

AIRGRAM

DEPARTMENT OF STATE

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SUBJECT - GVN's Budgets for 1963
XXXX The Civil Budget
FROM - The Special Budget for Economic Development
XXXXXX The Special Budget for Security
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Introduction

On the final day of 1962 Vietnam's National Assembly approved the Civil Budget for 1963 essentially as it had been submitted by the President. In keeping with established GVN practice the Civil Budget's receipts and payments are "balanced" at VN\$ 15 billion compared with the President's Original 1962 Budget of VN\$ 11.5 billion and his Revised 1962 estimate of VN\$ 13 billion.

It must be pointed out, however, that the CY 1963 Civil Budget includes in its receipts drawings from reserve funds and planned advances from the National Bank totaling VN\$ 4.1 billion.

Although formulation of the Special Budget for Economic Development has not been completed, the Mission has been informed that some VN\$ 1.3 billion of expenditures are called for. These outlays, it is understood, will be financed primarily from general subsidy funds and loans from the National Bank of Vietnam.

Finally, there is the Special Budget for Security with planned expenditures of VN\$ 14 billion, of which VN\$ 5.5 billion are to be covered by a contribution from the Civil Budget and another VN\$ 7.5 billion by US Aid-generated counterpart. The Security Budget is consequently VN\$ 1 billion in deficit, with no present provision for financing.

It would, therefore, appear that, exclusive of draw-downs of foreign-loans, GVN's cash deficit on a consolidated budget basis is on the order of VN\$ 6.6 billion for 1963. However, as will be shown in the course of this presentation the actual short-fall will, in all probability, be substantially below this level.

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Part A
The Civil Budget

Customarily, GVN submits two versions of the Civil Budget for a given fiscal year. The first or "Original" Budget is considered by the National Assembly prior to the beginning of the fiscal year. The second or "Amended" or "Revised" Budget updates the "Original" and is presented by the Executive authority during the course of the fiscal year to which it applies.

The Revised 1962 Budget was prepared in September of that year, and reflects eight months of actual experience. The Original 1963 Budget was submitted to the National Assembly together with the amended version for 1962, and thus the two will be found to be very close in many respects.

The ensuing discussion and tabular comparisons center about the Original 1963 and 1962 Budgets inasmuch as the sweeping revenue changes engendered by the Monetary Reform of 1962 are most dramatically reflected in these presentations.

1.

Table I
Receipts

The following table compares the 1963 and 1962 Original Budgets, and lists the 1962 Revised Budget for informational purposes.

	CY 1963 Original GVN Budget	CY 1962 Original GVN Budget	Change Original '63 from '62	CY 1962 Revised GVN Budget
	(VND Millions)			
	15,000,000	11,271,000	+5,729	12,993,000
I Direct Taxes	1,188	888	+ 300	1,101
II Indirect Taxes	1,814	3,897	-2,083	1,749
Production Tax	(560)	(3,097)	(-2,537)	(550)
Consumption Tax	(1,040)	(595)	(+ 445)	(986)
Other	(214)	(205)	(+ 9)	(213)
III Customs Duties	4,396	2,283	+2,113	4,287
IV Excise Taxes	1,345	1,790	- 445	1,379
V Registration Fees and Stamp Duties	635	600	+ 35	635
VI Receipts from Public Works	368	323	+ 45	323
VII Other Administrative Agencies	270	260	+ 10	260
VIII Public Enterprises & Bids	58	57	+ 1	56
IX Miscellaneous Revenues	126	134	- 8	124
X Reimbursements	12	663	- 651	663
XI Special Receipts & Contributions	4,788	372	+4,416	2,413
Taxes Assessed in				
Previous Years	(461)	(355)	(+ 106)	(816)
Drawings from Reserve Funds	(1,500)	-	(+1,500)	(1,580)
Advances by the National Bank	(2,610)	-	(+2,610)	-
Contributions	(200)	-	(+ 200)	-
Other	(17)	(17)	-	(17)

Main Factors in Receipt Changes Between the Original 1962 and 1963 Budgets

The budget classifications whose 1963 receipts show increases from the Original 1962 projections as well as the elements figuring in revenue reductions are discussed below.

	1963 Original Budget Receipts <u>Increased Categories</u>	Increase Over <u>Original 1962 Budget</u>
	(VN\$ Millions)	
Direct Taxes	VN\$ 1,186	+ 300
Customs Duties	4,396	+ 2,113
Special Receipts	4,783	+ 4,416
Other	<u>1,331</u>	<u>+ 90</u>
Totals	11,703	+ 6,919
	<u>Decreased Categories</u>	Decrease From <u>Original 1962 Budget</u>
Indirect Taxes	1,814	- 2,083
Excise Taxes	1,343	- 443
Reimbursements, Repayments, Gifts	12	- 653
Other	<u>126</u>	<u>- 10</u>
Totals	3,297	- 3,191
Net Increase		+ 3,728

Increased Receipts

Direct Taxes

Anticipated increases of Direct Tax receipts are concentrated in the Land and Patents levies. The improvement in Land Tax revenues from VN\$ 145 million to VN\$ 393 million mainly reflects a shift to the National Budget of surtaxes previously collected by GVN for and transferred to provincial and prefectural accounts. Hence, the net gain in Land Tax revenues is negligible. The VN\$ 31 million expansion projected for Patents Tax yields is ascribable to reclassification of a number of commercial and industrial enterprises thus subjecting them to higher rates. In addition, government suppliers are now required to prepay the Patents Tax which reduces opportunities for evasion, and consequently favors increased receipts.

Customs Duties

Duties on commodities entering into international trade rise sharply in GVN's budgetary presentations - from VN\$ 2.3 billion in the '62 Original to VN\$ 4.3 billion in the Revised Budget to VN\$ 4.4 billion in '63.

Revamping the system of customs, a consequence of the January 1, 1962 monetary reforms, lifted the upper limit of imposable duties from 110 per cent to 210 per cent. The net effect has been an increase of rates on practically all imported goods. Moreover, a "super" customs duty, i.e. the "Austerity Tax" was devised as a levy on luxury imports, and extends from 15 per cent to 300 per cent. The average yield of customs together with austerity taxes during 1962 is estimated at VN\$ 14 per US\$ 1 of US Aid financed imports, and VN\$ 39 from every dollar expended on commodities purchased with Vietnam's own resources. However, the VN\$ 2.1 billion improvement over Original 1962 estimates in projected '63 customs receipts (VN\$ 4.4 billion vs VN\$ 2.3 billion) is also supported not only by higher rates but also by GVN's anticipation of continued US Aid-financed import arrivals during 1963 at the 1962 level and expanded income from the increased rubber export tax.

	<u>CY 1963</u> <u>(Original)</u>	<u>CY 1962</u> <u>(Original)</u>	<u>Change</u> <u>'63 from</u> <u>'62 Original</u>	<u>CY 1962</u> <u>(Revised)</u>
	(VN\$ Millions)			
Customs Duties on				
Imports and Exports	VN\$ 3,837	1,832	+ 2,005	3,750
Austerity Taxes	460	344	+ 116	450
Miscellaneous Duties	79	87	- 8	87
Totals	4,396	2,283	+ 2,113	4,287

Special Receipts

CY 1963 estimates from this source, VN\$ 4.8 billion, are VN\$ 4.4 billion and VN\$ 2.4 billion higher than the sums in the Original and Revised 1962 Budgets, respectively. Comparisons of the 1963 Preliminary estimates with 1962 Originals disclose four categories which account for the increases:

	<u>CY 1963</u> <u>(Original)</u>	<u>CY 1962</u> <u>(Original)</u>	<u>Change</u> <u>'63 from</u> <u>'62 Original</u>	<u>CY 1962</u> <u>(Revised)</u>
Taxes Assessed in Previous Years	461	355	+ 106	816
Drawings from Reserve Funds	1,500	-	+ 1,500	1,580
Advances from the National Bank	2,610	-	+ 2,610	-
Contributions	200	-	+ 200	-
Other	17	17	-	17
Totals	4,788	372	+ 4,416	2,413

Taxes Assessed in Previous Years: Actual recoveries of taxes assessed in previous years usually fall by a wide mark to sustain GVN estimates. Nevertheless, the Government believes that with its improving administrative and collection techniques higher proportions of delinquent taxes can be salvaged.

Drawings from Reserve Funds and National Bank Advances: One technique employed by GVN in balancing its preliminary budget estimates has been that of drawing on reserves accumulated from previous budgets and held with the GVN Treasury. Until this year very little of reserve funds have been used since actual spending has seldomly equalled forecasts; however, Vietnam's expanding obligations during the current year may justify the heavy draw-downs of budgetary reserves indicated as well as the provision for borrowing VN\$ 2.6 billion from the National Bank.

Contributions: A transfer of VN\$ 200 million from the Saigon Prefectural Budget to GVN's accounts has been scheduled in order to help compensate for the costs of the urban police force which is now supported by the National Budget.

Other Increased Receipts

Registration Fees

These revenues, which usually derive chiefly from payment of transfer and stamp taxes upon sales of real property, reveal a modest gain of VN\$ 35 million for both Original 1963 and Revised 1962 over the initial estimates of VN\$ 600 million for 1962. This gain in 1963, however, is due primarily to receipts of about VN\$ 300 million anticipated from the 40 per cent tax on "super" rents, which more than offset the lag in those revenues customarily stemming from property transfers. There has been a decline in transfers of property.

Receipts from Public Works

Two bureaus within the Department of Public Works and Communications - the Directorates of Post and Civil Aviation - account for total receipts estimated at VN\$ 367.9 million in the 1963 budget. This figure exceeds the amount originally envisioned in the 1962 accounts by VN\$ 42.9 million and reflects higher revenues accruing from the 5/7ths tax now imposed on cabled messages and overseas telephone calls.

Administrative Agencies

Because such agencies as the Departments of Public Health and Justice are not primarily geared to the production of revenue, receipts from these governmental entities are neither certain nor steady. For 1963 the increase under this title is VN\$ 10 million over the Original and Revised 1962 budgeted receipts of VN\$ 239.6. Higher revenues accruing to the Department of Public Health from fees charged to patients for medicines and treatment, and the Water and Forestry Directorate's expanded income from timber sales are the primary contributive elements.

Decreased ReceiptsIndirect Taxes

Of particular significance is the downward revision of Indirect Tax revenues from the Original '62 estimate of VN\$ 3.9 billion to the amended level of VN\$ 1.7 billion, and thence to VN\$ 1.8 billion for 1963.

Indirect Taxes

	<u>CY 1963</u> <u>(Original)</u>	<u>CY 1962</u> <u>(Original)</u>	<u>Original</u> <u>'63 from '62</u>	<u>CY 1962</u> <u>(Revised)</u>
	(VN\$ Millions)			
Production Tax	560	3,097	- 2,537	550
Consumption Tax	1,039	593	+ 444	986
Luxury Tax	68	60	+ 8	68
Miscellaneous Indirect Taxes	147	145	+ 2	145
Totals	1,814	3,897	- 2,083	1,749

Production Tax: The decline in "Indirect Taxes" is clearly traceable to the elimination of the Production Tax on imports at the beginning of 1962. This Production Tax, along with numerous other import levies, was abrogated on 1/1/62 and replaced by the Surtax for Economic Development and Defense which is extra-budgetary.

Consumption Tax: The upward revision of VN\$ 391.2 million in Consumption Tax revenues anticipated for 1962 stemmed from the new tax on petroleum products

ranging from VN\$ 1.75 per liter of kerosene to VN\$ 5 per kilogram of propane gas. The further increase in 1963 of VN\$ 53.1 million in these revenues is promised on expanding consumption of POL commodities.

Excise Taxes

Prior to January 1, 1962 the GVN employed the procedure of imposing "excise" taxes on imports. This practice was discontinued with the Monetary Reform so that the Original 1963 and Revised 1962 budgets show respective decreases in excise revenues of VN\$ 444.9 million and VN\$ 410.8 million as compared with the Original 1962 projections. Some VN\$ 1,789.8 million were originally forecast for 1962.

Reimbursements

The decline under this title for CY 1963 of VN\$ 633 million from the Original and Revised 1962 budgets reflects a special situation. A long-term loan repayment of VN\$ 650 million was made to the National Budget during 1962 of advances previously extended to the National Fund for the Support of Imports and Exports (Caisse de Compensation). Proceeds utilized for this repayment were generated by the Stabilization Surtax imposed on petroleum products prior to January 1, 1962.

Other Decreased Receipts

Miscellaneous Receipts

Although these revenues, consisting primarily of proceeds from identity card sales, show an improvement of VN\$ 2.3 million over the CY 1962 Revised figures of VN\$ 123.9 million, they are VN\$ 10.4 million less than the Original forecasts for 1962. Inasmuch as a major phase of the identity card distribution program has been completed, fees from this quarter are expected to be lower in 1963. Additionally, GVN's sale of used and surplus property is also projected at a slower pace during the year, thus further reducing miscellaneous revenues.

Table II Expenditures

2.

Budgeted expenditures of VN\$ 15 billion for 1963 are VN\$ 3.7 billion higher than the Original 1962 Budget and VN\$ 2 billion above the Revised estimates for 1962. Table II, which follows, compares the Original Budgets for 1963 and 1962, and presents the Revised 1962 version.

	CY 1963 Original <u>GVN Budget</u>	CY 1962 Original <u>GVN Budget</u>	Change Original <u>'63 from '62</u>	CY 1962 Revised <u>GVN Budget</u>
Estimated Expenditures (VN\$ Millions)				
I National Assembly	68	66	+ 2	67
II Presidency	305	300	+ 5	300
III Vice Presidency	5	5	-	5
IV Agencies Directly Under the Presidency	202	231	- 29	231
V National Courts & Councils	6	4	+ 2	4
VI Dept. of Foreign Affairs	124	124	+ 20	124
VII Dept. of Justice	110	110	-	110
VIII Coordinating Dept. for Security	-	-	-	-
IX Dept. of Interior	1,633	934	+ 699	934
X Coordinating Dept. for Cultural & Social Affairs	3	4	- 1	4
XI Dept. of Civic Action	576	523	+ 53	546
XII Dept. of Education	1,326	1,143	+ 183	1,169
XIII Dept. of Health	529	443	+ 86	443
XIV Dept. of Labor	33	33	-	33
XV Coordinating Dept. for Economic Development	-	-	-	-
XVI Dept. of Finance	428	403	+ 25	403
XVII Dept. of Economy	63	63	-	63
XVIII Dept. of Rural Affairs	706	289	+ 417	263
XIX Dept. of Public Works and Communications	1,277	1,296	- 19	1,293
XX General Expenditures	7,584	5,298	+ 2,286	6,998
Subsidies	(1,257)	(2,101)	(- 844)	(2,101)
Strategic Hamlet projects	(300)	-	(+ 300)	-
Contribution to Special Budget for Security	(5,500)	(2,618)	(+ 2,882)	(3,918)
Unforeseen Expendi- tures	(217)	(270)	(- 53)	(670)
Reserves for Expen- ditures	(200)	(200)	-	(200)
Other	(110)	(109)	(+ 1)	

Table II shows that the following expenditure categories of the 1963 GVN Budget are contributing to the net increase of VN\$ 3.7 billion over the Original 1962 Budget.

	1963	Increase
	Original Budget Expenditures <u>Increased Categories</u>	Over Original 1962 Budget
(VN\$ Millions)		
Interior	1,633	+ 698
Education	1,326	+ 183
Health	329	+ 86
Rural Affairs	706	+ 417
Contributions to "Special Budget for Security"	5,500	+ 2,882
Subsidy to Strategic Hamlets	500	+ 500
Other	1,940	+ 109
Totals	11,934	+ 4,675
		Decrease
	<u>Decreased Categories</u>	From Original 1962 Budget
Agencies under the Presidency	202	- 28
Public Works and Communications	1,277	- 18
Subsidies, Contributions & Pensions	1,257	- 844
Unforeseen Expenditures	217	- 53
Other	113	- 3
Totals	3,066	- 946
Net Increase		+ 3,729

Increased Expenditure Elements

Department of the Interior

Salaries of new appointees to the provincial administration system coupled with the added expenses of integrating prefectural and provincial police units into the national police force are chiefly responsible for the higher planned outlays for 1963. Spending projected by the Directorate General of Police and Security, under whose aegis the police unification move is being executed, accounts for more than VN\$ 618 million of Interior's VN\$ 698 million 1963 budget expansion.

Department of Education

Approximately VN\$ 150 million of Education's budgetary increase for 1963 can be attributed to three activities - the employment of 1,500 new primary school teachers whose salaries will require about VN\$ 76 million in new funds; the inauguration of 250 additional secondary school classrooms which will involve teachers and matériel calling for increased spending on the order of VN\$ 52 million; and the transfer from Rural Affairs of the Agricultural School system to the Education Ministry which will heighten the latter's spending by about VN\$ 21 million this year.

Department of Health

Virtually all of the VN\$ 86 million increase in 1963 spending is concentrated in two categories - expenditures of the Medical Supply Bureau which are higher by VN\$ 62 million due to 5/7ths tax payments on purchased supplies, and costs of the national hospitals which are up by almost VN\$ 18 million consequent upon staff increases.

Department of Rural Affairs

The substantial increase in the 1963 Budget of Rural Affairs over the 1962 Original Budget stems chiefly from a series of agency transfers and reorganizations in which the Department has been involved. For example, the most important segment of the rise, VN\$ 373 million, can be ascribed to creation of the new Commissariat General for Land Development and Agricultural Affairs - a coalition of the Directorate of Agriculture and the Commissariat General for Land Development. It should be noted that expenditure provisions for the latter agency were carried under the "General Expenditures" title of the 1962 Budget. The other important increase in Rural Affairs' Budget, some VN\$ 43 million, has been caused by the transfer of the Directorate of Irrigation and Rural Works from the Public Works Department.

Contribution to the Special Budget for Security

Included under the title of "General Expenditures" the GVN's allocation to the defense budget for 1963 is VN\$ 3.5 billion, VN\$ 2.9 billion in excess of the contribution originally planned for 1962. While the amount earmarked as the Vietnamese Government's share of defense spending for 1963 is the highest on record, it is well to point out that total spending on security will also reach a new peak during the year. The current estimate is VN\$ 15.9 billion.

Subsidy to Strategic Hamlets

Although many outlays contained within the budgets of such agencies as the Departments of Health, Education and Rural Affairs will benefit the strategic hamlet program, the special fund of VN\$ 300 million, not provided for in the past, is earmarked for direct use in the hamlets.

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Reduced Expenditure Elements

Agencies Under the Presidency

Of VN\$ 28 million in net reduced spending by Presidential Agencies more than VN\$ 26 million are accounted for by economy efforts in the Directorate General of Reconstruction and the Central Lowlands Reconstruction Bureau. Both of these departments cut back on the construction of new public buildings in order to budget these savings.

Department of Public Works and Communications

Works

After the Departments of Interior and Education, Public/and Communications supports the largest of the civil budgets. In managing to effect a net budgetary reduction of VN\$ 18 million sizeable shifts are projected in the spending schedules of several agencies. Planned outlays by the Directorate General of Public Works, for example, are cut by almost VN\$ 33 million inasmuch as US Project Aid funds financed the construction of roads and bridges previously earmarked for support from GVN resources. Then, the sub-agency formerly known as the Directorate of Navigation and Irrigation is slated for a VN\$ 36 million cut mainly because of the Irrigation Section's transfer to Rural Affairs. On the other hand, the Directorate General of Posts and Air Bases have come in for important budgetary increases of VN\$ 29 million and VN\$ 10 million respectively. In the case of the former, imposition of the 5/7ths Surtax on postal equipment purchased abroad has raised costs; while continued construction of airfields with concomitant maintenance expenses is the reason for the higher budget of the Directorate of Air Bases.

Subsidies, Contributions and Pensions

This sub-category of the General Expenditures title shows planned 1963 spending to be some VN\$ 844 million less than that of the Original 1962 Budget. A cut of VN\$ 600 million in "Contributions" reflects elimination of expenditures for Land Development and economic development projects which were picked up by Rural Affairs and the Special Economic Development Budget, respectively. The Original 1962 Budget indicates that VN\$ 420 million were earmarked for Land Development, and an additional VN\$ 180 million for various economic development projects. A second major cut-back of VN\$ 231 million from the Original 1962 Budget is recorded in "subsidies" to provinces. This reduction is made possible since, as already pointed out, the provincial police forces have been integrated into the national system. Thus, the reduction of provincial subsidies simply represents a transfer of expenditures from one section to another of the National Budget.

Unforeseen Expenditures

Funds are appropriated to finance programs during the budget year for which no specific provision has been otherwise made. Although detailed information is unavailable for this budget item, it is known that a sizeable allocation had been made in the Original 1962 Budget to cover expenses of the planned National Assembly Elections during the year. Because the elections were postponed, these outlays

were not made. And no provision has been included in the 1963 Budget for this item, thus accounting at least partially for the VN\$ 53 million decrease.

3. GWN Expenditures by Economic Character

The expenditure data presented in Table II on an agency basis is transposed in Table III below to indicate utilization of funds by economic function.

Table III

Expenditures by Economic Character

	CY 1963 Original <u>GWN Budget</u>	CY 1962 Original <u>GWN Budget</u>	Change Original <u>'63 from '62</u>
	(VN\$ Millions)		
<u>Operating Expenditures</u>			
Salaries	VN\$ 4,548.0	3,711.3	+ 836.7
Matériel	1,163.5	988.5	+ 177.0
Current Transfers	7,292.0	4,418.5	+ 2,873.5
Unclassified	512.4	183.9	+ 328.5
Miscellaneous	53.9	121.9	- 68.0
Totals	VN\$ 13,571.8	9,424.1	+ 4,147.7
<u>Investment Expenditures</u>			
Machinery and Equipment	VN\$ 98.3	87.9	+ 10.4
New Works and Major Repairs	557.9	587.2	- 29.3
Real Estate Purchases	13.5	26.0	- 12.5
Capital Transfers	20.0	613.3	- 593.3
Totals	689.7	1,314.4	- 624.7
<u>Debt Repayments</u>	70.5	-	+ 70.5
<u>Unclassified Expenditures</u>	668.0	332.5	+ 133.5
Grand Total	VN\$ 15,000.0	11,271.0	+ 3,729.0

Operating Expenditures

The increase of almost VN\$ 2.9 billion in "Current Transfers", the most significant of the rises in Operating Expenditures, stems from the GWN's expanded contribution to security activities. As reported above, the Civil Budget's contribution for defense amounts to VN\$ 5.5 billion for 1963.

Salaries were responsible for approximately VN\$ 837 million in higher operating outlays inasmuch as consolidation and strengthening of the police forces added about VN\$ 477 while assignment to the Civil Budget of those salaries of military personnel employed in administrative posts, as well as some work force additions, enlarged the payroll by VN\$ 290 million. Continued efforts to push Social Development, were particularly manifest in the field of education where employment of new primary school teachers resulted in a further net rise for wage payments of VN\$ 64 million.

The rather substantial figure of VN\$ 312 million listed as "Unclassified" Operating Expenditures with its VN\$ 329 million increase over the Original 1962 Budget requires explanation.

The GVN pursues the practice of labeling as "Unclassified" any planned spending for current operations or longer term investment projects, for that matter, which has not been specifically earmarked for any of the other regular classifications. Such a situation exists in the case of Economic Development where some VN\$ 411 million have been allocated for Agriculture and Land Development but where the precise apportionment among salaries, matériel and other expenses has not yet been made. The Original Budget for 1962 showed only VN\$ 109 million as "Unclassified" Operating Expenditures. The other important "Unclassified" Operating Expenditure items in the 1963 Budget are those for General Governmental Administration - VN\$ 36.7 million; and Social Development - VN\$ 38 million.

The sole items of the Operating Expenditures group showing a net decline from Original 1962 budgetary estimates are "Interest on the Public Debt" and "Reimbursements" - both of which are categorized as "Miscellaneous" in this presentation. However, a check of VN\$ 108 million shown as interest payments in the Original 1962 Budget disclosed that VN\$ 69 million were actually repayments of principal, leaving only VN\$ 39 million for interest. Payments of interest and principal against the public debt, as indicated in the 1963 Budget, are VN\$ 39 million and VN\$ 70 million, respectively. Consequently, these elements remain unchanged from the 1962 projections.

The "Reimbursement" segment of the "Miscellaneous" classification is mainly composed of tax refunds.

Investment Expenditures

Emphasis must be laid on the fact that the amounts listed as Investment Expenditures in GVN's Civil Budget include neither capital outlays provided for in the Special Budget for Economic Development, nor the spending from various foreign aid sources. What is more, a major portion of "Unclassified Expenditures" in the Civil Budget which have not been categorized as operating or investment spending will eventually flow into capital projects.

In contrast to "Operating Expenditures" only one classification of 1963 "Investment Expenditures" shows an increase over the Original 1962 Budget - "Machinery and Equipment". The more than VN\$ 10 million rise in this spending item is centered in General Administration where modern equipment has been acquired for the Directorate General of Taxation, and Public Works and Communications where equipment is required for the road construction, telecommunications and water supply projects currently on stream.

The decrease of VN\$ 29 million in outlays for the "New Works and Major Repairs" classification, and of almost VN\$ 13 million for "Real Estate Purchases" reflect the GVN's slow-down in the construction of public buildings. Another contributing element to the above declines is the fact that some road and bridge projects are to be financed from U.S. Aid another than GVN funds.

The "Transfer of Capital" item shown under "Investment Expenditures" for 1962 totaled VN\$ 600 million, and was planned for the expenses of land development projects including agricultural improvement, the opening of new lands, and other economic projects. In the 1963 Budget similar expenditures have been distributed among a number of categories including "Unclassified" Operating Expenditures which envisage some VN\$ 411 million for Agriculture and Land Development, and other "Unclassified" Expenditures which provide some VN\$ 517 million for the strategic hamlet and Montagnard resettlement programs. Therefore, the decline of VN\$ 395 million in the "Capital Transfer" category for 1963 is illusory since more than offsetting expenditure items appear under the classifications cited.

Reimbursement of Public Debts

The projected payment of VN\$ 70 million against the principal of GVN's public debt refers solely to the domestic obligations, and does not cover repayment requirements related to MSP, DLF and French loans.

Unclassified Expenditures

The GVN often finds that funds must be designated for multi-faceted projects, such as strategic hamlets, without knowing in detail just how they will be spent. Sometimes, too, reserves are established for contingencies. In such situations these funds are simply tabbed as "Unclassified Expenditures" implying that, until the projects develop, it is not possible to determine the division between "Operating" and "Investment" outlays.

Of some VN\$ 668 million shown as "Unclassified Expenditures" for 1963 VN\$ 300 million represent allocations for strategic hamlets, the major proportion of an additional VN\$ 217 million is earmarked for Montagnard resettlement, and VN\$ 100 million have been appropriated for unforeseen requirements. The Original 1962 Expenditure Budget by Function and Economic Character included VN\$ 532 million under "Unclassified Expenditures." Expenses connected with the cancelled National Assembly elections were set at VN\$ 270 million; reserves for unforeseen requirements accounted for another VN\$ 200 million, and GVN's VN\$ 38 million contribution to the malaria eradication program was the other important element in the 1962 "Unclassified Expenditures" column.

Part B

The Special Budget
for
Economic Development

Aside from GVN's announcement that the Special Budget for Economic Development for 1963 calls for V\$ 1.5 billion in expenditures, no specific details have as yet been disclosed. It is probable, though, that the same types of projects financed by the 1962 Economic Development Budget which originally totalled V\$ 1.2 billion will receive continued attention during 1963 - cement producing plants, the paper industry, petroleum refining, mining, sugar production, and agricultural crop development.

Judging from the rate at which expenditures were made from the 1962 Development Budget, not more than one-third of the spending planned for economic development in 1963 may be actually disbursed.

Part C

The Special Budget for Security

Decrease Law # 3/63 of March 12, 1963 established the Security Budget for this year at VN\$ 14 billion. This level of spending is geared to support the substantially increased force strengths for 1963.

Of the VN\$ 3 billion increase over GVN's Original 1962 estimated defense spending requirements, some VN\$ 2.6 billion are due to: higher salary, food and transport costs - VN\$ 1.3 billion; added Civil Guard and Self Defense expenses - VN\$.7 billion; expanded Reserves for Contingencies - VN\$.2 billion; and increased MAAG operating expenses - VN\$.2 billion.

According to GVN's estimates, this budget will be financed to the extent of VN\$ 7.5 billion from U.S. Aid-generated funds and VN\$ 6.5 billion from GVN sources. The Aid-generated contribution, it should be pointed out, may vary somewhat from the VN\$ 7.5 billion figure inasmuch as counterpart and PL 480 I availabilities are determined by the level of Aid financed commercial imports.

Part D

GVN's Budgets - A Composite View

In order to obtain a conspectus of GVN's fiscal situation two steps are necessary. First, the three budgets discussed herein must be consolidated. Secondly, those accounts which are excluded from these budgets must be considered.

Total government expenditures, including the regular Civil, Economic Development and Special Security budgets amount to VN\$ 25 billion. This sum allows for the VN\$ 3.5 billion transfer from the Civil to the Special Security Budget.

On the receipts side, the Civil Budget shows a total of VN\$ 15 billion. But, as previously pointed out, some VN\$ 4.1 billion reflect drawings from reserve funds and planned National Bank advances. Civil Budget revenues, therefore, are reduced to VN\$ 10.9 billion. The Security Budget shows VN\$ 7.5 billion which is the contribution from U.S. Aid-generated counterpart. The Special Economic Development Budget has as receipts subsidies allocated to it from the Civil Budget, loans from the National Bank and credits from extra-budgetary sources. Budgeted receipts, therefore, amount to VN\$ 18.4 billion. In summary, then, budgeted expenditures and receipts on a consolidated basis appear thusly:

Consolidated Budgets - 1965

	<u>Expenditures</u>	<u>Revenues</u>	<u>Deficit</u>
	(VN\$ Billions)		
Civil	VN\$ 9.5	10.9	+ 1.4
Eco. Dev.	1.5	-	- 1.5
Special Security	<u>14.0</u>	<u>7.5</u>	<u>- 6.5</u>
Totals	VN\$ 25.0	18.4	- 6.6

Extra-Budgetary Accounts

Several types of income and expenditure transactions are omitted from the budgets discussed above. These operate essentially as autonomously ~~EXERN~~ and all of the funds available are used for the purposes described below. These accounts include:

- U.S. Aid-generated piasters used to finance local projects.
- Revenues from the National Lottery used to finance public housing and other projects as determined by the GVN.
- Proceeds from the Economic Development and Defense Surtax imposed on imports financed from GVN's exchange reserves.
- Purchases of equipment, materiel and services for capital projects financed from U.S. loans.

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e. Purchases of equipment, materiel and services financed from other foreign loans including those under Japanese reparations.

These accounts, all estimates, are summarized in the following table:

<u>Extra-Budgetary</u>		
<u>Accounts-1963</u>		
<u>Amounts</u>	<u>Source</u>	<u>Use</u>
(VN\$ Millions)		
VN\$ 1,231	U.S. Aid-Generated Counterpart (calculated on each accrual basis including portion from prior years' aid)	US-GVN Sponsored Local Projects
283	National Lottery	Public Housing and Other Special GVN Projects
2,000	Economic Development and Defense Surtax on VN-Financed Imports	Export Subsidies
1,320	Piaster Equivalent at 60/1, of MFP and MFP Dollar Loans	Electric Power, Water Supply, Railways, Telecommunications
<u>510</u>	Japanese and German Loans	Power (DA NHIEM DAM) and Industrial Development
Total VN\$ 5,344		

While the first two three of the extra-budgetary accounts do not affect the overall deficit, the latter two, being draw-downs of foreign credits, add VN\$ 1.8 billion to the short-fall.

The foreign loans, it should be pointed out, are net of debt repayments.

Conclusion

The GVN's budgeted deficit, including expenditures financed from foreign loans as indicated above, and totalling VN\$ 1.8 billion, is on the order of VN\$ 8.4 billion for 1963. This is composed as follows (in VN\$ Billions):

Civil Budget	VN\$ 4.1
Economic Development Budget	1.5
Special Security Budget	1.0
Foreign Loan Draw-Downs	<u>1.8</u>
Totals	VN\$ 8.4

However, certain modifications in the aggregate deficit figure are likely. Actual spending from the Special Economic Development Budget will probably reach no more than VN\$.5 billion based on experience in 1962. The Reserve for "Unforeseen Expenditures," i.e. the contingency fund comprising some VN\$.2 billion in the Civil Budget, will probably also go unspent.

Income from internal taxation may be understated in light of 1962 experience, but any increase will in all likelihood be compensated for by lower receipts from imports including aid. Further, it is difficult to determine at this time the sources for financing GVN's recent commitment to counter-insurgency activities. If transfers from other accounts are not possible, it will probably increase the deficit.

Finally, in order to determine ~~the extent to which the~~ the extent to which the GVN must resort to domestic sources to cover its short-fall, we must eliminate the Foreign Loan Draw-downs of VN\$ 1.8 billion. These deductions total VN\$ 3 billion, leaving an uncovered deficit of VN\$ 5.4 billion whose financing can have inflationary effects. Some VN\$ 1.5 billion of this remaining deficit will be met by drawings on reserve funds held in the Treasury. The residual of VN\$ 3.9 billion will in all likelihood be borrowed from the National Bank of Vietnam.

These calculations depend on the GVN spending what it says it will. In the past it has shown some tendency to tailor spending to revenues. There is no objective way of predicting whether this will happen again in 1963. However, it seems doubtful that the GVN will be able to reduce spending below the figures cited. Heavy commitments to the Security Budget together with the fact that the Civil Budget involves little new spending over 1962 render such a possibility unlikely.

The deficit estimate also hinges on assumptions about commercial import levels which afford a large proportion of GVN tax and counterpart revenue. It is anticipated that commercial imports financed from the GVN's own exchange will approximate US\$ 80 million, while the value of arrivals of US-financed Commercial Aid and PL 480 Title I is expected to approximate US\$ 130 million (VN\$ 7.9 billion). This level of imports, together with the carryover of approximately VN\$ 635 million from the special piaster purchase, and the carryover of 1962 counterpart, plus GVN's agreement to finance the short-fall resulting from counter-insurgency requirements should provide sufficient piasters to meet expenditures in which the US has a direct ~~interest~~ interest.