

FOR
AGENDA

EBS/87/112

CONFIDENTIAL

May 27, 1987

To: Members of the Executive Board
From: The Acting Secretary
Subject: Viet Nam - Recent Economic Measures

There is attached for consideration by the Executive Directors a paper on economic measures recently taken by the Vietnamese authorities.

Mr. De Wulf (ext. 7343) is available to answer technical or factual questions relating to this paper prior to the Board discussion on Viet Nam, which is scheduled for Friday, May 29, 1987.

Att: (1)



SOCIALIST REPUBLIC OF VIET NAM

Recent Economic Measures

May 27, 1987

The Vietnamese authorities have communicated several new measures to the staff, and requested that they be brought to the attention of the Executive Board for the Executive Board Meeting on May 29, 1987. The measures are described below.

1. Balance of payments measures

In early May 1987, the exchange rate for private inward remittances was adjusted from D 96 to D 396 per U.S. dollar. The authorities will further streamline the organization of foreign trade by permitting more companies to have direct contact with foreign customers or foreign sources of supply; such contacts have until now been permitted only for the larger enterprises. Export enterprises that are newly established or that fall in a priority category will be granted exemptions from export duties.

2. Incentives for agricultural production

Under the two-way contract system, as currently applied, farmers exchange a certain quantity of output (their production quota) for fixed quantities of agricultural inputs and consumer goods. Production above quotas or production for which no inputs have been received may be sold to the Government at negotiated prices or in the free market. The system will be changed in that all procurement will be done at negotiated prices and all payments for procurement as well as the purchase of inputs will be made in cash. In addition, the quantity of inputs a farmer is entitled to purchase in exchange for selling his quota production to the Government will be raised; the increase is to apply to paddy farmers initially. The agricultural tax, which is paid in kind, will be the sole fixed obligation of farmers, but the tax rate will remain unchanged until 1990 in order to ensure that farmers obtain a profit of 30 to 40 percent over production costs.

3. Pricing Policies

Prices will be established on a more realistic basis and subsidies on intermediate goods will be gradually phased out. Profit transfers of public enterprises to the Government, which consist of a fixed share of production costs, will henceforth be determined by taking into account the overall profitability of individual enterprises. Enterprises that incur chronic losses will be gradually phased out.

4. Measures to improve the supply situation

To enhance the flow of goods, checkpoints on roads have been abolished. These checkpoints had been used to enforce government procurement policies and the collection of taxes.

5. Monetary measures

Agriculture, light industry, and export production will receive priority in the allocation of credit, while no new credit will be granted for investments outside the Plan or for speculative activities. The level of interest rates will be reviewed and two new banks will be established, the Agricultural Bank and the Commercial and Industrial Bank.

6. Fiscal policies

Expenditures for capital construction will be reduced, and investment outside the Plan will be prohibited. Expenditure for conferences and receptions will be curtailed, and substantial savings are expected from the merging of several Ministries.