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SM/85/271
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

November 14, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Yemen Arab Republic - Staff Report for the 1985 Article IV
Consultation

The following corrections have been made in SM/85/271 (10/22/85):

Page 4, para. 1, lines 1 and 2: for "fiscal deficit...transactions,
the rate"
read "fiscal deficit, the rate"

line 4: for "main factor" read "main factors"

line 5: for "this period was a"
read "this period...and a"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

Table 1. Yemen Arab Republic: Selected Economic Indicators, 1980-85

	1980	1981	1982	1983	1984	Proj. 1985
(In percent of per annum)						
Rate of growth of real GDP at factor cost	...	9.6	9.7	2.3	2.7	1.0
Rate of change in CPI	9.8 ^{1/}	5.0	2.7	5.3	12.8	...
(In billions of Yemen rials)						
Government finances						
Revenues and grants,	3.7	4.9	5.8	5.3	5.4	6.0
Of which:						
Revenues	(3.0)	(3.3)	(3.7)	(4.4)	(4.7)	(5.2)
Expenditures	7.0	7.8	11.1	10.1	10.0	10.7
Current (including extrabudgetary)	(3.1)	(4.1)	(7.0)	(7.1)	(6.9)	(7.0)
Capital (including externally financed)	(3.9)	(3.7)	(4.0)	(2.9)	(3.1)	(3.7)
Overall deficit	3.3	2.9	5.3	4.8	4.6	4.7
(In percent of GDP at current market prices)						
Revenues and grants	...	36	37	31	30	...
Of which: Revenues	(...)	(25)	(23)	(26)	(26)	(...)
Expenditures	...	58	70	59	56	...
Overall deficit	...	22	33	28	26	...
(In billions of Yemen rials)						
Changes in money and credit						
Net credit to Government	1.3	2.0	4.4	3.9	3.8	4.3 ^{2/}
Credit to nongovernment	0.6	0.3	0.2	0.2	1.1	1.4 ^{2/}
Net external transactions	-0.2	-1.2	-1.4	-1.0	-0.5	-1.1 ^{2/}
Other items net	-0.9	-0.4	-0.6	0.3	—	-0.8 ^{2/}
Domestic liquidity	0.9	0.7	2.6	3.4	4.4	3.7 ^{2/}
Reserve money	0.5	0.8	2.2	3.4	4.0	3.9 ^{2/}
(In percent per annum)						
Rate of growth of money and credit						
Net credit to Government	...	100	109	46	31	30 ^{2/}
Credit to nongovernment	...	10	5	7	32	33 ^{2/}
Domestic liquidity	...	8	26	28	28	19 ^{2/}
Reserve money	...	10	27	33	29	25 ^{2/}
(In millions of U.S. dollars)						
Balance of payments						
Exports	13	11	5	10	9	10
Imports	-1,915	-1,748	-1,952	-1,796	-1,414	-1,170
Services (net)	-21	-52	-37	-52	-46	-70
Unrequited transfers (net)	1,232	1,125	1,393	1,293	1,137	990
Of which:						
Government receipts	(148)	(337)	(469)	(189)	(143)	(120)
Private receipts	(1,341)	(988)	(1,191)	(1,244)	(1,067)	(960)
Current account	-691	-664	-592	-545	-313	-240
Nonmonetary capital (net) ^{3/}	652	404	282	328	169	80
Of which:						
Drawings on official loans	467	262	232	224	215	148
Private short-term loans (net)	101	101	3	66	-53	-19
Overall balance	-39	-260	-311	-216	-144	-160
Central Bank's gross foreign assets (end of year)	1,284	967	558	361	304	284 ^{2/}
In months of imports	(8.0)	(6.6)	(3.4)	(2.4)	(2.6)	(2.9)
Stock of debt (medium- and long-term--end of year)	679	1,101	1,301	1,509	1,507	1,608 ^{2/}
Debt service	...	68	54	36	79	77
In percent of current account receipts	(...)	(4.0)	(2.7)	(2.1)	(5.4)	(5.9)

Sources: Central Planning Organization, Ministry of Finance, Central Bank of Yemen, and Fund staff.

^{1/} Rate of change between 1979/80 and 1980/81.

^{2/} Twelve months ended June 1985.

^{3/} Including errors and omissions.

2. Monetary developments

Despite lower levels of bank financing of the fiscal deficit, the rate of monetary expansion crept up from 26 percent in 1982 to 28 percent in both 1983 and 1984. The main factors underlying the continued rapid rate of monetary growth in this period were the less contractionary effect from external transactions and a 32 percent surge in credit to the nongovernment sector during 1984 which largely reflected increased borrowing for real estate transactions and speculative activities, as well as the capitalization of interest on nonperforming loans. This expansion of nongovernment credit could be accommodated because of the practice of financing the fiscal deficit by borrowing from the Central Bank, which kept commercial banks liquid. The high rate of monetary growth in the face of declining rates of real economic growth (see below) clearly indicates rising levels of liquidity in the hands of the public.

3. External sector

Reduced imports and slightly higher receipts of workers' remittances led to a reduction in the overall balance of payments deficit to US\$215 million in 1983 despite a drop in official foreign grants inflows. During 1983 the Central Bank's gross foreign assets dropped by US\$200 million to the equivalent of US\$361 million (2.4 months of imports), with net foreign assets of US\$318 million.

Through 1983 the Y.A.R. pursued liberal exchange and trade policies, with no restrictions for current or capital international transactions. In view of the persistent deficit in the overall balance of payments, the authorities made a number of changes in the exchange and trade system in 1984 which introduced restrictions. ^{1/} First, a comprehensive foreign exchange budget was drawn up for 1984. To assure adherence of imports to that budget, an import licensing system was initiated at the beginning of 1984, with priority to foodstuffs, petroleum products, medicines, and inputs for agriculture and industry. Second, in February 1984, a committee (with representation from the commercial banks and the Central Bank) was established to make all purchases of foreign exchange on behalf of the commercial banks. Of the committee's purchases, 10 percent (raised to 15 percent in 1985) was to be used in a manner designated by the Central Bank with the balance allocated among banks according to predetermined shares. Simultaneously, importers were required to finance their imports with foreign exchange purchased from

^{1/} Until late 1983, market exchange rates were generally very close to the Central Bank's rates. During the late 1970s the Central Bank frequently sold rials to commercial banks (accumulating foreign exchange reserves in the process) but this policy changed during 1980-83 with the Central Bank selling foreign exchange to the market. In November 1983, banks were allowed to work with an increased spread of 2.4 percent (rather than 1 percent as previously) from the Central Bank's buying and selling rates (YRls 4.55 = US\$1 and YRls 4.575 = US\$1, respectively). See part B of Appendix I for further details on the exchange system.