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March 2, 1984

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

The attached paper on a change in the exchange arrangements of the Yemen Arab Republic is circulated for the information of the Executive Directors.

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 Subimal Mookerjee

March 2, 1984

In the attached communication dated February 20, 1984 the Governor of the Central Bank of Yemen has notified the Fund that, with effect from February 15, 1984, the Central Bank's rates for buying and selling U.S. dollars have been changed from YRls 4.664 = US\$1 and YRls 4.689 = US\$1, respectively to YRls 4.975 = US\$1 and YRls 5.00 = US\$1, respectively. This represents a devaluation of 6.2 percent with respect to the previous midpoint exchange rate of the Yemeni rial. The rate had earlier been devalued by 2.5 percent on November 10, 1983. The authorities have stated that the Yemeni rial would continue to be pegged to the U.S. dollar, the intervention currency.

The Staff Report for the 1983 Article IV Consultations with the Yemen Arab Republic discussed by the Executive Board on August 24, 1983 noted that the appreciation of the rial at the time was likely to have contributed to the sharp deterioration in the balance of payments, and Directors indicated that the authorities might usefully review the appropriateness of their exchange rate policy. The rate had at that time remained unchanged for a number of years vis-à-vis the U.S. dollar. In response to a rapid deterioration in the balance of payments, the authorities requested that a technical assistance mission from the Fund visit Sana'a in early December 1983 to evaluate the external position and draw up balance of payments projections for 1984. Among its recommendations, the mission had urged the Yemeni authorities to pursue a flexible exchange rate policy, adjusting the official rate to within a small margin of the free market rate. The staff is of the view that the exchange rate action, as described above, is in the right direction, but that the exchange rate should continue to be actively reviewed, and the range of demand management policies called for by the Executive Board at the time of the 1983 Article IV consultation be adopted. These matters will be reviewed with the Yemeni authorities in the course of the forthcoming Article IV consultations expected to take place in June 1984.

Attachment

TO: INTERFUND
WASHINGTON, DC

FROM: CENTRAL BANK OF YEMEN SANAA

20TH FEBRUARY 1984

IT HAS BEEN DECIDED BY THE GOVERNMENT OF YEMEN ARAB REPUBLIC THAT WITH EFFECT FROM FEBRUARY 15, 1984 THE CENTRAL BANK RATES FOR BUYING AND SELLING U.S. DOLLARS TT'S WOULD BE RAISED TO 4.975 YEMENI RIALS AND 5.00 YEMENI RIALS RESPECTIVELY.

THE YEMENI RIAL WOULD CONTINUE TO BE PEGGED TO THE U.S. DOLLAR RATES FOR OTHER FOREIGN CURRENCIES PUBLISHED BY THE CENTRAL BANK WOULD BE CORRESPONDINGLY ADJUSTED.

THE NEW MIDDLE OR REPRESENTATIVE RATE FOR U.S. DOLLAR TT'S IS 4.9875 YEMENI RIALS. COMMERCIAL BANKS ARE PERMITTED TO BUY AND SELL CURRENCIES WITH MARGINS OF UP TO 1 PERCENT OVER AND BELOW THE RATES QUOTED BY THE CENTRAL BANK PROVIDED THE SPREAD BETWEEN THEIR BUYING AND SELLING RATES FOR TT'S DOES NOT EXCEED 1 PERCENT.

ABDULLAH AL-SANABANI
GOVERNOR

Received in Cable Room: February 20, 1984