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August 27, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Yemen Arab Republic - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on a recent change in the exchange rate of the Yemen rial.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

Yemen Arab Republic--Exchange Arrangements

Prepared by the Middle Eastern Department and the
Exchange and Trade Relations Department

(In Consultation with the Legal Department)

Approved by A.K. El Selehdar and S. Kanesa-Thasan

August 24, 1984

In the attached communication dated August 21, 1984, the Governor of the Central Bank of the Yemen Arab Republic has notified the Fund that, with effect from August 15, 1984, the midpoint exchange rate of the Yemen rial against the U.S. dollar was changed from YRls 5.41 = US\$1 to YRls 5.74 = US\$1. This adjustment represents a 5.75 percent depreciation of the rial against the U.S. dollar, to which it is pegged.

The Yemen Arab Republic's balance of payments deteriorated sharply in 1980-83 for a number of reasons, including an appreciation of the exchange rate of the rial. From end-1980 to end-1983 the nominal effective exchange rate based on import weights appreciated by some 40 percent, as the rial had remained pegged for a number of years at an unchanged level in terms of the U.S. dollar. In 1984 the rial was depreciated against the U.S. dollar by 6.2 percent on February 15 and 7.8 percent on May 20. The combined effect of the three depreciations in 1984 has been a nominal effective depreciation of approximately 15 percent to date that has reduced the nominal effective appreciation since end-1980 to about 22 percent.

A staff mission is presently in Sanaa to conduct Article IV consultation discussions. The forthcoming staff report will discuss exchange rate developments and policy, and present further information.

Attachment

INTERFUND
WASHINGTON, DC

THIS IS TO ADVISE THAT THE GOVERNMENT OF YEMEN ARAB REPUBLIC HAS CHANGED THE REPRESENTATIVE RATE OF THE YEMENI RIAL TO 5.74 YEMENI RIALS PER U.S. DOLLAR WITH A BUYING RATE OF YEMENI RIALS 5.73 PER U.S. DOLLAR AND A SELLING RATE OF YEMENI RIALS 5.75 PER U.S. DOLLAR FOR TT'S, CHEQUES, AND BANKNOTES EFFECTIVE FROM AUGUST 15, 1984. COMMERCIAL BANKS ARE AUTHORIZED TO APPLY BUYING AND SELLING RATES NOT EXCEEDING YRLS 5.73 AND YRLS 5.75 PER U.S. DOLLAR RESPECTIVELY FOR THEIR TRANSACTIONS.

BEST REGARDS

ABDULLAH AL-SANABANI
GOVERNOR
MARKAZI

Received in Cable Room: August 21, 84