject and find him very cooperative and anxious to manage the NFA in a manner which would help both rice production and distribution while minimizing operational losses. I have started to work with him on a financial management scheme which he hopes to have in place within a few weeks. From a financial point of view, this would enable us to make more dependable forecasts of the net financing requirement of the rice program given the quantitative targets and the procurement and sale prices.

On the foreign aid side, the agreement on French aid for 1973 was signed in Paris in early December. The total amount of the aid was F 110 million, including F 10 million for humanitarian assistance, F 30 million grant and F 35 million each concessional official aid and credit on commercial terms. I have not received information on the details of the terms of the credit portion, but will send them to you when I have received them. Shortly after the Vietnamese had signed the agreement in Paris a delegation from North Viet-Nam signed a similar agreement with the French Government. I am told that the overall grant element in the French aid package which is about 60 per cent which is substantially higher than has been expected before the negotiation took place. The Vietnamese are very satisfied with the favorable attitude of the French Government on aid to Viet-Nam and feel reasonably confident that France will provide a substantially higher amount of assistance in 1974.

In a meeting which I had with U S AID and representatives of the Embassies of France, Japan, Australia and the United Kingdom on December 21, the Commercial Attache of the French Embassy complained that the Vietnamese were not able to specify which commodities they wanted to be financed under the French aid. The First Secretary of the Japanese Embassy similarly noted that through months of discussions the Vietnamese have not been able to submit any concrete proposals as to which commodities should be financed under Japanese aid. Both the French and the Japanese expressed some annoyance on this issue and the Japanese pointedly noted that Japan would like to finance certain items on import lists A and B which presently were included on the exclusive list to be financed under U S economic aid. Mr Sharpe of the U S AID said that it should not be too difficult to agree on a commodity list for Japan since obviously Japan would simply continue to supply the commodities which they "normally" supply to Viet-Nam. In effect, this means commodities of import lists C and D which represent less essential and luxury items which the Vietnamese Government is doing its best to limit. The U S AID representatives at this meeting stated that they were in the process of revising their exclusive lists so as to permit meaningful negotiations to begin with other donor countries on the commodities which Viet-Nam might finance under their assistance. I said that in the view of the Fund staff it would be highly desirable to apply a single common commodity list to most aid imports which would apply to all donor countries and institutions. Recognizing that an agreement on such a list might not be reached soon, I suggested that one possible solution would be for the United States to suspend the application of the exclusive lists for American aid for the commodity aid portion of the Japanese and French aid for calendar year 1973.

I was not surprised when this suggestion received a cold silence from the representative of U.S. AID and did not pursue the matter further. Subsequently, however, I learned that U.S. AID had advised the Commissioner of Planning, who is now in charge of the negotiations on Japanese aid to suggest that Japanese commodity aid be limited to items on Lists C and D at least as far as 1973 aid is concerned. I intend to speak to the Commissioner-General of Planning later this week to see if in fact he intends to request Japanese financing of items on lists C and D exclusively. In addition to being politically absurd such a position would overlook the fact that total imports of these two categories are officially projected at only \$23 million in 1974.

The meeting on December 21st was organized by U.S.AID. In addition to the participants already mentioned a representative of the UNDP was also there. Mr. Bennet, Deputy Director of U.S. AID, had suggested to me before the meeting that the IMF representative should perhaps be the Chairman of such meetings on a regular basis. As I have already cabled, I replied that I did not consider that to be an appropriate role for the Fund representative at the present time. During the meeting itself there was general agreement that in the future similar meetings would be helpful from time to time to permit the interested parties to coordinate their aid activities better. During this past week, the Resident Representative of the UNDP, Mr. Sales, told me that he was interested in organizing regular meetings among major donor countries and international institutions represented in Saigon. In addition to special meetings on technical assistance from the various parties, he proposed the establishment of a group including the Economic Ministers and the Governor on the Vietnamese side and the representatives of donors and international institutions on the other side. This group he proposed should meet from time to time to review economic developments and consider appropriate policy measures. I told him that I considered this inappropriate to establish such a group which inevitably would develop into a forum in which the donors would call upon the policy makers on the Vietnamese side to justify their actions or inactions. I described briefly what I considered the disadvantages of the FEOF group in Laos and he agreed that a similar set-up should be avoided in the case of Viet-Nam. On the other hand, I expressed my full support to the general idea of regular meetings between representatives of donor countries and international institutions in Saigon to consider the economic situation and prospects. Within such a group I said that the Fund representative would be prepared to cooperate fully. He agreed to leave the Vietnamese out of any proposed group to discuss the economic situation.

Following the recommendations of the Palmer mission, I have suggested to the Vietnamese Government that interest rates should be increased substantially to approximately 30 per cent on one-year time deposits and about 35 per cent on general bank loans. U.S. AID support this position, but there has been opposition by some people within the Vietnamese Government to any adjustment of interest rates of this kind. In a discussion which I had with a key policy maker, he indicated that the opposition was primarily based on the question of timing rather than the substance of interest rate adjustment. Interestingly enough, the U.S. AID in Washington had suggested that no interest rate adjustments be made until after Tet by which time also the White House was supposed to have submitted the draft budget for fiscal year 1975 in a State of the Union

message to Congress I don't see the link between the two but in any case I took the initiative to suggest that final decision on the interest rate question be delayed until after the Tet holidays. Another Vietnamese policy maker told me privately that Mr Hung, our former colleague and now Special Assistant to the President, has opposed any interest rate adjustment partly on the grounds that the Vietnamese Government should not accept every recommendation made by the IMF. I had earlier discussed this question very briefly with Mr Hung at a breakfast meeting in December. At that time he told me that he did not support any substantial increase in interest rates but it did not seem to be a major issue as far as he was concerned. Mr Hung is actively seeking to build up his own position by, among other things, creating his own economic policy staff. He has not made much progress so far and presumably the question of interest rates is a politically attractive issue on which to differ with the Governor and the Economic Ministers. As I have indicated in a cable, I am reasonably hopeful that some adjustment of interest rates will be accepted after Tet especially in light of the worsening outlook for the balance of payments.

The political situation remains unsettled. The Government as a whole successfully formulated policies in the discussions with the missions of the Fund and the Bank in December. Subsequently, however, the lack of leadership on economic policy matters has become clearer. No single Minister nor the Commissioner-General of Planning has the authority to coordinate economic policy which leaves the situation pretty much as it was before the Government change last October. The Americans are trying to solve this problem by building up the position of the Commissioner General which is recognized by the others as being incompetent technically and owing his influential position in recent years primarily to the backing of the U S Embassy. Earlier this month U S AID met with the Economic Ministers and the Commissioner-General and the Governor of the National Bank. The results of this meeting are outlined in the attached note (Attachment 1) which has been prepared by the staff of the Commissioner-General. In this document the Vietnamese have undertaken to cooperate with U S AID in preparing programs and procedures for achieving certain objectives in the fiscal field and to cooperate with U S AID also on exchange rate management and other policy variables relating to the balance of payments. I observed during a private discussion with a key Vietnamese official that such assistance by the U S AID did not seem to leave much scope for policy advice by the Fund representative. In effect, I was told not to pay any attention to the document which was a joint product of the Commissioner and the U S AID without any implication for other agencies. Presumably, there will continue to be lack of effective leadership on economic policy matters until the final position of the Commissioner-General has been decided. As far as the other policy makers are concerned they do not expect his position to become stronger, while U S AID has recently been insisting that it should be strengthened. One must presumably expect therefore a continued period of weak policy coordination and leadership on economic issues.

With best regards,

Yours truly,

Gunnar Tomasson

P S I am attaching also the draft "Proposal for Utilization of Aid

(cont'd)

P S (Cont'd)

Counterpart Funds" (Attachment 2) The principles outlined in this memorandum were discussed with Mr Palmer and the Vietnamese are now circulating this memorandum to representatives of donor countries Attachment 3 outlines in some detail the latest budgetary estimates and shows how these differ from the estimates that were presented to the recent Fund mission by the Vietnamese Government

G Tomasson

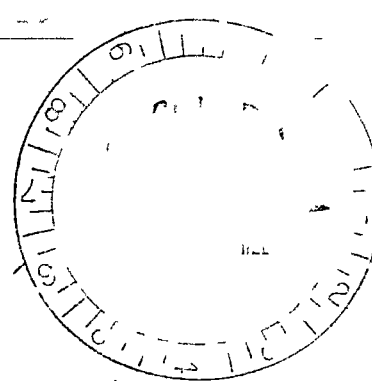
THIS IS NATIONAL BANK OF VIETNAM SAIGON

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Orig ASD
cc MD
DMD
Mr. Kharmawan
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NRO1/117 12/01/74



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cc, US Bureau

INTERFUND WASHINGTONDC

CONFIDENTIAL

FOLLOWING LETTER MAILED TODAY QUOTE THE MANAGING DIRECTOR

INTERNATIONAL MONETARY FUNDS WASHINGTONDC

DEAR MR. WITTEVEEN

1. THE REPUBLIC OF VIETNAM HAS SOUGHT TO SIMPLIFY PROGRESSIVELY ITS EXCHANGE SYSTEM, WITH THE EVENTUAL AID OF A UNIFIED EXCHANGE RATE STRUCTURE IN RECENT WEEKS CERTAIN REFORMS HAVE BEEN INTRODUCED, AND IN THIS LETTER THE GOVERNMENT OF THE REPUBLIC OF VIETNAM SUBMITS ITS EXCHANGE REFORM FOR APPROVAL BY THE FUND EXECUTIVE BOARD OF THOSE MEASURES THAT

ITT World Communications Inc.

1709 L St NW Washington DC Phone 296-6200

1709 L St NW Washington DC Phone 296-6200

ITT World Communications Inc.

709 L St NW

709 L St NW

EXCHANGE RATE SYSTEM HAS BEEN LARGELY UNIFIED

2. THE RECENT REFORM MEASURES INCLUDE (A) THE ELIMINATION OF EXPORT SUBSIDIES WHICH CONSTITUTED MULTIPLE CURRENCY PRACTICES AND THE INTRODUCTION OF A SYSTEM FOR SUBSIDIZING THE INTEREST COST ON EXPORT FINANCING, (B) THE REPLACEMENT ON NOVEMBER 22, 1973, AND ON DECEMBER 29, 1973, OF ALL PEREQUATION TAXES ON IMPORTS WHICH ALSO CONSTITUTED MULTIPLE CURRENCY PRACTICES BY AD VALORE SURCHARGES TO BE COLLECTED BY CUSTOMS, AND IN ADDITION (C) REDUCTION OF THE VALIDITY PERIOD OF SO-CALLED 'IMPORT CREDITS' UNDER WHICH IMPORTS AGAINST FREE FOREIGN EXCHANGES ARE EFFECTED FROM ONE YEAR TO 30 DAYS

3. ON JANUARY 12, 1974, THE PRESENT PREFERENTIAL EXCHANGE RATE (VN PIASTRES 465 PER USDOLLAR ONE) APPLIED TO CERTAIN TIED COMMODITY AID IMPORTS FROM THE UNITED STATES WAS ELIMINATED, THEREBY ESTABLISHING A UNIFIED EXCHANGE RATE

1709 L St NW Washington D C Phone 296 700

ITT World Communications Inc.

SYSTEM THE UNIFIED EXCHANGE RATE HAS BEEN INITIALLY SET

AT VN PIASTERS 560 PER USDOLLAR ONE AND WILL BE APPLIED
TO ALL EXCHANGE TRANSACTIONS WITHOUT EXCEPTION.

4. IN ORDER TO OFFSET THE RELATIVE DISADVANTAGES TO
IMPORTERS OF USING TIED COMMODITY AID FUNDS AS AGAINST FREE
EXCHANGE AND TO ENSURE SATISFACTORY UTILIZATION OF AVAILABLE
AID RESOURCES, A SYSTEM OF SUBSIDIES WILL BE INTRODUCED FOR
CERTAIN COMMODITY IMPORTS FINANCED WITH TIED COMMODITY AID
FUNDS. UNDER THIS SYSTEM A FLAT PIASTRE AMOUNT PER DOLLAR
VALUE OF IMPORTS, AS ESTABLISHED FOR CUSTOMS PURPOSES, WILL
BE PAID TO IMPORTERS AFTER CUSTOMS CLEARANCE OF THE GOODS
THE AMOUNT OF THE SUBSIDY WILL VARY ON THE BASIS OF
GEOGRAPHICAL OR OTHER CRITERIA, AND IT WILL BE ADJUSTED AS
NECESSARY TO ENSURE ADEQUATE UTILIZATION OF TIED-AID
FUNDS. INITIALLY, A SUBSIDY WILL BE PAID ON CERTAIN TIED

1709 L St N W Washington D C Phone 296 6200

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IONS INC.

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COMMODITY AID IMPORTS FROM THE UNITED STATES IN THE AMOUNT
OF VNPIASTRES 85 PER USDOLLAR ONE OF THE CUSTOMS VALUE.

POSSIBLE SUBSIDY RATES FOR TIED COMMODITY AID IMPORTS FROM
OTHER GEOGRAPHICAL AREAS MAY BE DECIDED LATER.

5 THE REPUBLIC OF VIETNAM EXPECTS TO RECEIVE COMMODITY
AID FUNDS FROM SEVERAL COUNTRIES AND INTERNATIONAL FINANCIAL
INSTITUTIONS IN FUTURE YEARS THE FINANCING OF COMMODITY AID
IMPORTS WILL, TO THE MAXIMUM EXTENT FEASIBLE, BE BASED ON A
BROAD COMMODITY LIST FOR THE ITEMS ON WHICH IMPORTERS WILL
HAVE A FREE CHOICE AS BETWEEN THOSE SUPPLYING COUNTRIES
WHICH HAVE COMMITTED AID TO FINANCE COMMODITY IMPORTS, AS
WELL AS ANY COUNTRIES DESIGNATED AS ELIGIBLE BY AN AID
DONOR

6. THE ADVANCE IMPORT DEPOSIT OF VN PIASTERS 100 PER
USDLR ONE WHICH WAS HELD BY THE NATIONAL BANK FOR A PERIOD

ATT World Co. MEMPHIS

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OF SIX MONTHS FOR IMPORTS OF CERTAIN ITEMS UNDER U.S. COMMODITY AID HAS BEEN ELIMATED. THE COST EFFECT OF ELIMINATING THIS ADVANCE IMPORT DEPOSIT HAS BEEN CONSIDERED IN ESTABLISHING THE SUBSIDY ON CERTAIN TIED COMMODITY AID IMPORTS FROM THE UNITED STATES REFERRED TO IN PARAGRAPH 4 ABOVE. FOR THIS REASON, THERE WILL BE NO NET EXPANSIONARY MONETARY EFFECT DUE TO THE ELIMINATION OF THIS ADVANCE IMPORT DEPOSIT HOWEVER, THE PRESENT ADVANCE IMPORT DEPOSITS OF VI PIASTRES 200 AND VM PIASTRES 600 PER USDOLLAR ONE WHICH ARE HELD BY THE NATIONAL BANK FOR A PERIOD OF TWELVE MONTHS FOR CERTAIN LESS ESSENTIAL IMPORTS FINANCED BY FREE EXCHANGE WILL BE RETAINED FOR THE TIME BEING THE FUTURE APPLICATION OF THESE ADVANCE IMPORT DEPOSITS WILL BE REVIEWED AT THE TIME OF THE NEXT ARTICLE XIV CONSULTATION, AS WILL ALSO THE 2 PER CENT SPREAD BETWEEN THE BUYING AND SELLING RATES OF THE NATIONAL BANK.

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INTERNATIONAL COMMERCIAL BANKING CORP.

Phone 256 6200

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1709 LS NW Washington DC Phone 256 6200

World Communications Corp.

7. AT THE PRESENT TIME, IMPORT PROHIBITIONS APPLY TO A NUMBER OF IMPORT ITEMS HOWEVER, AS A MATTER OF GENERAL POLICY, NO NEW QUANTITATIVE OR OTHER RESTRICTIONS ON IMPORTS, OR ON PAYMENTS OR TRANSFERS FOR IMPORTS, WILL BE IMPOSED FOR BALANCE OF PAYMENTS REASONS, AND THE LIST OF PROHIBITED IMPORTS WILL CONTINUE TO BE PROGRESSIVELY REDUCED AT THE SAME TIME, IT IS OUR GENERAL POLICY NOT TO INTRODUCE NEW OR TO INTENSIFY EXISTING RESTRICTIONS ON CURRENT DIVISIBLE PAYMENTS

8. THE CAPACITY OF THE VIETNAMESE ECONOMY TO SERVICE FOREIGN DEBT WILL BE RELATIVELY LIMITED DURING 1974 AND SUBSEQUENT YEARS, CONSIDERING THE HIGH IMPORT REQUIREMENTS OF THE POST-WAR RECONSTRUCTION AND DEVELOPMENT EFFORTS AND LOW INITIAL EXPORTS AND FOREIGN EXCHANGE EARNINGS, GREAT IMPORTANCE IS ATTACHED TO LIMITING THE BURDEN OF FUTURE

DEBT SERVICE TO A REASONABLE PROPORTION OF THE COUNTRY'S
FOREIGN EXCHANGE EARNINGS.

UNDER EXISTING POLICY, THE COMMERCIAL BANKS ARE NOT PERMITTED
TO BORROW ABROAD. APPROVALS OF SHORT-TERM AND MEDIUM-TERM
COMMERCIAL CREDITS WILL BE LIMITED.

9. IN VIEW OF THE PRESENT INFLATIONARY CONDITIONS IN
THE REPUBLIC OF VIETNAM, THE EXCHANGE RATE WILL CONTINUE TO
BE ADJUSTED FROM TIME TO TIME. ADJUSTMENTS WILL BE MADE IN
LIGHT OF DOMESTIC FINANCIAL DEVELOPMENTS AND OF THE
GOVERNMENT'S POLICY OBJECTIVE OF AVOIDING ANY NET LOSS OF
FOREIGN EXCHANGE RESERVES DURING 1974.

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Phone 296-6200

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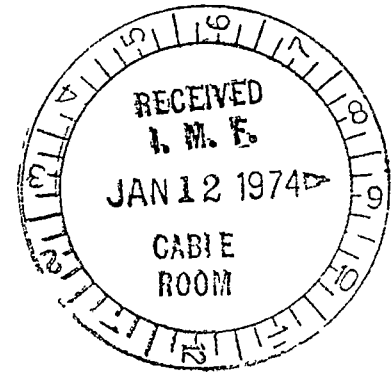
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Communication Co.

10. ON BEHALF OF THE GOVERNMENT OF THE REPUBLIC OF
 VIETNAM, I HEREBY SUBMIT OUR EXCHANGE REFORM FOR APPROVAL
 BY THE EXECUTIVE BOARD OF THE INTERNATIONAL MONETARY FUND
 OF THOSE EXCHANGE PRACTICES THAT ARE SUBJECT TO ACTION BY
 THE FUND STOP CHAU KINH NHAN MINISTER OF FINANCE UNQUOTE
 LE QUANG UYEN GOVERNOR NATIONAL BANK OF VIETNAM

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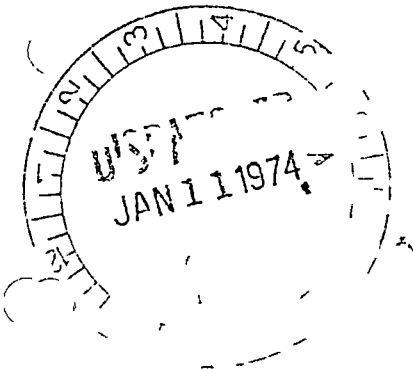
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SPECIAL INSTRUCTIONS

BY TELEX

Cleared with ETR *DM*



Drafted by EBrau/PChabrier
 Department ETR/Asian
 Date January 9, 1974

AUTHORIZATION

J Woodley
 Signature
 /s/ J Woodley
 Second Signature When Required

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INTERNATIONAL MONETARY FUND
WASHINGTON DC

cc ASD
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ETR

To Tomasson
BANVINA, Saigon (Viet-Nam)

No 4

- 1 Have reviewed proposed guidelines of your 14
 Would ask following recommendations be made
- 2 Generally, in assessing criteria justifying foreign borrowing emphasis should be placed on careful scrutiny and coordination of foreign borrowing operations of public sector and of private sector for which public guarantee is sought. We would not preclude a priori extending public guarantee for private sector borrowing which is not part of aid package negotiated on government-to-government basis, as in your para 3.
- 3 We believe a registration procedure should be established for purely private sector operations, but doubt feasibility and usefulness of full-fledged control system for such borrowing as in your para 2
- 4 All foreign borrowing by public sector entities or extension of repayment guarantee for private sector operations should be subject to prior approval of an inter-agency "Committee" Committee should have discretionary authority rather than be bound by rigid quantitative and other guidelines as in your paras 4 and 5 "Prior approval" would include both authorization to negotiate and final approval of loan contract.

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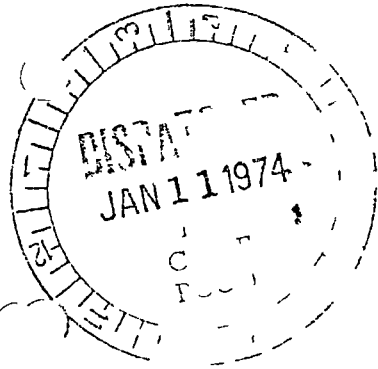
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To Tomasson
BANVINA, Saigon (Viet-Nam)

- 2 -

In general, Committee should not approve foreign borrowing (or extension of guarantees) except where the terms clearly are concessional or where the credit (whether for imports or local cost financing) has been negotiated on a government-to-government basis as part of a "package" whose average terms imply high concessional element. "Committee" should be coordinator of all public sector borrowing and be consulted in determining project priorities and preparation of proposals to be discussed with creditor governments and international banking agencies. It would require highly competent technical staff.

5. Comprehensive registration procedures for foreign borrowing by private sector not publicly guaranteed, other than trade credits up to one-year maturity and financial credits taken up by banks, should be implemented by Central Bank or Finance Ministry under general jurisdiction of "Committee." For amounts above say US\$50,000 there should be precontract registration procedure whereby borrower would provide detailed information on sources, terms (including commitment fees, downpayment, etc) and purpose of credit prior to signing of loan contract, subsequently, a copy of loan contract would be registered with appropriate office. Smaller amounts would be

Drafted by EBrau/PChabrier
Department ETR/Asian
Date January 9, 1974

AUTHORIZATION

Signature

/s/ J Woodley

Second Signature When Required

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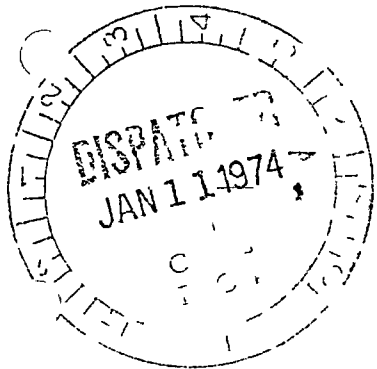
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To Tomasson
BANVINA, Saigon (Viet-Nam)

- 3 -

subject only to final registration.

6 Registration procedure could be enforced in various ways although use of foreign exchange control might be most feasible in the context of Viet-Nam. For example, final registration of credits in excess of say US\$50,000 would be given only for new credits which have followed precontract registration procedure, and proof of final registration would be prerequisite to transfer of foreign exchange for service of the obligations.

7 The designated office should report to "Committee" frequently both with respect to precontract and final registration and aggregate debt service schedule arising from such obligations. Should supply of private borrowing without guarantee be thought too large in context of general economic policies Committee may, on basis of registration data, decide to intervene. This could take several forms, including establishment of minimum grace and amortization periods or a system of prior deposits, the rates of which could be scaled according to original maturities, or be lower for export-oriented or high priority import substituting sectors, etc. However, you should not encourage Government to institute direct or

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 Depart ETR/Asian
 Date January 9, 1974

AUTHORIZATION

Signature

/s/ J Woodley

Second Signature When Required

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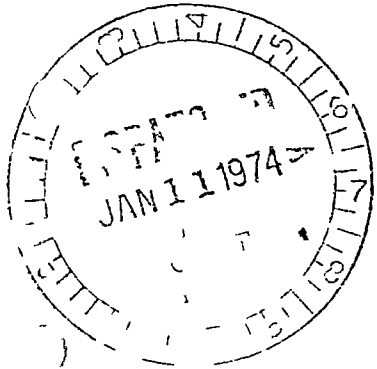
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SPECIAL INSTRUCTIONS

BY TELEX

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ETR



To Tomasson
BANVINA, Saigon (Viet-Nam)

- 4 -

indirect control procedures for purely private transactions until such time as there is established a clear cut case of need.

8. With respect to foreign financial credits taken up by commercial (or government) banks, authorities should consider direct limitations on banks' foreign liabilities consistent with domestic monetary objectives (i.e., present prohibitions). With respect to short-term trade credits referenced in your para 8 including import financing of up to one year at the outside, one would expect the "float" of such credit to be directly related to volume of commercially financed imports. A sharp increase in this float would not occur out of step with growing imports, unless there are domestic excess demand pressures or a highly suspect exchange rate or some combination of the two. It is not to be recommended that special measures be taken to decrease the float of such import credit or to prevent the importer from obtaining goods on terms which are normal for the given type of commodity being imported.

rafted by EBrau/PChabrier
c/partn ETR/Asian
ate January 9, 1974

AUTHORIZATION

Signature
/s/ J Woodley

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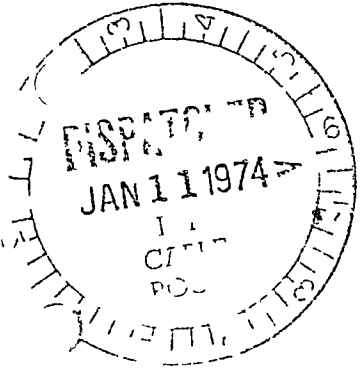
To Tomasson
BANQUINA, Saigon (Viet-Nam)

- 5 -

9. In view of above changes made in your recommendations would appreciate that in cases like this you consult with headquarters before submitting major policy recommendations.

Regards.

Woodley
Interfund



Drafted by EBcan/PChabrier

Depart ETR/Asian

Date January 9, 1974

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Signature
s/ J Woodley

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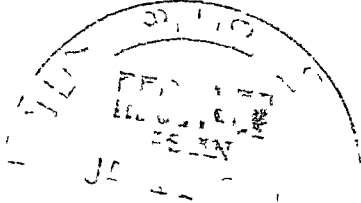
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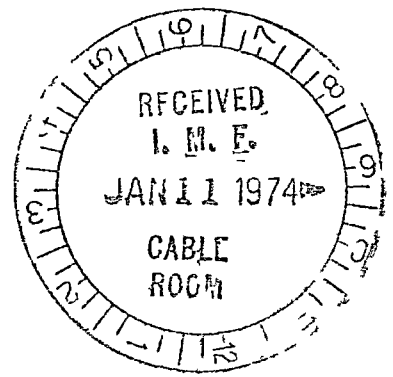
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APPROPRIATE COMMUNICATION BY VIETNAM TO FUND STOP

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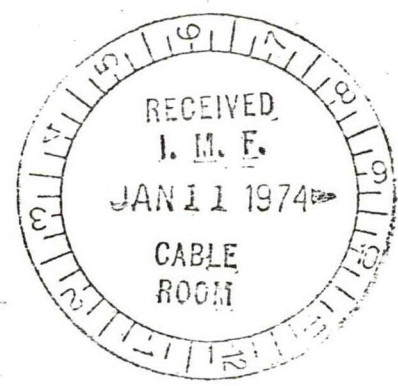
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APPROPRIATE COMMUNICATION BY VIETNAM TO FUND STOP

REGARD TOMASSON



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INTERNATIONAL MONETARY FUND

Mr. Chabrier has been in touch with the Secretary's office regarding the second para. of the cover note of the Viet-Nam paper. Without seeking your specific approval the Secretary's Dept. included the sentence from the last sentence in your covering note to management (which accompanied the stencils indicating management approval) , as the Board has to approve the use of the report at the Paris meeting.



The Managing Director
The Deputy Managing Director

January 10, 1974

Donald K. Palmer and W. John R. Woodley

Viet-Nam Report

You will recall that the December technical assistance mission reached substantive agreement with the Vietnamese on a comprehensive reform of the exchange system. We have now been informed that the final reform measures will be introduced over the coming weekend and the letter requesting Fund approval will be signed on January 14. Attached, for your consideration, is a draft report which has been cleared with the interested departments.

Mr. Hanh has arranged with the Secretary's Department to have this item scheduled for Board discussion on January 23. Assuming Board approval of the proposed decision, the paper would also be distributed for use at the aid group meeting on Indo-China which the World Bank is arranging for February 12.

Attachment

cc: Mr. Crockett

SUBJECT COPY

Mr. Palmer

January 10, 1974

MEMORANDUM FOR FILES

Subject: Khmer Republic and Viet-Nam - Blocked French Francs

Messrs. Wademan and Kamens, officers in charge of Vietnamese and Cambodian affairs at the State Department, called to inform me about the issue of blocked French francs belonging to Viet-Nam and the Khmer Republic and representing assets of the old Indo-China Monetary Authority. At present, amounts of \$7-8 million in French francs are kept with the French Treasury in account for Viet-Nam and the Khmer Republic, respectively. The distribution of such assets has been a matter of dispute in the last twenty years.

Both Messrs. Kamens and Wademan told me that the U.S. Embassy in Saigon had sent a cable on Tuesday mentioning that the settlement of the issue was in a stalemate, that Evers and Tomasson were in disagreement on the issue and that the dispute could only be settled by the Fund headquarters, and that Tomasson had mentioned to U.S. officials that he would go to Phnom Penh to meet the Khmer officials on this issue if the Fund headquarters instructed him to do so. Both Messrs. Kamens and Wademan wanted to know the Fund position on this issue and whether we planned to instruct Mr. Tomasson to go to Phnom Penh to discuss the issue with the Khmer authorities. I told them that I would refer this to the Front Office and would let them know shortly.

The issue is not new and both Tomasson and Evers represent the points of view of their respective "clients". I discussed the issue in Phnom Penh with the Khmer authorities, in Bangkok with both Tomasson and Evers who indicated the respective views of Cambodia and Viet-Nam. I also discussed the issue with Governor Sok Chhong in August and October 1973; Governor Sok Chhong told me that the Khmer Government was not ready to settle for anything less than its original position; the same position was also taken by Governor Uyen of the National Bank of Viet-Nam. The issue is highly political and should be dealt on a government-to-government basis; at present, it seems to me that it would be unwise for the Fund to be directly involved in the matter, unless both governments formally ask the Fund to be the mediator. I did not get the impression from Governor Sok Chhong that the Khmer Government desired such mediation.

P. Chabrier
Paul Chabrier

- cc: Mr. Tun Thin
- Mr. Woodley
- ✓ Mr. Palmer
- Mr. Mattera
- Mr. Takeda
- Mr. Handy
- Mr. Brau
- Mr. Johnson

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cc. W Bran

FURTHER REQUEST OF MR. CHABRIER BY TELEX OF JAN 14TH

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CABLE NUMBER THREE WITH GOVERNOR STOP HE CONSIDERS
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WITH PREFERENCE FOR FIRST ALTERNATIVE STOP

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ONE STOP UNDER PRESENT REGULATIONS COMMA EXPORTER

MUST SUBMIT EXPORT DECLARATION TO BE REGISTERED

BY NATIONAL BANK BEFORE SHIPMENT CAN TAKE PLACE

STOP AT THE TIME OF REGISTRATION COMMA NATIONAL

BANK WOULD PAY FLAT PIASTER SUBSIDY PER DOLLAR

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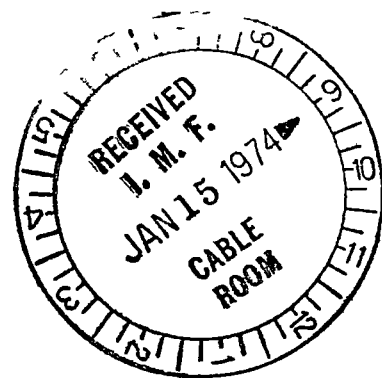
EXCEPT THAT SUBSIDY WOULD BE CALCULATED FOR EACH
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OF EXPORT DECLARATION CALCULATED AT THE PREVAILING
EXCHANGE RATE STOP PLEASE ADVISE URGENTLY STOP DATE
OF REFORM WOULD STILL BE JANUARY 12 AND LETTER
WOULD BE SENT AS DRAFTED ON JANUARY 14 IF EITHER
OF THESE ALTERNATIVES ARE ACCEPTABLE TO FUND STOP
IF NEITHER IS ACCEPTABLE COMTRA REFORM WOULD STILL
BE INTRODUCED JANUARY 12 ACCOMPANIED BY GOVERNMENT
ANNOUNCEMENT THAT DETAILS OF INTEREST RATE SUBSIDY
SCHEME WERE BEING WORKED OUT FOR EXPORTS STOP

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FURTHER REQUEST OF MR. CHABRIER BY TELEX OF JAN 14TH

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COURSE SUSPEND EXPORT PROCEEDS TO COMMERCIAL

BANKS IN ACCORDANCE WITH EXISTING REGULATIONS STOP

TWO STOP ALTERNATIVELY PROCEDURE WOULD BE AS ABOVE

% per TVA value of exports

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1709 L St., W Washington

THE WORLD BANK

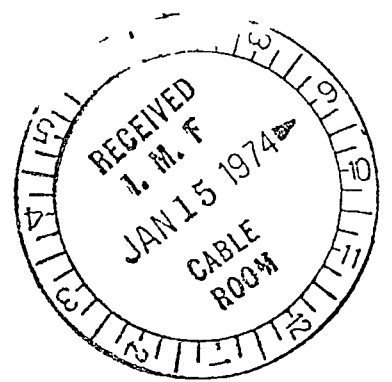
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EXCEPT THAT SUBSIDY WOULD BE CALCULATED FOR EACH EXPORT DECLARATION BY APPLYING PREVAILING ANNUAL INTEREST RATE PRORATED FOR THREE MONTHS TO VALUE OF EXPORT DECLARATION CALCULATED AT THE PPREVAILING EXCHANGE RATE STOP PLEASE ADVISE URGENTLY STOP DATE OF REFOPH WOULD STILL BE JANUARY 12 AND LETTER WOULD BE SENT AS DRAFTED ON JANUARY 14 IF EITHER OF THESE ALTERNATIVES ARE ACCEPTABLE TO FUND STOP IF NEITHER IS ACCEPTABLE COMMA REFOPH WOULD STILL BE INTRODUCED JANUARY 12 ACCOMPANIED BY GOVERNMENT ANNOUNCE ENT THAT DETAILS OF INTEREST RATE SUBSIDY SCHEME WERE BEING WORKED OUT FOR EXPORTS STOP

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Texas

BAHVIN, Saigon, South Viet-Nam

Cleared: Mr. Evans
Mr. Woodley

1. Changed export subsidy scheme of paragraph 5 of your 2

would result in a multiple currency practice which might not be approved since subsidy is directly related to surrender of exchange. An acceptable scheme could be based on any commercial bank export credit that National Bank declares eligible for interest subsidization regardless of whether rediscounting occurs. Exporters which are refused credit by commercial banks need not be subsidized. Credit to new exporters can be facilitated by a guarantee scheme operated by National Bank.

2. Would ask you advise authorities to implement export subsidy scheme along original lines with above modifications, if necessary. Please advise urgently.

ESran:jb

ETR

January 9, 1974

Regards

Palmer
INTERFUND

Donald K. Palmer

INTERNATIONAL MONETARY FUND

SPECIAL DELIVERY

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PALMER

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cc: LEG
ETR

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NUMBER TWO STOP

REFERENCE YOUR MEMORANDUM OF JANUARY 4 STOP

ONE STOP MINISTER OF FINANCE HAS APPROVED REVISED REVENUE

ESTIMATES
~~XXXXXXXXX~~ FOR 1974 AND PRESIDENT IS EXPECTED TO GIVE HIS

APPROVAL ALSO STOP REVISED TOTAL IS 302 BILLION PIASTERS

STOP REFERENCE TEXT TABLE 1 IN DRAFT PAPER COMMA COMPOSITION

OF NEW TOTAL IS 30 COMMA 62 COMMA 157 COMMA 25 COMMA AND 28

STOP

TWO STOP PRESIDENT HAS APPROVED LOWER 1974 BUDGET EXPENDITURE

FIGURE OF 608 BILLION STOP COMPOSITION AS IN TEXT TABLE 1

IS CTOTEEE COLON 274 COMMA 78 COMMA 102 COMMA 53 COMMA 96 STOP

POTENTIAL ITEMS REMAIN AT 70 BRINGING TOTAL EXPZNDITURES

TO 678 BILLION STOP

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ations

THREE STOP CUT IN LIPOPT CREDIT FROM 50 BILLION TO 30
BILLION HAS BEEN AGREED AT TECHNICAL LEVEL STOP DUE TO
PRESSURE OF OTHER BUSINESS COMPA MINISTERS AND GOVERNOR

HAVE NOT MET TO FORMALLY AGREEZ ON THIS BUT YOU MAY
ASSUME THAT LOWER FIGURE WILL BE AGREED STOP I AM SENDING

MEMO ON THIS TO MINISTERS TODAY AND WILL ADVISE YOU BY

FRIDAY IF THIS ASSUMPTION IS INCORRECT STOP

FOUR STOP MINISTERS AND GOVERNOR AGREE ON NEED FOR INTEREST

RATE ADJUSTMENT STOP PROPOSAL HAS BEEN DRAFTED BY MINISTRY

OF TRADE ALONG LINES SUGGESTED IN MY MEMO OF DECEMBER 10

STOP CONCEIVING MEDIUM TERM INVESTMENT CREDIT I HAVE

ALSO SUGGESTED THAT INTEREST RATE BE PLACED AT 10 PERCENT

WITH REPAYMENT LINKED TO EXCHANGE RATE AS IN INDONESIA

AFTER 1968 STOP THERE IS STRONG OPPOSITION WITHIN

GOVERNMENT TO HIGHER RATES AND I HAVE SUGGESTED THAT ACTION

BE DEFERRED UNTIL AFTER TET STOP BELIEVE PROSPECTS FOR

EVENTUAL ACTION ARE REASONABLY GOOD STOP

FIVE STOP INTEREST RATE SUBSIDY FOR EXPORTS WILL OPERATE

AS FOLLOWS COLON EXPORTERS WILL RECEIVE DOCUMENT FROM

L

COMMERCIAL BANKS SHOWING AMOUNT OF EXPORT PROCEEDS

SURRENDERED STOP UPON PRESENTATION OF THIS DOCUMENT

THE NATIONAL BANK WILL PAY INTEREST SUBSIDY ON THE

WORKING ASSUMPTION THAT AVERAGE PERIOD OF FINANCING

IS THREE MONTHS STOP OF SUBSIDY

----- HR 1 RPT 1'

IS THREE MONTHS STOP AMOUNT OF SUBSIDY WILL BE EQUAL TO

LOCAL CURRENCY VALUE OF EXCHANGE SURRENDER TIMES

PREVAILING ANNUAL INTERESTING RATE PERCENT

PREVAILING ANNUAL INTEREST PROCEED RATE PRORATED FOR THREE MONTHS

STOP WITH PRESENT LENDING RATE OF ABOUT 26 PERCENT AND

EXCHANGE RATE OF 500 COMMA THE INTEREST RATE SUBSIDY

WOULD BE ABOUT 36 PIASTERS PER DOLLAR OR ABOUT 6.5 PERCENT

OF EXCHANGE RATE STOP SUBSIDY WILL BE PAID FROM SPECIAL

FUND WITH NATIONAL BANK TO WHICH NATIONAL BANK WILL

CREDIT ALL INTEREST EARNED ON ITS REDISCOUNTS OF EXPORT

BILLS AND MINISTRY OF TRADE WILL FINANCE THE REMAINDER

STOP UPON EXAMINATION COMMA VIETNAMESE AUTHORITIES DID NOT

CONSIDER IT FEASIBLE TO WORK SCHEME EXCLUSIVELY ON BASIS

OF NATIONAL BANK REDISCOUNTS SINCE SOME EXPORTERS ARE

REFUSED CREDIT BY COMMERCIAL BANKS COMMA AND BANKS THEMSELVES
DO NOT REDISCOUNT ALL THEIR EXPORT CREDITS STOP

SIX STOP LATEST INFORMATION ON US AID IS DISCOURAGING STOP

USAID AND VIETNAMESE HAVE REVISED DOWNWARD US AID IMPORTS

IN 1974 ESTOP INSTEAD OF 290 MILLION DOLLARS COMMA CIP AND

DLF IMPORTS MAY BE ONLY 260 MILLION WHILE POL COMPONENT

MAY INCREASE FROM 100 TO 150 STOP THIS WOULD LIMIT CIP AND

DLF TO TOTAL OF 110 IN 1974 WHICH IS ABOUT THE LEVEL FOR

SECOND HALF OF 1973 STOP FROM MONETARY POINT OF VIEW COMMA

ESTIMATED COUNTERPART FUND GENERATION WOULD DECLINE FROM

306 BILLION TO 290 BILLION STOP

SEVEN STOP DIRECT DOLLAR SUPPORT IN 1974 HAS BEEN REVISED

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DOWNWARD FROM 100 BILLION DOLLARS TO 80 BILLION STOP THIS

REDUCES ASSOCIATED MONETARY ABSORPTION FROM 62 BILLION TO 50 BILLION STOP

EIGHT STOP ABOVE FACTORS WOULD HAVE NET EFFECT OF REDUCING

PROJECTED 1974 DOMESTIC CREDIT EXPANSION FROM 164 BILLION

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NINE STOP MY LATEST PROJECTION IS THAT RESERVES WOULD

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85 COLON GVN IMPORTS 300 COMMA AID FREIGHT 45 COMMA POL

ADVANCE 150 COMMA OTHER 85 STOP

TEN STOP THE ABOVE DOMESTIC MONETARY EXPANSION OF 125

BILLION LESS PROJECTED LOSS OF RESERVES OF 31 BILLION WOULD

IMPLY AN INCREASE OF 94 IN MONETARY LIABILITIES IN

20 PERCENT STOP HOWEVER I DOUBT IF VIETNAMESE WILL ACCEPT

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50 MILLION RESERVES LOSS HENCE SOME POLICY MEASURES ARE

LIKELY TO BE REQUIRED STOP ALSO IT IS ASSUMED ABOVE THAT

NON-US PROGRAM AID DISBURSEMENTS WILL TOOOEE TOTWL 100MILLION

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BILLION LESS PROJECTED LOSS OF RESERVES OF 31 BILLION WOULD

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DOLLARS IN 1974 STOP AT MEETING ON DECEMBER 21 COMMA FRENCH

COMMERCIAL ATTACHE COMPLAINED THAT PROGRESS ON AGREEING ON

COMMODITY LIST FOR FRENCH AID WAS HAMPERED BY US EXCLUSIVE

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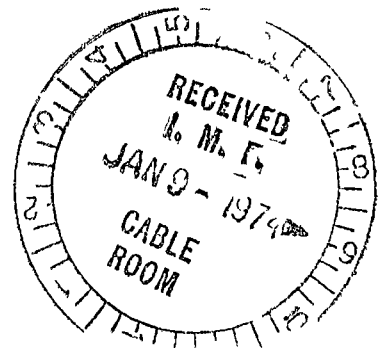
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LIST STOP JAPANESE ATTACHE EXPRESSED CONCERN ALSO OVER THIS
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AFD B STOP I SUGGESTED THAT IT WAS IMPORTANT THAT 1973 AID
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WAS CONCERNED STOP PROPOSAL GOTK COLD RECEPTION FROM USAID
STOP IN VIEW OF THE LOWER CIP AND DLF IMPORT FINANCING
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OF JANUARY OR EXCLUSIVE LISTS BE SUSPENDED PENDING
AGTEEE AGREEMENT ON COMMON LIST STOP REGARDS

TOMASSON



248331 IMF UR¹¹
248331 IMF UR¹²
248331 IMF UR¹³
248331 IMF UR
BANVINA 798203

Mr Palmer
cc. W. Kran

THIS IS NATIONAL BANK OF VIETNAM SAIGON

5 30PM

209735

248331 IMF UR

NR01/89 09/1/74

Orig ASD
cc LEG
ETR

INTERFUND WASHINGTONDC

PALMER

NUMBER ONE STOP

AAA MET WITH MINISTER OF TRADE YESTERDAY TO FINALIZE LETTER

TO FUND STOP DRAFT LETTER BROUGHT BY QUAN HAS BEEN COMPLETED

AS FOLLOWS COLON

ONE STOP DATE OF LETTER WILL BE JANUARY 14 STOP

TWO STOP PARA TWO LINE FOUR INSTEAD OF QUOTE JANUARY BLANK

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COMMA 1974 UNQUOTE READ QUOTE DECEMBER 29 COMMA 1973

UNQUOTE STOP

THREE STOP PARA THREE LINE ONE COMMA INSERT 12 REPEAT 12

AND 465 REPEAT 465 FOR TWO BLANKS RESPECTIVELY STOP CHANGE

FIGURE IN PARA THREE LINE FOUR FROM 575 TO 560 REPEAT 560

STOP THIS CHANGE CONSIDERED NECESSARY FOR POLITICAL REASONS

IN VIEW OF SHORT TIME SINCE CHANGE TO 560 STOP

FOUR STOP PARA SIX LINE ONE DELETE QUOTE PRESENT UNQUOTE

AND REPLACE QUOTE IS UNQUOTE BY QUOTE WAS UNQUOTE STOP

FIVE STOP PARA TEN LINE ONE REPLACE QUOTE WE UNQUOTE BY

QUOTE I UNQUOTE STOP

SIX STOP FINALLY DELETE LAST TWO SIGNATURES STOP AT QUANS

SUGGESTION COMMA MINISTER OF FINANCE WILL SIGN LETTER

ALONE STOP

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SEVEN STOP TEXT OF LETTER WILL BE SENT IN CLEAR LANGUAGE

VIA NATIONAL BANK TELEX MONDAY JANUARY 14 AND LETTER ITSELF

MAILED SAME DAY STOP LETTER TO BE TYPED TODAY AND I WILL

PERSONALLY EDIT IT STOP

BBB FOLLOWING ARE SOME COMMENTS ON DRAFT PAPER BROUGHT BY

QUAN COLON

ONE STOP PAGE FOUR PARA ON RICE COLON STOCK TARGET FOR END

1974 IS NOW 220,000 TONS SEMICOLON DOMESTIC PROCUREMENT

IS PROJECTED AT 520,000 AND IMPORTS AT 360,000 INCLUDING

65,000 UNDER 1973 CONTRACTS AND 45,000 TO BE REPAID BY

KHMER REPUBLIC FOR RICE BORROWED IN 1973 STOP AT MEETING

A SECOND TIME TODAY WITH HEAD OF NEW NATIONAL FOOD

ADMINISTRATION TO ESTIMATE FINANCIAL REQUIREMENTS OF RICE

PROGRAM IN 1974 STOP

WILL ADVISE STOP

TWO STOP PAGE SIX SECOND LINE FROM BOTTOM FLEXIBLE RATE

INTRODUCED IN NOVEMBER 1971 STOP SEE PAGE SEVEN OF SM/73/151

FOR EXPLANATION STOP

PH

THREE STOP PAGE EIGHT LAST PARA IS DEFINITION OF DEVELOPMENT

CORRECT STOP

FSTOP PAGE NINE LINE THREE RICE SUBSIDY PRESUMABLY

REFERS TO RICE ALLOWANCE INTRODUCED IN AUGUST STOP

FOUR YTOP PAGE THIRTEEN FOURTH LINE FROM BOTTOM

NEGOTIATIONS WITH JAPAN ARE STILL GOING ON STOP

FIVE STOP PAGE FIFTEEN LINE TWELVE IT IS INCORRECT TO

SAY THAT GVN IMPORTS INCLUDE QUOTE MAINLY UNQUOTE LESS

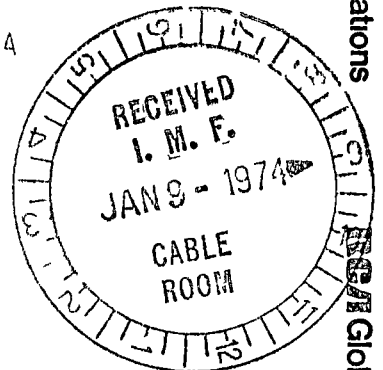
ESSENTIAL GOODS SINCE THEY FALL MAINLY IN CATEGORIES A

AND B STOP

SIX STOP PAGE THIRTY THREE LINE FIVE AS NOTED ABOVE

FLEXIBLE RATE WAS INTRODUCED IN NOVEMBER 1971 YTOP REGARDS

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BANVINA 798203

Mr. Bran
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THIS IS NATIONAL BANK OF VIETNAM SAIGON

5:30PM

209735

248331 IMF UR

NR01/89 09/1/74

Orig: ASD
cc: LEG
ETR

INTERFUND WASHINGTONDC

PALMER

NUMBER ONE STOP

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IS PROJECTED AT 290,000 TONS IMPORTS AT 367,000 INCLUDING

65,000 UNDER 1973 CONTRACTS AND 15,000 TO BE SUPPLIED BY

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TWO STOP PAGE SIX SECOND LINE FROM BOTTOM FLEXIBLE PAGE

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FOP EXPLANATION, STCP

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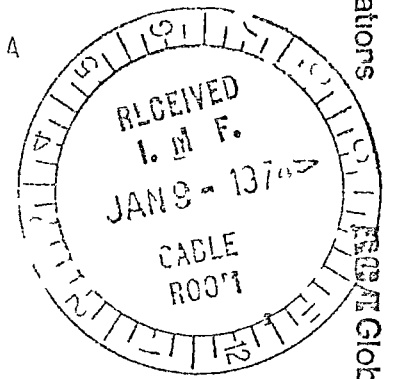
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AND B STOP

SIX STOP PAGE THIRTY THREE LINE FIVE AS NOTED ABOVE

FLEXIBLE RATE WAS INTRODUCED IN NOVEMBER 1971 YTOP REGARDS

TO ASSON



THREE STOP CUT IN IMPORT CREDIT FROM 50 BILLION TO 30

BILLION HAS BEEN AGREED AT TECHNICAL LEVEL STOP DUE TO

PRESSURE OF OTHER BUSINESS COMM. MINISTERS AND GOVERNOR

HAVE NOT MET TO FORMALLY AGREE ON THIS BUT YOU MAY

ASSUME THAT LOWER FIGURE WILL BE AGREED STOP I AM SENDING

MEMO ON THIS TO MINISTERS TODAY AND WILL ADVISE YOU BY

FRIDAY IF THIS ASSUMPTION IS INCORRECT STOP

FOUR STOP MINISTERS AND GOVERNOR AGREE ON NEED FOR INTEREST

RATE ADJUSTMENT STOP PROPOSAL HAS BEEN DRAFTED BY MINISTRY

OF TRADE ALONG LINES SUGGESTED IN MY MEMO OF DECEMBER 19

STOP CONCERNING MEDIUM TERM INVESTMENT CREDIT I HAVE

ALSO SUGGESTED THAT INTEREST RATE BE PLACED AT 12 PERCENT

WITH REPAYMENT LINKED TO EXCHANGE RATE AS IN INDONESIA

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GOVERNMENT TO HIGHER RATES AND I HAVE SUGGESTED THAT ACTION

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----- HR 1 PPT +'

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LOCAL CURRENCY VALUE OF EXCHANGE SURRENDER TIMES

link to rate?

PREVAILING ANNUAL INTEREST RATE

PREVAILING ANNUAL INTEREST RATE PRORATED FOR THREE MONTHS

STOP WITH PRESENT LENDING RATE OF ABOUT 26 PERCENT AND

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SIX STOP LATEST INFORMATION ON US AID IS DISCOURAGING STOP

USAID AND VIETNAMESE HAVE REVISED DOWNWARD US AID IMPORTS

IN 1974 ESTOP INSTEAD OF 290 MILLION DOLLARS COMMA CIP AND

DLF IMPORTS MAY BE ONLY 260 MILLION WHILE POL COMPONENT

MAY INCREASE FROM 100 TO 150 STOP THIS WOULD LIMIT CIP AND

DLF TO TOTAL OF 110 IN 1974 WHICH IS ABOUT THE LEVEL FOR

SECOND HALF OF 1973 STOP FROM MONETARY POINT OF VIEW COMMA

ESTIMATED COUNTERPART FUND GENERATION WOULD DECLINE FROM

306 BILLION TO 290 BILLION STOP

SEVEN STOP DIRECT DOLLAR SUPPORT IN 1971 HAS BEEN REVISED

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DOWNWARD FROM 100 MILLION DOLLARS TO 80 MILLION STOP THIS

-20

REDUCES ASSOCIATED MONETARY ABSORPTION FROM 62 BILLION TO 50 BILLION STOP

EIGHT STOP ABOVE FACTORS WOULD HAVE NET EFFECT OF REDUCING

PROJECTED 1974 DOMESTIC CREDIT EXPANSION FROM 164 BILLION

TO 125 BILLION STOP

"FINE STOP MY LATEST PROJECTION" IS THAT RESERVES WOULD

DECREASE BY 50 MILLION DOLLARS IN 1974 STOP THE UNDERLYING

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EXPORTS 85 COMMA US PIASTER PURCHASES 130 COMMA US DOLLAR

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25 COLON GVN IMPORTS 300 COMMA AID FREIGHT 45 COMMA POL

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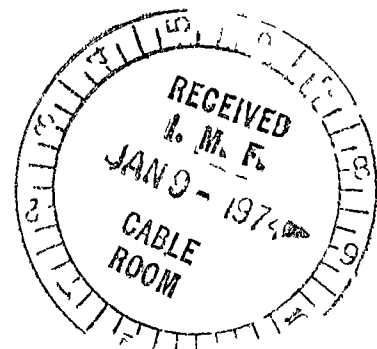
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LIST STOP JAPANESE ATTACHE EXPRESSED CONCERN ALSO OVER THIS
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 AGREEMENT ON COMMON LIST STOP REGARDS

TOMASSON



Global Communications

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OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

URGENT

Cleared: Mr. Evans
Mr. Woodley

CC: ASD
LEG
ETR



Drafted by EBran:jb

Def int ETR

Date January 9, 1974

AUTHORIZATION

Signature

Donald K. Palmer

Second Signature When Required

FOR CODE ROOM

Time Received _____
 Time Dispatched 6:00 P.M.
 Number of Words 6:55 P.M.
 Log 125
 Route 213487
 Operator R.C.A.
AT

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

To: Tomasson

HANOI, Saigon, South Viet Nam

No. 3

1. Changed export subsidy scheme of paragraph 5 of your 2

would result in a multiple currency practice which might not be approved since subsidy is directly related to surrender of exchange. An acceptable scheme could be based on any commercial bank export credit that National Bank declares eligible for interest subsidization regardless of whether rediscounting occurs. Exporters which are refused credit by commercial banks need not be subsidized. Credit to new exporters can be facilitated by a guarantee scheme operated by National Bank.

2. Would ask you advise authorities to implement export subsidy scheme along original lines with above modifications, if necessary. Please advise urgently.

Regards

Palmer
INTERFUND

DO NOT TYPE BELOW THIS LINE

WITHDRAWAL NOTICE**PROJECT**

Project number 2008-012
Project name PDR/EXR Front Office (AI)
Project tab number 354
Project box number 4

DOCUMENT

Series / File Vietnam Correspondence and Memos (54235)
Original box / file No 290 / 1
Date 1974 01 07
Type Notice
From The Secretary
To
Subject / Title Indochina Notice of Meeting
Number of pages 1
Classification CONFIDENTIAL
Authority World Bank

COMMENTS

**THIS DOCUMENT IS IN THE COURSE OF A SYSTEMATIC
PUBLIC DISCLOSURE REVIEW PROCESS**

Entered by bhooten

Entered on 2008 11 11

The Secretary

January 7, 1974

Tun Thin

Viet-Nam - Exchange Rate Change

With respect to the exchange rate changes notified to the Fund on January 5 by a cable from the National Bank of Viet-Nam, the attached notification to the Executive Board has been prepared in the routine form agreed earlier (cf EBD/73/278, October 4, 1973). The attached has been cleared with the Exchange and Trade Relations Department and the Legal Department

Attachment.

CC ✓ Messrs Palmer
Evans
Mattera
South Asia Division

TT/hs

Messrs. Chabrier and Brau

January 7, 1974

Donald K. Palmer

Viet-Nam

In making still another revision of the paper, taking into account comments from Messrs. Woodley, Goode, Evans and the editorial assistant, I have come up against an additional problem which time and energy did not permit me to handle. You will now see in the draft letter to the Fund a new sentence at the end of paragraph 2 which brings out an additional multiple rate arising from the 2 per cent spread between the buying and selling rates of the National Bank. I accepted Evans' judgment on this, having no basis for argument, but I would like to have both of your reactions. This same point will need to be introduced into the draft of the paper. Similarly in the body of the paper itself he wants a simple sentence or two stating just which multiple rates and which restrictions are being approved by the Fund Board. I tried to waffle on this by saying that I thought the formulation in Attachment B had been worked out with John Surr but he denied this. Without final commitment I said we would see whether we could draft a few sentences of the type he wanted and include them in the text of the paper.

Also he gave me a number of other language changes in the text which I find no difficulty in accepting. I am, however, attaching his copy (which has to go back to him eventually). You will note on page 18 where the reference to the 2 per cent spread has been introduced. See also page 22. I think it would be in Section F on page 22 where we would want to expand the last sentence (per Evans' request) to specify just which restrictions were being approved.

In addition, as far as the letter is concerned I have taken all of Evans' points although in somewhat revised form.

Where a problem does arise is on Attachment B. Frankly I don't know what to do with all his attached changes and I decided to wait for your joint return and the energy that would arrive with it.

Attachments

SUBJECT COPY

WITHDRAWAL NOTICE**PROJECT**

Project number 2008 012
Project name PDR/EXR Front Office (AI)
Project tab number 355
Project box number 4

DOCUMENT

Series / File Vietnam Correspondence and Memos (54235)
Original box / file No 290 / 1
Date 1974 01 07
Type Notes on meeting
From Commissariat General for Planning
To
Subject / Title Note on the Joint Ministerial Policy Discussion on the 1974 Financial Program
Number of pages 16
Classification CONFIDENTIAL
Authority Office Executive Director for Burma

COMMENTS

**THIS DOCUMENT IS IN THE COURSE OF A SYSTEMATIC
PUBLIC DISCLOSURE REVIEW PROCESS**

Entered by bhooten

Entered on 2008 11 11

WITHDRAWAL NOTICE**PROJECT**

Project number 2008 012
Project name PDR/EXR Front Office (AI)
Project tab number 354
Project box number 4

DOCUMENT

Series / File Vietnam Correspondence and Memos (54235)
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Date 1974-01 07
Type Notice
From The Secretary
To
Subject / Title Indochina Notice of Meeting
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Authority World Bank

COMMENTS

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PUBLIC DISCLOSURE REVIEW PROCESS**

Entered by bhooten

Entered on 2008 11 11

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248331 IMF UR

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BANVINA 798203

11:55AM

cc: Mr. Bryan

209489

THIS IS NATIONAL BANK OF VIETNAM SAIGON

248331 IMF UR

Orig ETR
cc Mr. Kharmawan
ASD
Mr de Looper

NR15/47 05/1/74

INTERFUND WASHINGTON DC

MR ERNEST STURC

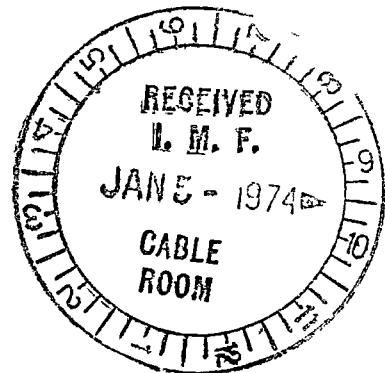
EFFECTIVE JANUARY 4, 1974 COLOR OFFICIAL RATE OF

VNPIASTRE CHANGED FROM 550 TO 560 PER USDOLLAR

STOP SPECIAL GATE CHANGED FROM 455 TO 465 PER

USDOLLAR STOPEND

BANVINA



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Mr. Tomasson

January 4, 1974

Donald K. Palmer

Viet-Nam - Various Items

This memorandum, which has been cleared with Jack Woodley, will attempt to bring together in one place various points concerning Viet-Nam. If Mr. Quan had not been returning over the weekend we would have sent most of the points by telegram, but that is not always the best means of communication.

As regard the staff report, I sent you a copy in Bangkok which I hope you received. After that draft was prepared it was circulated to various departments concerned and a number of minor changes have been made in the paper. Enclosed is a revised draft. Even this, as noted below, will need to undergo possible further revision before being sent to Management.

As regards the letter to the Fund, Quan handed me the draft letter which he said had been worked out together with you. We have further revised that draft, taking into account some legal points made by Jim Evans. In addition, I have changed the language so as to make it entirely in the past tense, reflecting the approach that you have worked out with the economic policy team. In addition to sending you the revised draft letter, you should be aware that I am giving a copy of the letter to Quan.

On procedure, I would hope that shortly after your return to Saigon, we could receive a round-up telegram covering the current status of those points on which you have already been having discussions. In the light of your telegram, we would make appropriate changes in the paper. While others may occur to you, it seems to me that the relevant points at issue are the following:

(a) Budget revenues: Has there been a decision to increase the revenue target by VN\$18 billion? (see p.8) Quan told me that this figure had been recommended by the technicians to the economic policy team, but that it had not been finally agreed. I told him that naturally we wanted to present as positive a picture as was possible in the paper but that we could not revise the revenue estimates unless implementing decisions had been made.

(b) Budget expenditures: Here, frankly, I am confused. As now drafted, the paper modestly (probably realistically) assumes that the best that can happen on the expenditures side is that the total level of VN\$706 billion will not be exceeded, come what may. Is there any real intent to try to carry out expenditure cuts in response to the proposed entry action?

(c) Bank credit: Please let us know if they have decided to reduce by the figure for import credit by some precise amount.

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(d) Interest rates: Is there a real decision to raise interest rates or is this only a pious statement? Quan, incidentally, makes no bones about his strong opposition to interest rate increases. I have argued at length with him on this point, but probably with little success.

(e) Subsidy for interest cost of export financing (pp. 19-20): Could we please have some more details on the scheme that is being introduced? This is a particularly sensitive point here among those (especially on the U.S. side) who are concerned that the elimination of the exchange subsidy for exports will curb export growth. If possible, we would like to be in a position to explain the new scheme and defend it.

As soon as we have received this round-up cable from you (hopefully on Tuesday, but certainly by Wednesday) we will send the paper to Management and, after receiving Management approval, have it stencilled and ready for issuance. Issuance will be timed to receipt of the news that the final exchange rate actions have been taken and that the letter has been mailed to the Fund. Since there will no longer be a "secrecy" element in the procedure, please send us a night letter telegram giving the full text of the letter as signed and mailed. If there are any last minute changes, be sure to call them to our attention by separate telegram.

We are proceeding on the planning assumption that the exchange actions would be taken and the letter sent by January 15. On this basis, and with issuance of the paper shortly thereafter, it will be scheduled for a Board meeting on Wednesday, January 23. (There will not be a Board meeting on the 21st.) Mr. Hanh has already worked out with the Secretary's Department arrangements for having the discussion on that date, assuming the schedule for issuance of the paper is met.

The tight timing, as you well know, relates to the Vietnamese desire to have the paper issued and circulated well before the aid group discussion in Paris. The Bank staff have told Quan that they are now issuing invitations to hold this meeting on February 12. He in turn has made his own arrangements with Hanh to send a large number of copies of the Fund report to Saigon. I have told him that in addition to the distribution of Fund reports, that is normally made to all member governments, we would on a short-form basis, arrange to have copies distributed to the World Bank for distribution to governments attending the Paris meeting.

I am sure it will be no surprise to you, but Quan displayed a great curiosity as to what would be included in the Fund report. He tried his best to get me to give him a copy, which, of course, I did not do. He explained that there was great sensitivity, extending to the Presidential level, as to the comments which would be made by the Fund. After going over another draft of the report and having asked Jack Woodley to look at it from the standpoint, I have felt able in good conscience to assure him that there is nothing in the report which inaccurately describes what we were told by the Vietnamese. Moreover, the report comments

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positively on the exchange reform. At the same time, I have warned him that the report does bring out the dimensions of the financial problem facing the authorities in 1974. I mention this general point in the event that he seeks to convey the impression that he has seen the report.

cc: Mr. Woodley
Mr. Chabrier
Mr. Brau

Attachment

SUBJECT COPY

NRO1/539 01/3/74

INTERFUND WASHINGTONDC

WOODLEY

Orig: ASD

cc: LEG

ETR



213238

*cc to Mr. Brown
via a copy
of file in 74*

NUMBER 20

ONE. REVIEW OF FINANCIAL PROSPECTS FOR 1974 IS NOW

COMPLETED AND I HAVE SUBMITTED FINDINGS TO GOVERNMENT.

I WILL MAIL TABLES AND MEMORANDA FROM BANGKOK MONDAY,

BUT ALL INDICATIONS SUGGEST POSSIBILITY OF MAJOR

INFLATIONARY DISASTER BY SECOND HALF OF 1974. BELOW ARE

THE MAIN FACTORS WHICH LEAD ME TO THAT CONCLUSION.

TWO. IF PRESSURES FOR SUBSTANTIAL SALARY INCREASES CAN

BE RESISTED AND IF LOSS OF RESERVES CAN BE LIMITED TO

20 MILLION DOLLARS, BOTH OF WHICH I DOUBT, MONEY SUPPLY

MIGHT INCREASE BY 30-35 PER CENT AS AGAINST 17 PER CENT

IN 1973.

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PROJECTED AT ONLY 122 MILLION IN 1974 OR ONLY ABOUT HALF

THE MAY-DECEMBER LEVEL IF ONE ALLOWS FOR HIGHER IMPORT

PRICES. THIS WILL BE REFLECTED IN SHARPLY LOWER CIP

IMPORT ARRIVALS IN THE SECOND HALF OF 1974.

FIVE. GENERAL IMPORT ARRIVALS WERE ABOUT 408 MILLION

DOLLARS IN 1973. IF GVN IMPORTS WERE TO BE CUT BY, SAY,

50 MILLION DOLLARS IN THE SECOND HALF OF 1974 TO LIMIT

RESERVE LOSS AND ASSUMING THAT 30 MILLION OF GENERAL IMPORTS

UNDER NON-US AID ARRIVES DURING THAT PERIOD, AND GIVEN THE

PROJECTED LEVEL OF CIP IMPORT LICENSING, THEN GENERAL

IMPORT ARRIVALS DURING THE SECOND HALF OF 1974 WOULD BE AT

AN ANNUAL RATE OF ABOUT 370 MILLION DOLLARS. ASSUMING

AVERAGE INCREASES OF 15 PERCENT AND 20 PERCENT IN GENERAL

IMPORT PRICES OVER THE 1973 LEVEL, THE LEVEL OF GENERAL

IMPORT ARRIVALS IN REAL TERMS WOULD BE LOWER BY 21 PERCENT

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AND 25 PERCENT, RESPECTIVELY. APART FROM THIS, POL ARRIVALS
MAY BE LOWER BY 25-30 PERCENT WHILE PL480 IMPORT ARRIVALS
OTHER THAN RICE ARE EXPECTED TO BE SLIGHTLY LOWER IN 1974
THAN IN 1973.

SIX. CONSIDERING THAT INFLATION WAS ABOUT 65 PERCENT IN 1973
WITH A MUCH MORE FAVORABLE IMPORT SUPPLY SITUATION AND AN
INCREASE IN MONEY SUPPLY OF ONLY HALF THE PROJECTED 1974
INCREASE, AND CONSIDERING THAT IMPORT PRICES MAY CONTINUE
RISING AT 15-20 PERCENT IN 1974, ONE HAS NO REASON TO
BELIEVE THAT INFLATION IN 1974 WILL BE LOWER THAN IN 1973.
BY THE SECOND HALF OF 1974 AND CONTINUING INTO 1975
INFLATION MAY WELL BE AT AN ANNUAL RATE IN EXCESS OF
100 PERCENT, WHICH IN EFFECT MEANS THAT IT WILL BE OUT OF
CONTROL AND MAY EASILY ACCELERATE TO STILL HIGHER LEVELS.

SEVEN. USAID TELLS ME THAT THEY SEE AN EQUALLY BLEAK IMPORT

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SUPPLY SITUATION, EXCEPT THAT THEY THINK THE SQUEEZE MAY NOT
COME UNTIL EARLY 1975. ALSO THEY HAVE BEEN WORKING WITH
LOWER ESTIMATES OF MONETARY EXPANSION.

EIGHT. IN LISTING POLICY OPTIONS FOR THE GOVERNMENT, I

SUGGESTED THAT THEY SHOULD UNDERTAKE A HOLDING OPERATION

AIMED AT LIMITING THE DISRUPTIVE EFFECTS OF INFLATION ON

THE ECONOMY WHILE INITIATING CORRECTION OF THE STRUCTURAL

PROBLEM OF PUBLIC SECTOR EMPLOYMENT. ADDITIONAL RESOURCES

SHOULD ALSO BE SOUGHT FOR IMPORT FINANCEING IN 1974 EITHER

THROUGH A LARGE DRAWDOWN OF RESERVES (I.E. MORE THAN 20

MILLION WHICH IS THE PRESENT OFFICIAL TARGET), BORROWING

ABROAD, OR INCREASED FOREIGN AID. USAID SEEMS TO AGREE ON

NEED FOR ADDITIONAL FOREIGN RESOURCES AND HAVE ADVISED THE

GOVERNMENT TO REQUEST 50 MILLION DOLLARS FROM THE IMF PLUS

A LOAN OF AN UNSPECIFIED AMOUNT FROM THE WORLD BANK. THE

LATTER REQUEST WAS PRESENTED OFFICIALLY BUEEE BY MINISTER OF

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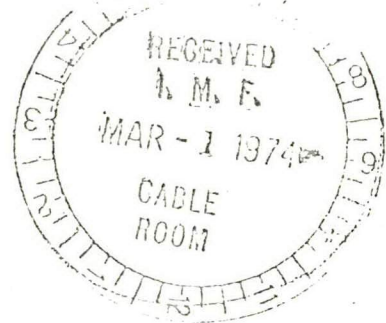
NINE. I DO NOT THINK THAT FOREIGN BORROWING COULD DO MORE THAN BRIDGE A PART OF THE RESOURCE GAP FOR A FEW MONTHS, WITHOUT ADDRESSING THE FUNDAMENTAL ISSUE : IF FOREIGN AID IN 1975 AND SUCCEEDING YEARS IS NOT SIGNIFICANTLY HIGHER THAN IN 1974, THERE WILL BE LITTLE PROGRESS TOWARDS ECONOMIC DEVELOPMENT AND THE GOVERNMENT WILL HAVE TO CHOOSE BETWEEN AN UNACCEPTABLE RATE OF INFLATION AND AN UNACCEPTABLE LEVEL OF UNEMPLOYMENT.

TEN. IN THE FACE OF THESE PROSPECTS I EXPECT THAT INCREASED IMPORT PROHIBITIONS WILL SOON BE CONSIDERED, ALTHOUGH I RECOMMENDED TO THE GOVERNMENT THAT THE FLOW OF GVN IMPORTS SHOULD NOT BE RESTRICTED BEFORE MID-1974.

REGARDS TOMASSON

SENT 2

WELL RCD PLS +?'



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Washington D.C. Phone 255-0200

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As per your request
P. Chichiel

Asian Dept.

cc: 177

Mr. Palmer

January 2, 1974

Richard Goode

Viet-Nam Paper

We have reviewed the draft Viet-Nam exchange reform paper.

I have some doubts about the advisability of reporting in specific form the requests for technical assistance. Such requests are ordinarily transmitted direct to the management and are reported to the Board only in connection with a request for approval of staff travel, if such travel is required to meet the request, or in the annual technical assistance evaluation report. In this particular case, the requests in the fiscal field appear to be extensive and may convey the impression of a greater Fund involvement in the near future than is actually expected by the Vietnamese or ourselves (see memorandum to files on conversation with Mr. Quan dated December 27, 1973).

My preference would be that the first full paragraph on page 3 be deleted and the reference to this subject in the staff appraisal (page 23, first full paragraph, third sentence, "and that . . . policy") also be deleted.

If you feel that this would go too far I suggest deletion on page 3 of the part of the last sentence of the first full paragraph beginning "and it is expected."

While I am sympathetic to providing such technical assistance as may be required after the U.S. experts have left, there are no obvious candidates for a Fund assignment who possess the required qualifications, including a knowledge of French. This problem obliged us to be cautious during the discussion with Mr. Quan.

Attachment

cc: Asian Department ✓
Mr. Matera
S. Asia Div.

Asian Dept.
December 27, 1973

MEMORANDUM FOR FILES

Subject: Technical Assistance - Viet-Nam

Mr. Quan, Economic Advisor to the Viet-Nam Finance Minister, visited the department on December 21, 1973 and discussed the Minister's request for technical assistance recently notified in a cable from the Resident Representative.

Mr. Quan explained that the new Minister of Finance had been unaware of the presence of American advisors in the budgetary and accounting fields, while he himself, after reviewing their effectiveness, had reached the conclusion they had contributed very little. The arrival of a new advisor in the field of treasury management at the end of this year was also a surprise to the Minister, as it was to his predecessor, but the new advisor was not expected to remain beyond the end of February. Mr. Quan was anxious to know if the Fund could initially provide a successor to this advisor. He expects all the American advisors to be withdrawn by June 30, 1974, so he hoped the Fund later in the year could also provide advisors in the budgetary and accounting fields.

Mr. Goode explained our recruiting difficulties and the need to avoid conflicting advice from two sources. The Fund would be sympathetic to supplying a treasury operations expert if one could be recruited with the necessary qualifications.

Mr. Quan indicated that while a knowledge of the former French system would be necessary for the assignment in the Treasury, an expert able to read French without being a fluent French speaker could be successful. The accounting system now in use borrowed largely from U.S. practice. The budgetary system was not along French lines and was highly confused. In both these fields, however, some fluency in French would be desirable.

It was left that we would regard the Tomasson cable as an informal approach and would advise the Viet-Nam authorities as soon as we had reviewed recruitment possibilities.

W. M. Wedderspoon
William M. Wedderspoon
Acting Director
Fiscal Affairs Department

cc: Asian Department ✓

S. Asia

Mr. Hattaya

*Note: a memo from Mr. Goode - see
1973 Tech Assist. File*

Mr. Palmer

*Mr. [unclear]
[unclear]*

December 20, 1973

MEMORANDUM FOR FILES

Subject: Technical Assistance - Viet-Nam.

Accompanied by Mr. Garnier, I visited Mr. Giles Wedeman, AID desk officer for Viet-Nam, to confirm intentions regarding the public finance team of eight officials presently advising the Viet-Nam Government in the field of budget accounting and treasury operations. Mr. Wedeman confirmed that it was the present intention to reduce the scope of technical assistance work in Viet-Nam to the particular areas of refugee settlement, child welfare, and certain narrow aspects of the agricultural program. The existing team would be withdrawn as their contracts came to an end between March and September 1974. Viet-Nam was the largest recipient of U.S. aid and the Congress was in process of critically reviewing the allocation of funds.

A comprehensive report covering all aspects of U.S. technical assistance in Viet-Nam had been prepared in Saigon and was expected in Washington any day. When it arrived, Mr. Wedeman would let us have a copy, since it would indicate, among other things, what Mr. Thorsten, the Chief of the Public Administration Group, considered necessary for the future in the public finance field.

In discussing Mr. Garnier's talk with Mr. Thorsten in Saigon, it seemed clear that U.S. advice would still be provided in regard to the introduction of program and performance budgeting in the Ministry of Agriculture. However, since success would in turn depend on effective budgetary, accounting, and expenditure control systems, it was not at all evident that, unless it had finished its task, the U.S. team could be completely withdrawn without damaging prospects. As regards the recent arrival of Mr. Cannon, Mr. Wedeman informed us he was concerned with a very narrow aspect of treasury operations, the procedures relating to payments.

He had no information on the possible Ford Foundation interest referred to by Mr. Thorsten. I told him that recruiting difficulties alone might preclude any question of Fund involvement, but that we would await perusal of the Saigon report when it came to hand. We might again get in touch with him.

[Signature]
William M. Wedderspoon
Deputy Director
Fiscal Affairs Department

cc: Mr. Donald Palmer