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INTERNATIONAL MONETARY FUND

YEMEN ARAB REPUBLIC

Recent Economic Developments

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Approved by the Middle Eastern Department and the
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Note: Minor discrepancies in totals shown in the tables are due to rounding.

Yemen Arab Republic: Basic Data

IMF data

Date of IMF membership	May 1970
Status	Article XIV
Quota	SDR 10 million
Currency	Yemen rial
Fund holdings of Yemen rials	75 per cent of quota
Par value	None. All exchange transactions are effected at the Central Bank rate (at present YR1 1 = US\$0.22)
Special Drawing Account	Participant. Allocated SDR 2.1 million during the first basic period; no use of SDRs has so far been made.

Area and population

Area	75,000 square miles
Population	6.47 million (Feb. 1975)

(Crop year ended June 30)

1971/72 1972/73 1973/74 1974/75

(In thousand metric tons)

Production

Cereals ^{1/}	1,332	1,195	1,105	1,975
Cotton	15	18	20	26

(Fiscal year ended June 30)	Actuals				Budget Est.
	1971/72	1972/73	1973/74	1974/75	1975/76

(In millions of Yemen rials)

<u>Public finance</u>					
Current revenue	151.3	199.0	276.8	381.1	486.2
Tax revenue	(122.9)	(158.3)	(227.4)	(301.1)	(360.8)
Other revenue	(28.4)	(40.7)	(49.4)	(80.0)	(125.4)
Current expenditures	228.3	271.5	322.5	472.3	571.6
Deficit on current account (-)	-77.0	-72.5	-45.7	-91.2	-85.4
Capital expenditures ^{2/}	55.8	56.9	139.3	184.7	352.8
Overall deficit (-)	-132.8	-129.4	-185.0	-275.9	-438.2
External financing	170.6	116.5	249.9	548.6	587.0
Surplus (-) or deficit requiring domestic financing ^{3/}	-37.8	12.9	-32.0	-231.6	-148.8
Statistical discrepancy ^{3/}	--	--	-32.9	-41.1	--

1/ Sorghum and millet, wheat, barley and maize.

2/ Consists of the rial counterpart of the amounts utilized of project and commodity loans as well as budget development expenditures. Budget capital expenditures were YRls 13.6 million in 1973/74 and YRls 69.3 million in 1974/75.

3/ Represents unrecorded expenditures, exchange rate valuation adjustments associated with external financing, differences between beginning and end-of-year cash balances held outside the banking system, and errors and omissions.

Yemen Arab Republic: Basic Data (concluded)

	December				June	
	1971	1972	1973	1974	1974	1975
(In millions of Yemen rials)						
<u>Money and credit</u>						
Money	276.8	402.3	531.8	707.9	612.0	959.5
Quasi-money	35.7	80.6	105.1	151.0	117.5	180.7
Credit to the private sector	70.0	119.8	169.5	260.5	230.1	376.5
Net claims on or deposits (-) of the Government	110.1	115.9	135.2	-17.6	84.2	-147.4
Net foreign assets	516.2	590.0	611.4	893.8	691.8	1,183.4
					July-June	
	1971	1972	1973	1974	1973/74	1974/75
(In equivalents of millions of SDRs)						
<u>Balance of payments</u>						
Exports (adjusted)	6.4	6.3	7.4	9.3	11.4	10.4
Imports (adjusted)	-72.1	-94.3	-130.0	-185.1	-160.9	-209.2
Balance of trade (deficit -)	-65.7	-88.0	-122.6	-175.8	-149.5	-198.8
Services, remittances and transfers (net)	52.7	91.9	110.4	176.2	134.0	253.8
Nonmonetary capital ^{1/}	28.4	19.7	26.4	51.9	37.4	38.2
Overall balance excluding SDRs	15.4	23.6	14.2	52.3	21.9	93.2
SDR allocations	1.1	1.0	--	--	--	--
Overall balance including SDRs	16.5	24.6	14.2	52.3	21.9	93.2
<u>Monetary movements (increase in assets -)</u>						
Central Bank of Yemen ^{2/}	-16.5	-24.6	-14.2	-52.3	-21.9	-93.2
Commercial banks	-14.1	-18.5	-14.1	-56.7	-28.1	-80.0
	-2.4	-6.1	-0.1	4.4	6.2	-13.2
<u>Monetary reserves (end of period)</u>						
Central Bank of Yemen	21.6	46.2	60.3	112.5	74.6	167.9
Commercial banks	19.9	38.4	52.5	109.1	71.5	151.5
	1.7	7.8	7.8	3.4	3.1	16.4
<u>Memorandum item</u>						
Conversion rates: Yemen rials per SDR	5.43	5.43	5.43	5.51	5.43	5.56

^{1/} Including net errors and omissions.

^{2/} Prior to July 1971, Yemen Currency Board.

I. Production, Employment, Prices and Development Planning

1. Overall level of economic activity

The economy of the Yemen Arab Republic (Y.A.R.) is heavily dependent on agriculture. The agricultural sector accounts for over two thirds of gross domestic product (GDP), employs about 90 per cent of the work force, and generates virtually all exports. The other sectors, particularly trade and construction, have been growing rapidly since 1970, financed by the increasing inflow of remittances from Yemenis working abroad. Overall production, which had increased considerably in 1970/71 and 1971/72 (fiscal year ended June 30) following good agricultural harvests, was adversely affected by drought conditions in the subsequent two years. The level of economic activity stagnated in 1972/73 as the decline in agricultural production was more or less offset by the favorable performance of the nonagricultural sectors. In 1973/74 real GDP registered only a small decline despite the severity of the drought.

In 1974/75 real GDP was estimated to have grown by 25-30 per cent as agricultural production rebounded and reached record levels, due to abundant and timely rainfall, and other sectors expanded vigorously aided by sizable inflows of private remittances. The prospects for 1975/76 indicate a 6-8 per cent growth in real terms based on a small increase in agricultural production and continued rapid expansion in the other sectors.

2. Agriculture, livestock and fisheries

a. Introduction

The agricultural sector in the Y.A.R. is predominantly of a subsistence nature and depends heavily on the erratic rainfall which causes considerable fluctuations in agricultural production. Out of an estimated total of 1.5 million hectares^{1/} of cultivated land, about 85 per cent is rainfed directly, 8 per cent depends on rainfed flood waters, and only 7 per cent depends on permanent streams and ground water wells.

The main agricultural crops are sorghum and millet. Other cereal crops include wheat, barley and maize. The major noncereal crops include vegetables, pulses, potatoes, tobacco, coffee, cotton and qat.^{2/} Sorghum and millet depend on the spring rainy season, which extends from March to May, while wheat, barley and maize depend on the fall rainy season which extends from August to October. The noncereal crops depend mainly on irrigation.

^{1/} One hectare = 2.47 acres.

^{2/} Qat, a stimulant leaf, is a major crop in the Y.A.R. and is grown throughout the country. However, no official production estimates are available.

b. Agricultural production

Production of cereals declined by about 17 per cent during the two years ended June 1974 (Table 1) due to drought conditions which had intensified in 1973/74. The decline was confined to sorghum and millet, which depend entirely on rainfall, while production of wheat, barley and maize, which accounts for a small part of total cereal production, increased somewhat. Following timely and abundant rainfall, cereal output reached a record level in 1974/75, increasing by about 80 per cent over the previous year, and exceeding the average crop of recent years by 25 per cent.

Noncereal crops depend mainly on irrigation and their production is therefore not affected significantly by rainfall. The production of pulses, potatoes and vegetables has increased steadily since 1970/71, largely on account of the expansion in the area under cultivation. The production of coffee, which had been the major export crop until 1971, failed to show any increase in recent years because of encroachment from qat cultivation.^{1/} Cotton production of the Acala variety doubled during the three years ended June 1974 as the area under cultivation was expanded in response to rising international prices and official policy to expand cotton cultivation. A further large increase was recorded in 1974/75, contributing to a significant rise in cotton exports. Purchase of the harvest, ginning and sale of cotton, both for domestic use and for export, are undertaken by the General Cotton Company of Hodeida.^{2/}

The outlook for cereal crops in 1975/76 was for a small increase, although a cold wave in late autumn may have adversely affected these crops. No estimates for the other crops are available, but it is believed that the 1975/76 production levels of vegetables, tobacco, grapes and potatoes would show small increases. On the other hand, cotton production is likely to drop slightly in response to a decline in international prices.

c. Livestock and fisheries

Reliable estimates of livestock are not available, but it is believed that the Y.A.R. has considerable animal wealth. A marked decline in this wealth occurred during the drought years, and efforts to develop the livestock industry have been hampered by the relative unavailability of livestock feedgrains and forage as well as by inadequate veterinary services.

^{1/} Qat is adapted to similar environmental conditions as coffee, but it can usually withstand harsher weather conditions than coffee. Moreover, qat leaves can be picked over three separate seasons of the year and thus give an almost continuous source of income while coffee produces only one cash return per year.

^{2/} For details see SM/75/20 and SM/73/262.

Table 1. Production of Major Agricultural Crops
(Production in thousands of metric tons; areas in thousand hectares;
yield in ton per hectare)

Agricultural year ending June 30	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76 ^{1/}
Cereals (total)						
Production	1,203	1,332	1,195	1,105	1,975	2,037
Area	1,416	1,343	1,343	1,193	2,245	2,352
Yield	0.85	0.99	0.89	0.92	0.88	0.87
Sorghum and millet						
Production	984	1,020	900	720	1,570	1,608
Area	1,230	1,100	1,100	880	1,950	2,040
Yield	0.80	0.93	0.82	0.82	0.81	0.79
Wheat						
Production	33	54	50	71	78	90
Area	30	50	50	70	65	70
Yield	1.10	1.08	1.00	1.01	1.20	1.29
Barley						
Production	154	178	165	230	220	235
Area	140	143	143	191	170	180
Yield	1.10	1.24	1.15	1.20	1.29	1.31
Maize						
Production	32	80	80	84	107	104
Area	16	80	50	52	60	62
Yield	2.00	1.60	1.60	1.62	1.78	1.68
Pulses						
Production	60	60	56	64	84	n.a.
Area	50	60	60	65	71	
Yield	1.20	1.00	0.93	0.98	1.18	
Potatoes						
Production	55	58	64	64	78	n.a.
Area	6	5	6	6	6.5	
Yield	9.17	11.60	10.67	10.67	12.00	
Vegetables						
Production	100	137	150	150	168	n.a.
Area	10	15	16	16	18	
Yield	10.00	9.13	9.38	9.38	9.33	
Grapes						
Production	30	35	35	31	40	n.a.
Area	6	7	7	8	8.5	
Yield	5.00	5.00	5.00	3.88	4.71	
Coffee						
Production	4	5	5	5	5	n.a.
Area	6	6	7	7	7.5	
Yield	0.67	0.83	0.71	0.71	0.66	
Cotton						
Production	10	15	18	20	26	n.a.
Area	10	15	20	20	28.3	
Yield	1.00	1.00	0.90	1.00	0.92	
Tobacco						
Production	3	5	5	5	5	n.a.
Area	4	4	4	4	4.3	
Yield	0.75	1.25	1.25	1.25	1.16	

Sources: Ministry of Agriculture and Central Planning Organization.

^{1/} Forecast by the Yemeni authorities.

Fishing in the Y.A.R. is carried out in the Red Sea largely by traditional methods. The estimated annual catch is 9,000 metric tons, most of which is consumed locally; however, increasing shipments of fresh fish to the urban areas of Sanaa and Taiz have been made possible by recent improvements in transportation and refrigeration facilities.

d. Agricultural development and policies

The emphasis in agricultural development has been on extending the areas under irrigation and on modernizing the agricultural sector through the introduction of modern techniques and inputs. In line with these objectives, the Government has embarked in recent years on a series of projects within the context of the country's Three-Year Development Program (1973/74-1975/76). Among these are the Tihama Valley Development Project and the Southern Highlands Development Project. The Tihama project, financed jointly by the International Development Agency (IDA) and the Kuwait Fund for Arab Economic Development, is essentially concerned with water and land development in the Tihama (lowland) Valley which stretches alongside the Red Sea. This project involves the construction of an irrigation system and the provision of credit and extension facilities to farmers in the Wadi Zabid region, in addition to carrying out a feasibility study of water development possibilities in the Wadi Moor region. The Southern Highlands project is designed to increase the productivity of about 50,000 hectares of land within the Taiz and Ibb Governorates through the establishment of various agricultural services such as agricultural guidance centers, irrigation units, veterinary services and rural roads.

In addition to the Tihama and the Southern Highlands projects, a total of about 12 separate projects in the agricultural sector are in various stages of planning and implementation. A survey of the country's livestock wealth has also been commissioned and the Government is awaiting the results of this survey to formulate livestock development policies. The Government has also taken measures to develop the fishing industry, which has a medium-term potential of 15-20 thousand tons per year. Preparations are under way for a large scale project at Hodeida designed to increase the fish catch by establishing a separate port for fishing and to expand the local cold storage facilities. A program for providing credit to fishermen through the Agricultural Credit Fund is also under consideration.

Agricultural development has been hampered to some extent by the absence of institutional credit. With the exception of credit extended to cotton growers by the General Cotton Company of Hodeida, the only source of credit extended to farmers has been the private moneylenders. In 1973 the Agricultural Credit Fund was established within the Central Bank to provide credit only to farmers connected with the Tihama Valley Development Project. But the major step in the generalized provision of institutional credit to farmers was the recent establishment of the Agricultural Credit Bank which is expected to commence operations on July 1, 1976 (see Section III, Banking and Monetary Developments).

3. Industry

a. Industrial production

The industrial sector in the Y.A.R., which accounts for less than 5 per cent of GDP, has been expanding rapidly. Industrial activity is still concentrated mainly in the production of consumer goods and construction materials. The major industries are cement, cotton textiles, salt mining, paint and electric power generation. The rate of increase in industrial production, however, slowed down in 1974 due to capacity constraints which were experienced in two major industries: cement and cotton textiles (Table 2), and the closure of a paint factory. However, a number of newly established industries increased their output in 1974 and the outlook for 1975 is for a further expansion. The Salif salt mine, which has been idle for technical reasons since 1972, is expected to resume its operations in 1976. Major new industrial projects include the expansion of cement production capacity by tenfold over a period of four years, a textile mill with 15,000 spindles in Hodeida, and the Industrial Estate Project, an experimental scheme on a site close to Sanaa designed to attract private investments in small scale import substitution industries.

Table 2. Output of Major Industries

Industry	Unit	1970	1971	1972	1973	1974	1975 ^{1/}
Cotton fabrics	Million yards	7.6	7.4	9.6	10.7	11.5	12.0
Salt	Thousand metric tons	85.0	85.0	--- ^{2/}	--	--	--
Electric power	Million kwh	13.7	14.0	22.3	22.0	29.4	29.0
Aluminum plates	Metric tons	103.0	120.0	120.0	140.0	200.0	220.0
Paint	Thousand imperial gallons	3.6	12.5	30.0	44.0	36.0	60.0
Soft drinks	Million bottles	5.4	13.4	19.6	27.0	n.a.	n.a.
Cement	Thousand tons	--	--	--	50.0	50.0	60.0

Source: Central Planning Organization.

^{1/} Preliminary.

^{2/} The Salif mine suspended operations early in 1972, but is expected to resume operations in 1976.

b. Industrial development and policy

The main thrust of industrial policy in the Y.A.R. has been toward developing import substitution industries producing light manufactured goods. Some steps were taken recently to facilitate and encourage new investments in the industrial sector; these included the establishment of an Industrial Promotion Unit in the Ministry of Economy, the decision to establish an Industrial Credit Bank and the issuance of a new Investment Law.

The Industrial Promotion Unit was created in 1974 to strengthen the Department of Industry within the Ministry of Economy, whose work had been hampered by the shortage of qualified staff. The unit has been staffed with the assistance of UNIDO and is intended to provide the private sector with technical assistance services such as the identification of individual investment opportunities and the coordination and promotion of new industrial undertakings. The Industrial Credit Bank, to be established in 1975/76, will provide credit to industrial enterprises and may participate in their capitalization to promote industrial development.

A new Investment Law designed to encourage private (local and foreign) investments in industry, agriculture, tourism and services was promulgated in 1975 replacing the Investment Law of 1970. The new legislation offered wider tax exemptions^{1/} to investment projects and made more explicit the terms under which these exemptions are granted. Additionally, the Ministry of Economy was given wider powers to grant exemptions without recourse to the Council of Ministers, thereby expediting the process of approval.

4. Construction

Construction activity has been rising sharply since 1970, benefiting from the rising level of remittances from Yemenis abroad. Available data on the level of activity in this sector, namely the number of licenses issued for residential construction in the major cities, are not adequate to gauge the level of construction activity because of the lack of information on commercial, industrial and public construction, which has been expanding rapidly in recent years. Data on licenses issued suggest that some slowdown in residential construction appeared to have taken place in 1974 (Table 3). However, this indicator is not reliable because licenses had been issued liberally prior to 1974 but with greater scrutiny since

^{1/} In addition to the five-year exemption from import duties for equipment and machinery granted under the 1970 legislation, exemption of raw materials from these duties was increased from 10 per cent of their value to 25 per cent. Exemption of profits of enterprises qualifying under the Law from the "tax on industrial and commercial profits" for a period of five years was maintained. In addition, the new legislation contained a provision for exempting exports of industrial products from export duties.

then. Thus, some of the construction undertaken in the past two years may have been licensed prior to 1974 and is therefore not reflected in this indicator. On the basis of general indications, construction activity continued to expand in 1974/75 and a further large expansion was projected for 1975/76 prompted by the rising level of remittances and the acceleration of the development effort.

Table 3. Number and Area of Licenses Issued for Residential Construction^{1/}

Year	Number of Licenses	Area (In square meters)
1966	712	93,016
1967	1,009	77,334
1968	523	59,393
1969	3,169	372,271
1970	1,835	302,624
1971	1,782	382,840
1972	1,896	514,849
1973	2,201	608,366
1974	1,653	474,944

Source: Central Planning Organization.

^{1/} In the towns of Sanaa, Hodeida, Taiz and Ibb.

5. Employment, wages and prices

a. Employment and wages

Available data on the level of employment and on the size and composition of the labor force are fragmentary and unreliable. Preliminary results of a population census conducted in February 1975 put the total population at approximately 6.5 million, of which an estimated 1.2 million were residing abroad. The labor force is estimated at about 30 per cent of the total resident population, with about 90 per cent of the labor force being employed in the agricultural sector. It is believed, however, that a noticeable shift from agriculture to trade, construction and services has taken place in recent years in the aftermath of the civil war and as large incoming remittances widened the base of lucrative economic activity in Sanaa, Hodeida and other major cities. No data on employment are available; however, unemployment is believed to be negligible as a result of the rapid expansion of economic activity in the last few years. Recent large scale

emigration to neighboring countries has caused some labor shortages, particularly in construction. While the Government's labor policy does not encourage this emigration, there are at present no restrictions on such emigration. Foreign nationals wishing to work in the Y.A.R. are required to obtain work permits which are usually granted if the applicant is associated with a foreign firm doing work in the country or if there are other vacancies, provided that such positions cannot be filled by Yemeni nationals.

Wages and salaries have increased sharply in recent years. Government salaries were raised by 15 per cent in July 1973 and by a further 25-30 per cent in July 1974. In June 1975 a 30 per cent wage increase was granted to government employees not receiving special pay allowances; the increase was decreed partly to offset the increase in the cost of living and partly to establish some parity with government employees who did receive allowances. Wage increases in the private sector have generally exceeded those in the public sector. It has been estimated that the average wage in the private sector increased by about 50 per cent during 1973/74 and by about 60 per cent during 1974/75. The increase in the demand for labor resulting from the expansion in economic activity in recent years, coupled with a limited supply of skilled manpower, is mainly responsible for these sharp increases in wages and salaries.

b. Prices

The only available price index in the Y.A.R. is the cost of living index in Sanaa (Table 4), which rose by 43 per cent during 1973 and by 26 per cent during 1974. The rate of inflation during fiscal year 1974/75 was 34 per cent. While the increase in import prices contributed to the overall rise in the cost of living, the high inflation rates are indicative of the persistent pressures on domestic resources brought about by the high rate of liquidity expansion. However, the increase in the cost of living in Sanaa probably overstates the increase in the general price level for the country as a whole for two reasons. First, the two items which experienced the sharpest rise in prices in Sanaa during 1974/75 were clothing and housing; these two items probably carry higher weights in the consumption pattern of Sanaa than that of the country as a whole. Second, the sharp expansion in agricultural production in 1974/75, which may have moderated the pressures on food prices, especially in the rural areas, is not fully reflected in the Sanaa cost of living index.

The Government has undertaken some subsidy programs in an effort to reduce the impact of the sharp rise in international prices or the cost of living. Grains are fully exempt from import duties, and the import duties levied on petroleum products are based on prices that had prevailed prior to October 1973. In addition, during 1974/75 the Government underwrote the cost of subsidizing grains^{1/} and petroleum products with the help of external commodity and cash grants.

^{1/} For further details on these subsidy programs, see Section II, Public Finance.

Table 4. Index of Retail Prices in Sanaa City

(1972 = 100)

	December		June	
	1973	1974	1974	1975
Foodstuffs	142	166	145	187
Clothes	126	210	155	229
Dwelling	155	227	186	259
Miscellaneous	132	169	152	180
All items	143	181	152	203

Source: Central Planning Organization.

6. Development planning

The first systematic attempt at devising a general development strategy was made in 1973 with the formulation of a Three-Year Development Program covering the period 1973/74-1975/76.^{1/} The program envisaged a total investment outlay of YRls 1,725 million, of which YRls 936 million was to be undertaken by the public sector. Of the total public sector investments, transport and other physical infrastructure was allocated 42 per cent, education 21 per cent, agriculture 15 per cent and industry 10 per cent, while the remaining 12 per cent was divided among health, commerce and administrative and social services (Table 5). The heavy emphasis on developing the country's transport and communications infrastructure reflected partly the desire of the Government to unify a country which had been fragmented by political and economic divisions, and partly the preferences of donor countries.

Due to the low level of domestic savings and the shortage of technical skills, development efforts in the Y.A.R. are heavily dependent on foreign aid. About 75 per cent of the planned public sector investments under the Three-Year Program was to be financed from foreign aid (Table 6). In addition, some projects not included in the Development Program are being implemented directly by donor countries; no data are available on the extent of aid involved in these projects.

The implementation of the Development Program in the first year fell short of the established targets. The ratio of actual to planned investment was 58 per cent with the major shortfall taking place in investments from budget sources. The Program envisaged a total private investment outlay of

^{1/} For a summary of the general objectives of the Development Program, see SM/75/20.

YRIs 245 million during the first year, but no estimate of such investment is available. Preliminary indications are that the overall rate of implementation of public sector investments in the second year of the Program was about 60 per cent.

Table 5. Planned Distribution of Public Sector Investments
in the Three-Year Development Program

(In millions of Yemen rials)

	1973/74	1974/75	1975/76	Total	Per cent
Agriculture	31.7	45.8	60.6	138.1	14.8
Industry, energy and minerals	23.2	36.1	32.5	91.8	9.8
Transport	101.6	117.3	73.2	292.1	31.2
Other infrastructure	18.3	31.0	48.1	97.4	10.4
Commerce and finance	14.1	14.1	13.2	41.5	4.4
Education	48.8	69.1	77.2	195.1	20.9
Health	9.0	18.7	20.5	48.2	5.2
Administrative and social services	10.3	11.5	9.6	31.4	3.4
Total	257.1	343.6	334.8	935.6	100.0

Source: Central Planning Organization.

The major constraints on development during the first two years of the Program have been administrative and structural rather than financial. They relate to such matters as the lack of experience in project preparation and implementation, lack of adequate administrative machinery, the shortage of qualified technical manpower, and difficulties in hiring the required foreign personnel. During the first two years of the Program, considerable effort was devoted to the preparation of a number of projects which were scheduled for completion in 1975/76; consequently, a higher rate of implementation could be expected in the last year of the Program.

The Central Planning Organization is now in the process of recruiting a team of experts through the UNDP to help in preparing a five-year development plan to cover the period 1976/77-1980/81. Details have not been made available, but it is believed that the priorities and strategy would not differ markedly from those of the current Development Program. Investments in transport and communications are expected to receive high priority in the new plan, followed by investments in agriculture and education.

Table 6. Financing of the Three-Year
Development Program (Public Sector)

(In millions of Yemen rials)

	1973/74	1974/75	1975/76	Total	Per cent
Budget	40.7	60.2	76.6	177.5	19.0
Other local sources ^{1/}	13.5	21.1	21.4	56.0	6.0
External sources	202.9	262.4	236.8	702.1	75.0
Total	257.1	343.6	334.8	935.6	100.0

Source: Central Planning Organization.

^{1/} These include self-financing public enterprises whose operations are not included in the government budget.

II. Public Finance

1. Institutional arrangements

a. Budgetary procedures

Procedures for the preparation and execution of the budget in the Y.A.R. have improved steadily in recent years. The process of budget preparation is subject to regularized procedures, including a series of technical and administrative reviews prior to ratification by the Consultative Council. The process begins several months prior to the start of each fiscal year when the Ministry of Finance issues a circular to all government agencies stating the basic guidelines for the preparation of budget estimates. The Ministry of Finance reviews the requests received from these agencies in light of its own estimates of the overall budgetary prospects for the year. The Ministry then prepares the budgetary estimates for consideration and review by the Council of Ministers and subsequently by the Council of the Presidency. The budget proposals then go to the Consultative Council for debate and final approval.

The budget document is usually issued in June of each year and contains estimates of revenues by department and by source, as well as expenditures by department and by functional class (defense, health, education, etc.). In addition, expenditures are also classified into five chapters: the first three denote current expenditures, the fourth indicates capital expenditures financed by the budget (considerable amounts of capital expenditures continue to be effected from external sources on an extrabudgetary basis), while the fifth contains data on the Government's lending and borrowing operations, external grants, certain types of externally financed subsidy programs and

subscriptions to the capital of certain types of regional and international organizations. Since 1974/75 estimates of revenue and expenditures for the public and mixed sector enterprises have also been prepared and issued simultaneously with the budget in a separate volume.

Budgetary accounts are kept on a cash basis. The Central Bank serves as sole Treasury agent: all revenues are deposited into and all expenditures are effected from a single consolidated account maintained at the Central Bank. However, a few accounts of a special or temporary nature continue to be handled through the Yemen Bank for Reconstruction and Development (YBRD). The Central Bank prepares daily, monthly and annual statements of the Government's cash position for review by the Finance Minister. As from 1975/76, only ministries are authorized to effect any expenditures from budget appropriations; this procedure is intended to bring expenditures under more effective control, thus ending the practice of effecting disbursements through local subunits of government.

b. Budgetary reform

The process of budgetary reform, initiated in 1972, is still under way. The institutional framework for budget preparation, execution and control has been largely completed. The reforms include the consolidation of all budgetary operations in the Ministry of Finance and the creation, in 1974, of the Central Organization for Audit and Accounting. Modern concepts of financial administration have been introduced and adapted to Yemeni conditions while the budget preparation process has been extensively streamlined. A comprehensive accounting system has also been introduced, supported by appropriate records, regulations and a manual of instructions. In the last two years considerable emphasis was placed on the training of Yemeni nationals and on ensuring the broadest possible measure of understanding of and compliance with the new procedures by the various ministries and departments. Several training sessions are held every year. Following the necessary course work, many of the trainees are appointed to the position of budget officer and are assigned to ministries, government departments and to the provinces to assist in the preparation and execution of the budget and to facilitate the flow of fiscal data to the Ministry of Finance.

In 1974 a Fund technical assistance mission studied the taxation system and prepared a report on tax policy which was submitted to the Yemeni authorities in mid-1974. A number of the recommendations have been implemented. These include reductions in the tariff rates applicable to cigarettes and tobacco to reduce smuggling, improved procedures for the collection of the excise tax on petroleum products, the revision of the "administrative values" used as a guide in determining the dutiable base of imports, and the preparation of a proposal to extend the coverage of the tax on commercial and industrial profits. In July 1975 a customs expert provided by the Fund was appointed to evaluate the present system of processing imports and to suggest changes in procedures with a view toward improving revenue performance from this source. The Yemeni authorities, with technical assistance from the Fund, are planning to conduct a general review of the revenue system with a view toward formulating proposals to strengthen and rationalize the system and to broaden the revenue base.

2. Budgetary trends through 1974/75

a. Overall outcome in 1973/74

Budgetary developments in recent years have been characterized by large deficits on current operations and rapidly rising overall deficits, which have been financed from external official aid (Table 7). In 1973/74, the first fiscal year for which comprehensive budget data became available, the deficit on current operations was reduced to YRls 46 million (about 14 per cent of current expenditures) from YRls 72 million in 1972/73 as revenues increased by 38 per cent while the growth in current expenditures was held to 19 per cent. However, with development expenditures more than doubling, the overall deficit rose by almost 50 per cent to YRls 185 million and was equivalent to 40 per cent of total expenditures. Nevertheless, external financing, primarily in the form of commodity and project loans and cash grants, offset the entire deficit and contributed YRls 32 million to the Government's cash balances with the banking system.

b. Budget developments in 1974/75

(1) Overall outcome

Current expenditures accelerated sharply in 1974/75, leading to a doubling of the deficit on current operations despite continued favorable revenue performance. Development expenditures rose by about one third despite the considerable physical, technical and administrative constraints. Consequently, the overall deficit rose by 50 per cent to YRls 276 million, or 42 per cent of total expenditures. As in the preceding year, external aid financed the entire deficit and contributed to an increase in the Government's cash balances with the banking system of YRls 232 million. The external assistance, totaling YRls 549 million, consisted of 71 per cent cash grants, 21 per cent commodity and project loans provided on a highly concessionary basis, and 8 per cent cash loans. Thus, while the overall fiscal position showed a cash surplus, it continued to manifest structural weaknesses, reflected primarily in the sharp growth of current expenditures and in the heavy reliance on external sources to finance substantial and rising budget deficits.

(2) Revenues

The structure of budget revenues is dominated by receipts from taxes, which in recent years have constituted about four fifths of total domestic revenues (Table 8). These receipts are heavily dependent on indirect taxes consisting mainly of import duties and selective excise taxes--the two sources provided, respectively, 74 per cent and 13 per cent of total tax receipts in 1974/75. Direct taxes, primarily levies on income and profits and religious (Zakat) taxes, contributed the remaining 13 per cent. Nontax revenues account for about one fifth of total budget receipts, although their share increased slightly in 1974/75.

Table 7. Summary of Government Finances

(In millions of Yemen rials)

Fiscal year ending June 30	Actuals			Budget Estimates	
	1972/73	1973/74	1974/75	1974/75	1975/76
Current revenues ^{1/}	199.0	276.8	381.1	341.1	486.2
Tax revenue	158.4	227.4	301.1	262.1	360.8
Nontax revenue	40.6	49.4	80.0	79.0	125.4
Current expenditures	271.5	322.5	472.3	437.5	571.6
Defense and public order and safety	136.4	187.1	269.3	260.0	303.1
Health and education	26.6	30.9	43.8	44.1	76.3
Other	108.5	104.5	159.2	133.4	192.2
Deficit on current operations (-)	-72.4	-45.7	-91.2	-96.4	-85.4
Development expenditures	56.9	139.2	184.7	371.7	352.7
Expenditures financed by external loans ^{2/}	56.9	125.6	115.4	276.7	165.0
Budgeted development expenditures	--	13.6	69.3	95.0	187.8
Overall deficit (-)	-129.3	-185.0	-275.9	-468.1	-438.2
Financing of deficit	129.3	217.9	317.2	468.1	438.2
External financing	116.5	249.9	548.6	n.a.	587.0
Commodity and project loans	(56.9)	(125.6)	(110.0)	n.a.	(165.0)
Cash loans	(0.8)	(15.1)	(49.7)	n.a.	--
Cash grants	(58.8)	(109.2)	(388.9)	n.a.	(422.0)
Domestic financing	12.8	-32.0	-231.6	n.a.	-148.8
Central Bank of Yemen	(31.3)	(-47.2)	(-212.8)	n.a.	n.a.
Commercial banks ^{3/}	(-18.5)	(15.2)	(-18.8)	n.a.	n.a.
Statistical discrepancy ^{3/}	--	-32.9	-41.1	--	--

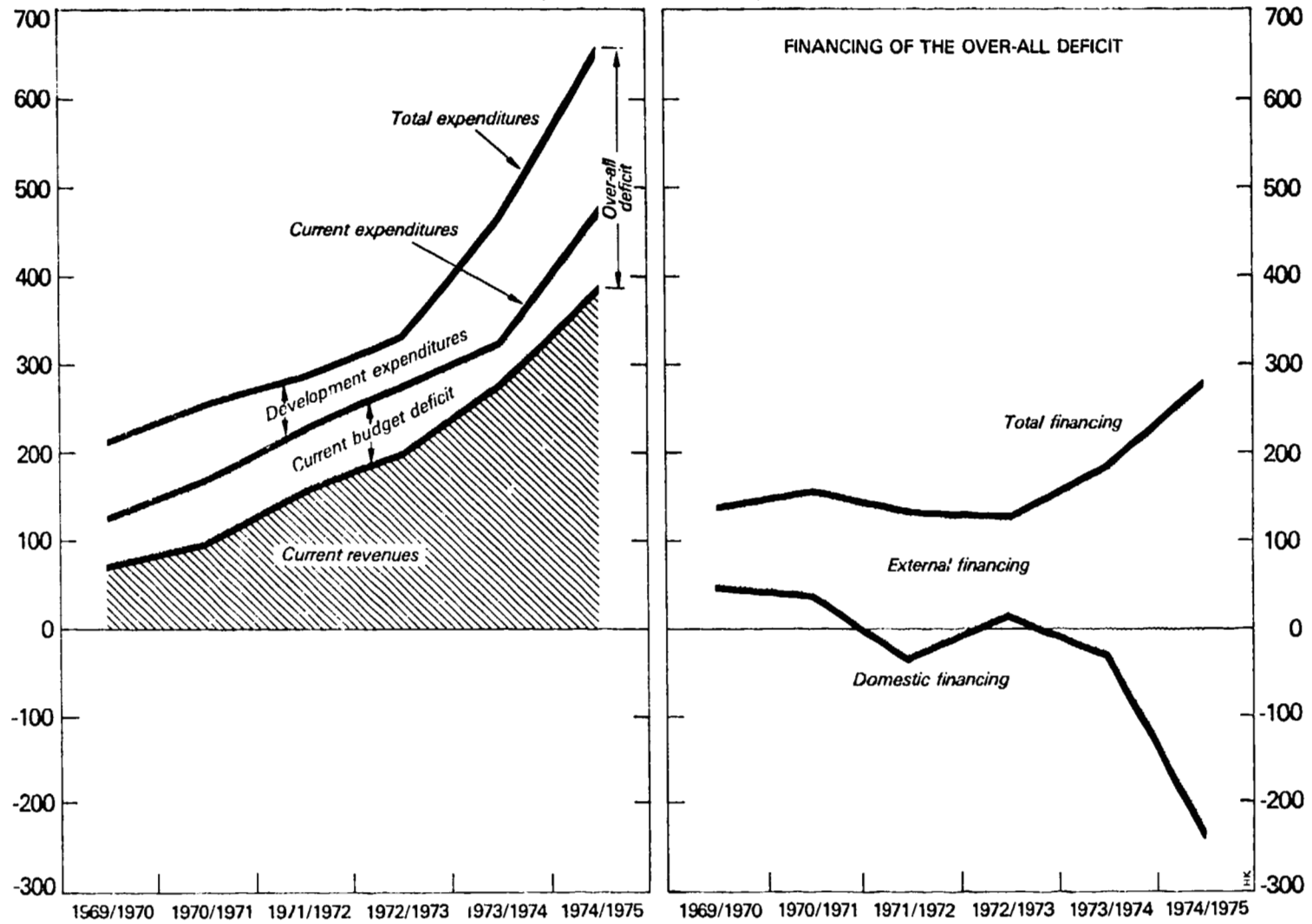
Sources: Ministry of Finance and the Central Bank of Yemen.

1/ Excludes grants for budgetary support. See Footnote 1 of Table 8 below.

2/ Comprising the Yemen rial counterpart of commodity and project loans.

3/ Represents expenditures incurred but not recorded by the time the final accounts were prepared, exchange rate valuation adjustments associated with external financing, differences between beginning and end of year cash balances held outside the banking system and errors and omissions.

CHART 1
YEMEN ARAB REPUBLIC
PUBLIC FINANCE
(in millions of Yemeni rials)



Total tax receipts rose 32 per cent to YRls 301 million in 1974/75. As nominal GDP was estimated to have increased by over 50 per cent in that year,^{1/} the figures indicate an elasticity of tax revenues with respect to GDP of less than unity. Furthermore, over 90 per cent of the increase in tax revenue was attributable to the rise in import duties and taxes; taxes on income and profits declined marginally and remained relatively insignificant.

Revenues from import duties and taxes increased by 43 per cent to YRls 222 million. The increase was partly due to a 33 per cent rise in the value of imports and partly to a shift in the commodity composition of imports in favor of manufactured consumer goods which carry higher tariff rates. The stagnation of receipts from direct taxation at about 5-7 per cent of total revenue is largely the result of technical and administrative difficulties related to the enforcement of the present income tax laws. This seems to apply especially in the case of the profit taxes on small businesses which do not maintain adequate records. The decline in receipts from taxes on wages and salaries from YRls 10 million to YRls 5 million was due to a reduction in the applicable tax rates for government employees from a maximum of 30 per cent to a maximum of 15 per cent effective July 1, 1974.^{2/}

Taxes on goods and services rose by about 39 per cent to YRls 39 million or about 13 per cent of total tax receipts. The increase was almost entirely attributable to the rise in the excise tax on petroleum products, reflecting both a sharp rise in the level of consumption and improved procedures of tax collection. The other main source of tax revenue is the religious (Zakat) tax levied on Moslems in the form of wealth and poll taxes and collected mostly in kind. Beginning in 1974/75, one half of the Zakat receipts was turned over to local cooperatives to help finance locally initiated capital improvements such as schools, roads and health clinics. This practice of sharing the Zakat revenue with the cooperatives seems to have stimulated proceeds from this tax; one half of the receipts which accrued to the budget in 1974/75 (totaling YRls 15 million) was almost equivalent to the entire revenue from this source in the preceding year.

Nontax revenues rose 62 per cent to YRls 80 million. About three fourths of the increase was derived from Central Bank profits transferred to the Treasury, while the remaining portion represented higher receipts from administrative fees and charges.

^{1/} See Section I above.

^{2/} The measure was intended to reduce the discrepancy between the effective rates paid by government employees, who had usually paid the full rates through payroll deduction, and their counterparts in the unorganized labor market, who had usually contributed less than their full share because of inadequate financial records and difficulties in enforcement.

Table 8. Government Revenues

(In millions of Yemen rials)

Fiscal year ending June 30	Actuals			Budget Estimates	
	1972/73	1973/74	1974/75	1974/75	1975/76
<u>Tax revenue</u>	<u>158.4</u>	<u>227.4</u>	<u>301.1</u>	<u>262.1</u>	<u>360.8</u>
Taxes on income and profits	6.9	19.0	16.9	19.7	18.0
Tax on wages and salaries	2.9	9.7	4.6	4.0	4.0
Tax on commercial and industrial profits	...	6.4	10.4	14.0	12.0
Tax on monopoly profits	3.1	0.8	0.4	0.2	--
Tax on rental income	0.9	1.3	1.3	1.0	1.8
Other taxes	...	0.8	0.2	0.5	0.2
Taxes on goods and services	22.4	27.9	38.7	37.9	40.4
Selective excises on goods	19.6	21.5	30.9	32.6	34.2
Tobacco and cigarettes	(2.0)	(2.6)	(2.2)	(10.0)	(5.0)
Petroleum products	(17.5)	(18.0)	(27.9)	(22.0)	(28.0)
Soft drinks	(0.1)	(0.8)	(0.8)	(0.6)	(1.2)
Selective taxes on services	0.2	1.0	0.6	0.9	0.8
Transport tax	n.a.	(0.6)	(0.2)	(0.3)	(0.2)
Cinema tax	n.a.	(0.4)	(0.4)	(0.6)	(0.6)
Motor vehicle taxes	2.6	3.0	3.6	3.0	3.5
Other taxes	...	2.4	3.6	1.4	1.9
Taxes on international trade and transactions	113.0	155.5	222.2	177.0	252.5
Import duties and taxes	112.0	155.2	222.0	175.5	252.0
Customs duties	(82.0)	(103.9)	(160.6)	(130.0)	(202.0)
Defense tax	(19.5)	(31.9)	(43.8)	(30.0)	(35.0)
Statistical tax	(9.0)	(12.6)	(16.5)	(15.0)	(14.0)
Other	(1.5)	(1.8)	(1.1)	(1.0)	(1.0)
Export duties and taxes	1.0	0.2	0.2	1.0	0.5
Other taxes	16.1	24.9	23.3	27.5	49.9
Religious tax (Zakat)	11.9	15.7	14.7	7.6	19.0
Agricultural Zakat	(6.4)	(8.0)	(8.4)	(4.5)	(12.0)
Cattle Zakat	(0.8)	(1.1)	(1.4)	(0.5)	(1.5)
Wealth Zakat	(1.7)	(2.1)	(0.8)	(0.8)	(2.0)
Poll Zakat	(3.0)	(4.5)	(4.1)	(1.8)	(3.5)
Stamp taxes	4.2	9.2	8.6	19.9	30.9
<u>Nontax revenue</u>	<u>40.6</u>	<u>49.4</u>	<u>80.0</u>	<u>79.0</u>	<u>125.4</u>
Property income	9.6	15.8	38.5	33.4	45.5
Administrative fees and charges	31.0	27.5	33.8	40.9	57.5
Fines and forfeits	n.a.	2.8	3.3	2.3	21.5
Other ^{1/}	--	3.3	4.4	2.4	0.9
<u>Total revenue</u> ^{2/}	<u>199.0</u>	<u>276.8</u>	<u>381.1</u>	<u>341.1</u>	<u>486.2</u>

Source: Based on data presented by the Ministry of Finance.

1/ Includes small amounts of "capital revenues" derived from the sale of property. These amounted to YRls 1.6 million and YRls 1.5 million in 1973/74 and 1974/75, respectively. Budget estimates for 1974/75 and 1975/76 were YRls 2.4 million and YRls 0.9 million, respectively.

2/ Excludes grants for budgetary support.

(3) Expenditures

Total budget expenditures rose by 42 per cent to YRls 657 million in 1974/75 (Table 9). However, current expenditures rose at a higher rate, thereby raising their share of the total from 70 per cent to 72 per cent.

Current expenditures increased by over 46 per cent to YRls 472 million. The bulk of the increase financed higher expenditures on defense and "general public services" which in 1974/75 accounted for 44 per cent and 39 per cent, respectively, of total current expenditures.

The increases in defense and general administrative expenditures are largely attributable to rises in the salaries and wages of the armed forces and of civil servants; the salary increase for the latter, which became effective on July 1, 1974, was in the range of 25-30 per cent. In addition, the Government civilian payroll continued to expand in response to the growing demand for public services, especially in the outlying provinces where the Central Government only recently began to establish the necessary administrative machinery. Expenditures on education and health rose by 43 per cent to YRls 44 million, equivalent to 9 per cent of total current expenditures. However, these figures tend to understate actual outlays on these two functions as considerable amounts were spent for health, education and related services, either directly by foreign missions operating in the country or by local cooperatives; both of these types of expenditures are excluded from the budgetary accounts. An amount of YRls 12 million listed under "other economic services" represented the net cost to the budget of subsidies intended to limit the rise of consumer prices for petroleum products and grains. With respect to the former, the Government received an external cash grant of YRls 23 million to offset the rise in the cost of fuels, but it spent YRls 30 million to maintain prices at their pre-October 1973 levels.^{1/} In the case of grains the Government received the equivalent of YRls 29 million in commodity grants while actual outlays amounted to YRls 34 million.

Development expenditures increased by 33 per cent in 1974/75 to YRls 185 million. The figure included YRls 69 million in budget-financed capital expenditures, about five times the corresponding level in 1973/74. The sharp increase in budget-financed development expenditures was brought about by the rapid expansion in the construction of basic government facilities and by the purchase of machinery and equipment used in the construction and maintenance of such facilities. The increase also included a contribution of YRls 20 million to the capital of the newly established Agricultural Credit Bank. On the other hand, externally financed development expenditures declined from YRls 126 million to YRls 115 million due mainly to the emergence of supply bottlenecks, especially with regard to the capacity of Hodeida Port and the shortage of skilled and technical manpower.

^{1/} In addition, the Government received an interest-free loan of YRls 50 million from the Organization of Arab Petroleum Exporting Countries (OAPEC) to help the Y.A.R. meet its oil import bill.

Table 9. Government Expenditures

(In millions of Yemen rials)

Fiscal year ending June 30	Actuals 1973/74			Budget Estimates 1974/75			Actuals 1974/75			Budget Estimates 1975/76		
	Current Expen- diture	Devel- opment Expen- diture	Total	Current Expen- diture	Devel- opment Expen- diture	Total	Current Expen- diture	Devel- opment Expen- diture	Total	Current Expen- diture	Devel- opment Expen- diture	Total
General public services	108.6	8.4	117.0	146.7	63.8	210.5	184.3	46.8	184.6	112.8		297.4
General administration	77.7	7.0	84.7	97.5	60.9	158.4	122.7	44.0	166.7	128.1	100.3	228.4
Public order and safety	30.9	1.4	32.3	49.2	2.9	52.1	61.6	2.8	64.4	56.5	12.5	69.0
Defense	156.2	--	156.2	210.8	5.0	215.8	207.7	11.0	218.7	246.6	15.1	261.7
Education	18.0	0.6	18.6	26.9	4.1	31.0	27.5	2.6	30.1	50.5	10.1	60.6
Health	12.7	0.4	13.1	17.2	4.9	22.1	16.3	1.0	17.3	25.8	6.4	32.2
Community and social services	7.2	0.5	7.7	11.3	2.6	13.9	8.5	2.5	11.0	22.2	10.1	32.3
Recreational and related activities	0.6	--	0.6	1.4	0.4	1.8	1.3	0.3	1.6	3.5	1.7	5.2
Broadcasting, press and information	4.0	0.1	4.1	6.0	1.7	7.7	4.6	1.4	6.0	14.9	8.4	23.3
Religion	2.6	0.4	3.0	3.9	0.5	4.4	2.6	0.8	3.4	3.8	--	3.8
Economic services	8.6	3.7	12.3	16.1	14.6	30.7	24.0	4.8	28.8	34.3	33.3	67.6
Agriculture	1.6	0.1	1.7	3.1	2.8	5.9	2.1	1.6	3.7	3.9	6.5	10.4
Mining	--	--	--	0.4	0.2	0.6	0.2	--	0.2	0.7	0.3	1.0
Construction	1.2	0.7	1.9	3.0	2.6	5.6	1.4	0.9	2.3	14.0	9.4	23.4
Transport and communication	5.2	2.9	8.1	7.8	8.8	16.6	6.8	2.2	9.0	12.6	15.7	28.3
Tourism	0.1	--	0.1	0.3	0.1	0.4	0.2	0.1	0.3	0.7	0.9	1.6
Commerce	0.5	--	0.5	1.5	0.1	1.6	1.0	--	1.0	2.4	0.5	2.9
Other	--	--	--	--	--	--	12.3	--	12.3	--	--	--
Unallocable and other purposes	11.2	--	11.2	8.5	--	8.5	4.0	0.6	4.6	7.6	--	7.6
Public debt interest	4.5	--	4.5	8.5	--	8.5	2.9	--	2.9	7.6	--	7.6
Other	6.7	--	6.7	--	--	--	1.1	0.6	1.7	--	--	--
Subtotals	322.5	13.6	336.1	437.5	95.0	532.5	472.3	69.3	541.6	571.6	187.8	759.4
Development expenditures financed externally ^{1/}	--	125.6	125.6	--	276.7	276.7	--	115.4	115.4	--	165.0	165.0
Total	322.5	139.2	461.7	437.5	371.7	809.2	472.3	184.7	657.0	571.6	352.8	924.4

Source: Based on data provided by the Ministry of Finance.

^{1/} Details are not available for these expenditures.

3. The 1975/76 budget estimates

Budget estimates for 1975/76 indicate an increase in the overall deficit of 59 per cent to YRls 438 million, equivalent to 47 per cent of total expenditures (a significant rise from the corresponding 1974/75 actual ratio of 42 per cent). The components of the deficit, however, are expected to shift from the pattern which prevailed in 1974/75. Whereas the deficit on current operations is budgeted to drop slightly to YRls 85 million, development expenditures are estimated to almost double to YRls 353 million. As in the preceding two years, external sources are expected to finance the entire deficit and help provide a new addition of YRls 149 million to the Government's cash balances with the banking system.

Current revenues are budgeted to increase by 28 per cent compared to 38 per cent realized in 1974/75. Tax receipts are expected to rise by 20 per cent while nontax revenues are budgeted for an increase of 57 per cent. These rates imply a further drop in the share of tax revenue to about three fourths of total current receipts. Most categories of tax revenue are expected to increase only slightly--the increase in income from taxes on wages and salaries is projected at 6 per cent while the corresponding rate for excise taxes is 4 per cent. Import taxes and duties are budgeted for an increase of 14 per cent, an estimate likely to prove conservative in view of the projected 25 per cent growth in the value of imports. The only other notable increase in tax receipts is from "stamp taxes," which are expected to more than triple due to an expected surge in the issuance of new passports for migrant and expatriate Yemenis.

The projected sharp growth in overall nontax revenues from YRls 80 million to YRls 125 million is attributable to: (a) an increase in transfers from the profits of the Central Bank and of mixed and public sector enterprises classified under "property income;" (b) a sharp rise in administrative fees and charges, especially from the expanded network of telephones and from licensing of new retailers; and (c) an increase in fines and forfeits associated with measures to control smuggling activity.

Current expenditures are projected to rise by 21 per cent in 1975/76, compared to 46 per cent in the preceding year. Of particular importance is the projected stabilization of current expenditures under "general public services" reflecting a possible restriction on the civilian payroll of the Government coupled with planned measures for greater control on current expenditures. However, current expenditures on health and education are budgeted to rise by 74 per cent, although their share of the total will remain relatively low at 13 per cent.

The planned sharp increase in development expenditures consists of an increase of 43 per cent for foreign-financed expenditures to YRls 165 million, while budget development outlays are projected to nearly triple to YRls 188 million. The latter figure includes a further contribution of YRls 20 million to the capital of the Agricultural Credit Bank, and a similar allocation toward the capital of the planned Industrial Credit Bank. Moreover, the budget provides for continued expansion of government administrative facilities and the construction of new facilities in the areas of education, communication and transport.

III. Banking and Monetary Developments

1. Developments in the banking structure

The Central Bank of Yemen, established in July 1971 to replace the Yemen Currency Board, almost completed its internal organization in 1974. A Clearing House under its own supervision was established in September 1975. A new branch of the Bank was opened recently in the Governorate of Mareb, and another is expected to be opened soon in Lahweet, the only Governorate without a central bank branch.

There are seven commercial banks in the Y.A.R., of which only the YBRD is locally owned. The YBRD, which is government controlled, accounts for about 70 per cent of all outstanding domestic credit. Of the six foreign banks, four have been operating since 1972; namely, the British Bank of the Middle East, the Habib Bank, the United Bank and the Arab Bank. The Bank of Credit and Commerce International (Saudi Arabian majority ownership) and the First National City Bank were opened in Sanaa in May and November 1975, respectively. A license has been granted to Bank Indochine to open a branch in Taiz. Each foreign bank is required to have a minimum local paid-up capital of YRls 3 million.

The Agricultural Credit Fund (ACF) was established in 1973 under the supervision of the Central Bank to administer the credit component of the Tihama Development Project.^{1/} The ACF has been extended to the Southern Uplands Rural Development Project, which is financed by IDA, the Abu Dhabi Fund for Economic Development and the Government of the Y.A.R. The main function of the ACF in this new project is to grant short-term credit to small farmers for fertilizers and medium- and long-term credit for on-farm investments in equipment, machinery and physical infrastructure.

The Agricultural Credit Bank (ACB) was established in September 1975 and is expected to commence operations on July 1, 1976. The paid-up capital of YRls 100 million is to be met by the Government over five years. The Bank is expected to grant loans to and accept deposits from individual farmers as well as agricultural societies on a national rather than regional basis, and may eventually replace or merge with the ACF. Plans to establish an industrial bank in 1976 with the same capitalization as the ACB are under way. The main functions of this bank will be to extend credit to industrial enterprises and participate in their capitalization to promote industrial development.

2. Monetary and credit developments

The rate of monetary expansion decelerated from 46 per cent in 1972/73 to 25 per cent in 1973/74 (Table 10). Domestic liquidity, i.e., money and quasi-money, increased by YRls 145 million reflecting largely an increase in the foreign assets of the banking system; the increase in domestic assets was relatively small as the rise in claims on the private sector was partly

^{1/} See Section I, Production, Employment, Prices and Development Planning for details.

offset by a decline in banking claims on the Government. In 1974/75 monetary expansion accelerated sharply as liquidity rose by 56 per cent or YRls 411 million. The expansion was associated entirely with the increase in net foreign assets which rose by YRls 526 million. Net domestic assets declined as the large increase in claims on the private sector was more than offset by an improvement in the Government's cash position with the banking system, reflecting the large external receipts of the Government. The unclassified items were also contractionary on a net basis and reflected mainly movements in the Central Bank's accounts with the Central Bank of Egypt.

Although net claims on Government declined in the last two years, reaching minus YRls 147 million at the end of June 1975, the impact of budgetary operations on the growth of domestic liquidity was expansionary. The excess of government domestic expenditures over domestic receipts, which was financed by the counterpart of official foreign aid, represented an injection of liquidity into the income stream. As shown in Table 11, the government budgetary operations in 1973/74 contributed YRls 31 million or 56 per cent of total monetary expansion. This amount represented the Government's receipts of external cash and commodity grants and loans less its expenditures on imports and other foreign payments net of changes in the Government's position with the banking system. The private sector contributed YRls 66 million, of which YRls 4 million was due to its external transactions; the latter represented the amount of net invisible receipts including remittances plus net private capital inflow minus net private imports. In terms of its relative contribution, the Government was therefore the major source of liquidity expansion in 1973/74. However, in 1974/75 the Government contributed YRls 141 million or 34 per cent of the total increase in domestic liquidity. The private sector, on the other hand, was responsible for an increase of YRls 300 million or about two thirds of the total, of which YRls 153 million was due to its external transactions. The sharp increase in the expansionary impact of private sector external operations was due in part to the large rise in remittances coupled with a slowdown in the growth of private imports caused by supply bottlenecks at the Hodeida Port. The private sector thus replaced the Government as the major source of liquidity expansion in 1974/75.

An important factor which induced the expansion of domestic liquidity was the growing monetization of the economy. This was attributable in part to the extension of road networks and transportation facilities which contributed to the expansion of markets and to the integration of the subsistence sector with the rest of the economy. However, judging from the real rate of growth of GDP and allowing for reasonable monetization of the economy, it appeared that liquidity expansion in 1973/74 and 1974/75 was still in excess of the genuine requirements of the economy. In the two years ended June 1974, GDP in real terms declined but liquidity rose by over two thirds. In 1974/75 real GDP was estimated to have increased by 25-30 per cent while domestic liquidity increased by 56 per cent. These high rates of liquidity expansion exerted pressures on domestic resources and further aggravated the rate of increase in prices.

Table 10. Factors Affecting Changes in Domestic Liquidity

(In millions of Yemen rials)

	Calendar Year				Fiscal Year Ended June 30			Jan.-June
	1971	1972	1973	1974	1972/73	1973/74	1974/75	1975
<u>Changes in money supply</u>	46.9	125.5	129.4	176.1	123.1	140.7	347.6	251.6
Currency outside banks	27.9	107.0	114.1	158.9	102.8	116.9	274.1	173.1
Demand deposits	19.0	18.5	15.3	17.3	20.4	23.8	73.5	78.5
<u>Changes in quasi-money</u>	27.8	44.9	24.5	45.8	61.6	3.9	63.2	29.7
<u>Total changes</u>	74.8	170.4	153.9	222.0	184.7	144.6	410.8	281.3
<u>Factors affecting changes</u>	74.7	170.4	153.9	222.0	184.7	144.6	410.7	281.3
Net foreign assets ^{1/}	98.5	138.5	76.6	285.3	100.7	117.7	525.8	318.4
Net claims on Government	-32.8	5.8	19.3	-152.8	12.8	-32.0	-231.6	-129.8
Claims on private sector	33.3	49.8	49.7	91.0	60.2	61.5	146.4	116.0
Allocation of SDRs (increase -)	-5.3	-6.2	--	--	--	--	--	--
Other items, net (increase -) ^{2/}	-19.0	-17.5	8.3	1.3	11.0	-2.6	-29.8	-23.3
Of which: exchange valuation (increase -)	(7.5)	(5.2)	(11.2)	(2.7)	(9.2)	(3.7)	(2.1)	(1.3)
<u>Changes in per cent</u>								
Money	20.4	45.3	32.1	33.1	35.4	29.8	56.8	35.5
Money and quasi-money	31.4	54.5	31.9	34.9	46.0	24.7	56.3	32.7
Claims on private sector	138.9	71.1	41.5	53.7	55.5	36.5	63.6	44.5

Source: Appendix Table 22.

^{1/} Excluding the Central Bank's balances with the Central Bank of Egypt.^{2/} Including the Central Bank's balances with the Central Bank of Egypt.

CHART 2
YEMEN ARAB REPUBLIC
SELECTED MONETARY INDICATORS
(In millions of Yemeni rials)

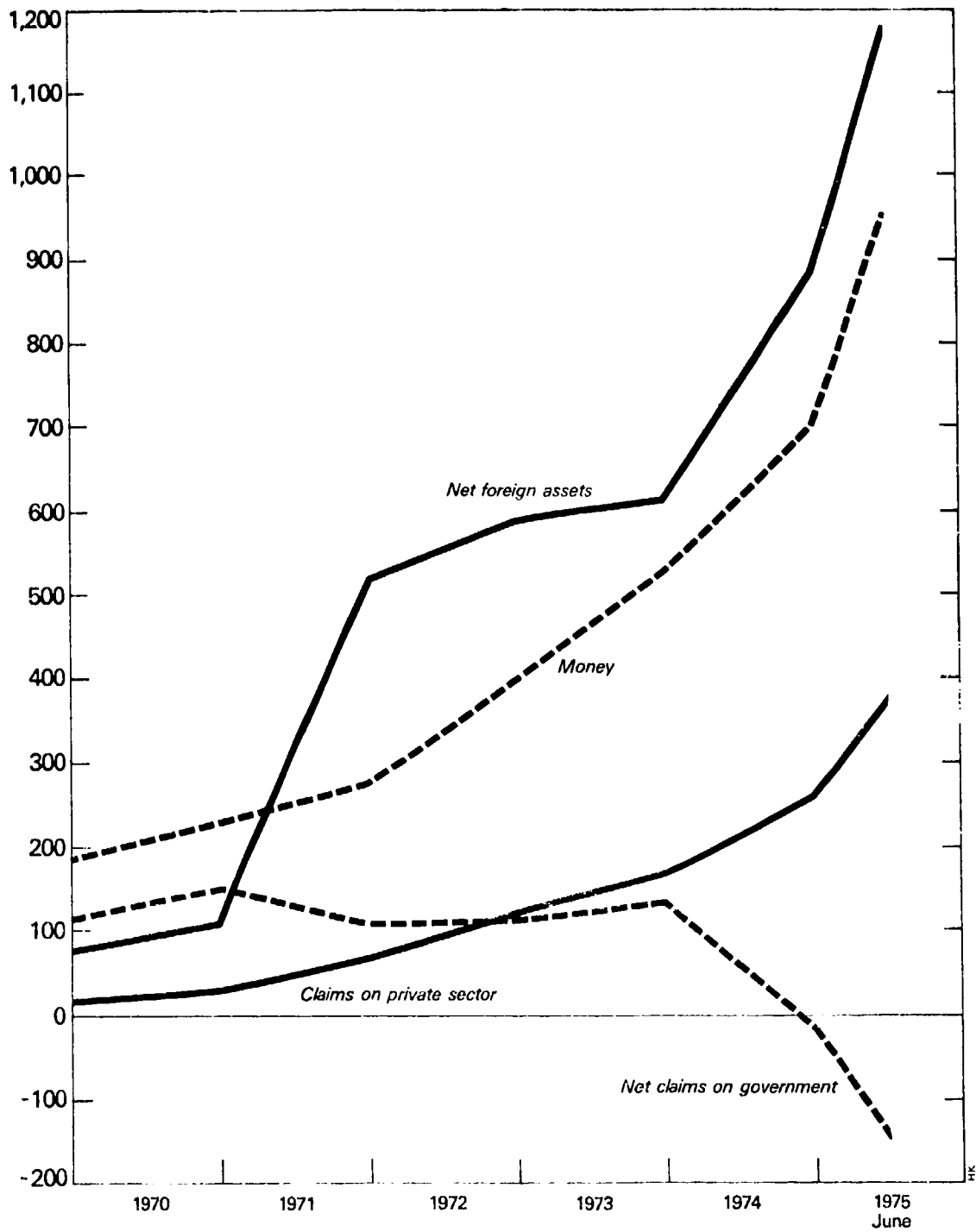


Table 11. Factors Affecting Changes in Domestic Liquidity:
An Alternative Presentation

(In millions of Yemen rials)

Fiscal year ended June 30	1972/73	1973/74	1974/75
<u>Excess of government domestic expenditures over domestic revenue</u>	<u>70.4</u>	<u>81.4</u>	<u>140.8</u>
Receipts from foreign cash grants and aid	126.5 ^{1/}	269.2 ^{1/}	577.8 ^{1/}
Aid-financed imports	-68.9	-155.8	-163.4
Other government foreign expenditures	n.a.	n.a.	-42.0
Change in government deposits with domestic banking system (increase -)	12.8	-32.0	-231.6
<u>External transactions of the private sector</u>	<u>43.1</u>	<u>4.3</u>	<u>153.4</u>
Net imports	-465.8	-655.8	-942.0
Net invisible receipts and remittances	469.0	588.4	993.2
Other (including errors and omissions)	39.9	71.7	102.2
<u>Claims on private sector</u>	<u>60.2</u>	<u>61.5</u>	<u>146.4</u>
<u>Changes in other items</u>	<u>11.0</u>	<u>-2.6</u>	<u>-29.8</u>
<u>Changes in money and quasi-money</u>	<u>184.7</u>	<u>144.6</u>	<u>410.8</u>
Increase in money	123.1	140.7	347.6
Increase in quasi-money	61.6	3.9	63.2

Sources: Based on data provided by the Yemeni authorities and staff estimates.

^{1/} These amounts include commodity grants and therefore exceed the foreign assistance figures which appear in the budgetary tables.

Credit to the private sector, including public enterprises, expanded rapidly in recent years, rising from YRls 70 million at the end of December 1971, to YRls 230 million at the end of June 1974, and to YRls 376 million a year later (Appendix Tables 21 and 23). About 30 per cent of this credit was extended to finance imports; credit to finance nontrade business enterprises accounted for 15 per cent of total credit, while private and professional loans accounted for 5 per cent. In 1972/73 and 1973/74 total credit to the private sector increased by 56 per cent and 37 per cent, respectively, due partly to the sharp increase in import prices and partly to the buoyant activity in the nonagricultural sectors. In 1974/75 such credit increased by 64 per cent; whereas the increase in imports decelerated, rapid expansion in the nonagricultural sectors continued. Credit to public enterprises increased by over 30 per cent during the last two fiscal years and stood at YRls 70 million at the end of June 1975. Financing cotton marketing, which fluctuates seasonally and reaches a peak early in the summer, usually accounts for one third to one half of this credit, while financing imports of industrial equipment for public enterprises accounts for most of the balance.

3. Credit policy instruments

The legislation which set up the Central Bank (Law No. 4 of 1971) empowers the Central Bank to regulate the banking and credit policies, to manage the gold and foreign exchange reserves of the country and to provide financial assistance to the Government. In May 1972, Banking Law No. 8 of 1972 was issued regulating commercial banking business in the Y.A.R. According to these Laws, there are three major credit policy instruments available to the Central Bank to control bank credit and liquidity, namely, the statutory reserve requirements, the liquidity ratio and the minimum cash ratio.

Commercial banks are required to maintain with the Central Bank reserves amounting to 10 per cent of all deposits excluding deposits of the Government and public enterprises. The liquidity ratio requirement stipulates that 25 per cent of the total liabilities of commercial banks be in the form of cash on hand, balances with the Central Bank and with other commercial banks and rediscountable papers. Furthermore, commercial banks are required to keep cash on hand and current account balances with the Central Bank equivalent to at least 3 per cent of total deposits, excluding deposits of the Government and public enterprises.

The Central Bank maintains an informal relationship with commercial banks through the Banking Committee (established in March 1972), which comprises the managers of commercial banks and is chaired by the Deputy Governor of the Central Bank. The Committee meets periodically to review money market conditions and to supervise commercial banks' compliance with the directives of the Central Bank. Following an agreement reached in January 1973 between the Central Bank and the commercial banks, the required reserve ratio has been seasonally adjusted in line with commercial banks' requirements to provide credit to the General Cotton Company for financing the cotton crop. Generally, the ratio is reduced gradually beginning in March and reaching a floor in May. When the repayment is made

by the General Cotton Company, the reserve ratio is raised to the normal 10 per cent. The decision to adjust reserve requirements is made by the Banking Committee. As a result of the variations in the reserve requirements, the effective liquidity and cash ratios also vary seasonally.

The Central Bank also requires advance deposits on private imports; the present minimum margin deposit on letters of credit is 20 per cent. Rediscounting by the Central Bank has been quite limited as there is no market for government and other securities. Treasury bills have been issued only to the Central Bank and no new Treasury bills have been issued since December 1971 (Appendix Table 20).

4. Interest rate structure

The interest rate structure in the Y.A.R. has generally moved in line with changes in interest rates in the international money markets. As most credit is directed to the financing of imports, interest rates set by correspondent banks abroad tend to be reflected domestically. Effective March 18, 1975 several changes have been introduced in the interest rate structure (Appendix Table 24). Rates on commercial advances were raised from a range of 10-12 per cent to a maximum of 12 per cent, while rates on mortgage and personal loans were raised from a range of 11-13 per cent to a maximum of 14 per cent. Interest rates on fixed deposits were raised on average by 1-1 1/2 percentage points. The rate on savings deposits was changed from a range of 4-6 per cent to a flat rate of 5 per cent. The increases in creditor interest rates during the past two years appeared to have contributed to mobilizing private savings as fixed deposits increased from YRls 18 million at the end of June 1973 to YRls 64 million at the end of June 1975. During the same period, savings deposits tripled.

IV. The External Sector

1. Introduction

There has been considerable improvement during the last two years in the quality of foreign trade and balance of payments data. Improvements in the customs coverage made it possible to analyze the composition and direction of recorded imports and exports on a firmer basis. However, customs data are still not adequate to assess overall trade transactions due to nonrecording of some imports, such as those that are aid financed, and to inadequate valuation procedures for both imports and exports. Due to the limitations in customs data, balance of payments estimates are based on the actual exchange transactions as recorded by the banking system. The Central Bank collects statistics on import payments, export proceeds, private transfers and cash and commodity grants and loans. These estimates, expressed in units of Special Drawing Rights (Table 12), are used for discussions of overall balance of payments developments, whereas discussion of trends in the composition and directions of trade is based on customs data expressed in Yemen rials (Tables 14-16).

Table 12. Balance of Payments Estimates^{1/}
(In millions of SDRs)

	Calendar Year				Fiscal Year	
	1971	1972	1973	1974	1973/74	1974/75
Trade balance	-65.7	-88.0	-122.6	-175.8	-149.5	-198.8
Exports	6.4	6.3	7.4	9.3	11.4	10.4
Imports, of which:	-72.1	-94.3	-130.0	-185.1	-160.9	-209.2
Aid-financed	(-13.3)	(-13.8)	(-19.4)	(-35.0)	(-28.7)	(-29.4)
Invisibles and transfers	52.7	91.9	110.4	176.2	134.0	253.8
Net invisible receipts and remittances by Yemenis working abroad	47.0	74.6	90.9	127.3	108.4	178.5
Official and private commodity and cash grants	5.7	17.3	19.5	48.9	25.6	75.3
Balance on current account and transfers	-13.0	3.9	-12.2	0.4	-15.5	55.0
Nonmonetary capital	28.4	19.7	26.4	51.9	37.4	38.2
Official project and commodity loans (net)	8.6	9.3	14.4	29.9	20.4	19.8
Other official loans (net)	12.6	--	--	9.1	3.5	9.1
Changes in balance with Central Bank of Egypt ^{2/}	--	11.9	10.1	1.3	6.4	7.3
Errors and omissions (including private capital)	7.2	-1.5	1.9	11.6	7.1	2.0
Overall balance excluding SDRs	15.4	23.6	14.2	52.3	21.9	93.2
SDR allocations	1.1	1.0	--	--	--	--
Overall balance including SDRs	16.5	24.6	14.2	52.3	21.9	93.2
Monetary movements (increase in assets -)	-16.5	-24.6	-14.2	-52.3	-21.9	-93.2
Central monetary authority	-14.1	-18.5	-14.1	-56.7	-28.1	-80.0
Commercial banks	-2.4	-6.1	-0.1	4.4	6.2	-13.2

Sources: Central Bank of Yemen and staff estimates.

1/ For basis of estimates prior to 1972 see SM/72/245 (p.30) and for 1972 and 1973 estimates see SM/73/262 (p. 29). Estimates for 1973 and thereafter were prepared on the following basis:

Exports: Foreign exchange earnings from exports as recorded by the banking system were adjusted upward by an amount equal to 20 per cent to account for unrecorded exports.

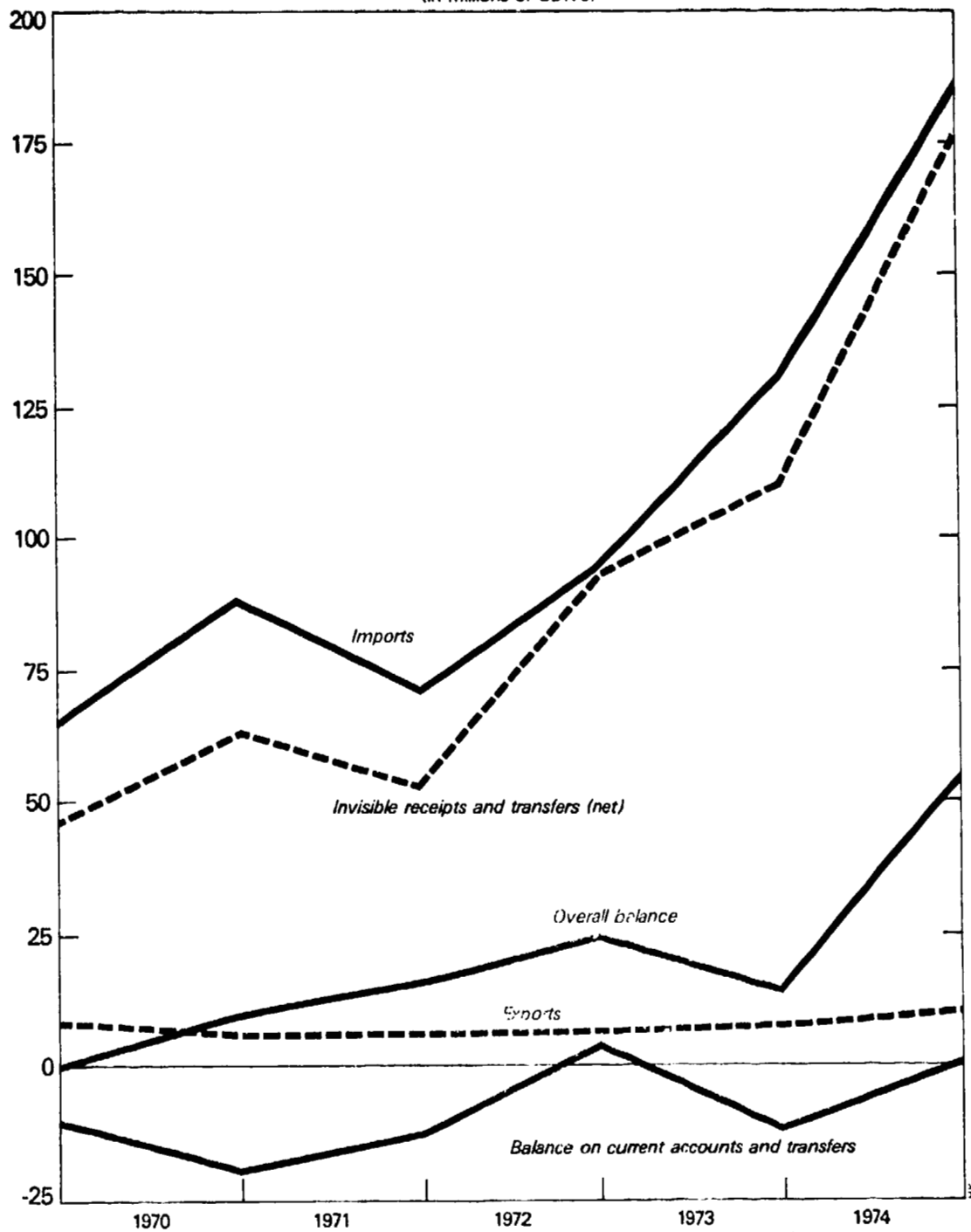
Imports: Cash payments for imports as recorded in the banking system were adjusted upward by an amount equal to 10 per cent to account for undervaluation and for imports paid for outside the banking system. Then, project and commodity aid utilized was added to cash imports.

Net invisible receipts and remittances by Yemenis working abroad: Net receipts recorded by the banking system were adjusted upward by an amount equal to 20 per cent to account for remittances flowing through nonbanking channels.

2/ To offset the impact of these changes on the overall balance, equal amounts are included under errors and omissions.

CHART 3

YEMEN ARAB REPUBLIC
BALANCE OF PAYMENTS
(in millions of SDR's)



2. The balance of payments

The balance of payments of the Y.A.R. has been in surplus every year since 1970 as the large deficits in the trade account have been more than offset by private remittances as well as official grants and loans. The overall payments surplus increased from SDR 17 million in 1971 to SDR 25 million in 1972, but declined to SDR 14 million in 1973 due mainly to a sharp increase in foodstuff imports to offset the decline in local agricultural production. Despite the continued rise in import payments, the overall surplus in 1974 almost quadrupled to SDR 52 million as a result of a sharp increase in private remittances and the inflow of external official aid. On a fiscal year basis, the balance of payments surplus rose to SDR 93 million in 1974/75 from SDR 22 million in 1973/74 due to a sharp rise in the inflow of private remittances and official aid, particularly during the second half of the fiscal year.

The favorable development in the overall payments position in 1974/75 was accompanied by some improvement in the structure of the balance of payments. If aid in the form of official and private commodity and cash grants were to be excluded, the balance of payments would show a surplus of SDR 18 million in 1974/75 compared with a deficit of SDR 4 million in the preceding year. Although the trade balance continued to be weak, as exports contributed only about 5 per cent to the financing of imports, the growth of invisible receipts and, in particular, the sharp increase in private remittances was the major factor in achieving this turnaround.

The overall balance of payments developments are reflected in changes in the foreign assets of the banking system (Table 13). A large but decreasing part of these assets, though denominated in sterling accounts, is kept with the Central Bank of Egypt.^{1/} The liquidity status of these deposits is conditional upon agreement between the two countries. The special nature of these assets is part of the complex financial relationships which arose out of the political and military alliance between the Y.A.R. and Egypt in the 1952-67 period.

The bulk of convertible foreign assets is held by the Central Bank. These central bank assets more than doubled to SDR 151 million in 1974/75, equivalent to about nine months' imports at the current level. The net foreign assets of commercial banks, although rapidly increasing, accounted for only 11 per cent of the total net convertible foreign assets of the banking system at the end of June 1975.

^{1/} The changes in net foreign assets used in the balance of payments to calculate monetary movements exclude balances with the Central Bank of Egypt; these have been treated as a part of the nonmonetary capital in the balance of payments estimates.

Table 13. Foreign Assets of the Banking System

(In millions of SDRs)^{1/}

	December				June	
	1971	1972	1973	1974	1974	1975
A. Central Bank	<u>93.59</u>	<u>100.90</u>	<u>104.65</u>	<u>160.35</u>	<u>124.26</u>	<u>196.97</u>
1. Gold and silver	0.05	0.05	0.05	0.04	0.05	0.04
2. Balances with Central Bank of Egypt	72.65	60.73	50.56	49.29	50.97	43.63
No. 1 account	(20.40)	(18.42)	(16.35)	(16.33)	(16.39)	(15.12)
No. 2 account	(49.54)	(39.86)	(32.02)	(30.80)	(31.84)	(26.49)
Joint account	(2.71)	(2.45)	(2.19)	(2.16)	(2.24)	(2.01)
3. Other ^{2/}	1.02	1.74	1.57	1.89	1.73	1.83
4. IMF reserve position	1.50	2.50	2.50	2.50	2.50	2.50
5. SDR holdings	1.07	2.13	2.13	2.13	2.13	2.13
6. Convertible foreign exchange (net)	17.29	33.75	47.84	104.50	66.88	146.84
Assets	(17.29)	(33.82)	(48.01)	(104.68)	(69.05)	(147.04)
Liabilities	(--)	(-0.07)	(-0.17)	(-0.18)	(-2.17)	(-0.20)
<u>Total foreign exchange reserves (4+5+6)</u>	<u>19.86</u>	<u>38.38</u>	<u>52.47</u>	<u>109.13</u>	<u>71.51</u>	<u>151.47</u>
B. Commercial banks (net)	<u>1.68</u>	<u>7.76</u>	<u>7.85</u>	<u>3.43</u>	<u>3.07</u>	<u>16.35</u>
Assets	6.32	11.46	11.90	10.96	11.82	19.46
Liabilities	-4.64	-3.70	-4.25	-7.53	-8.73	-3.11
<u>Total (A+B)</u>	<u>95.27</u>	<u>108.66</u>	<u>112.50</u>	<u>163.78</u>	<u>127.35</u>	<u>213.32</u>
Annual changes in:						
IMF reserve position	--	1.00	--	--	--	--
SDR holdings	1.07	1.06	--	--	--	--
Convertible foreign exchange	13.03	16.46	14.10	56.66	28.05	79.96
Commercial banks	2.41	6.08	0.08	-4.42	-6.22	13.28
<u>Total changes</u>	<u>16.50</u>	<u>24.60</u>	<u>14.18</u>	<u>52.24</u>	<u>21.83^{3/}</u>	<u>93.23^{4/}</u>

Source: Central Bank of Yemen.

^{1/} For SDR conversion rates see Basic Data table.

^{2/} Includes interest accrued on some of the balances with the Central Bank of Egypt and unsettled claims of the Central Bank of Yemen on the YBRD.

^{3/} Total changes between June 1973 and June 1974.

^{4/} Total changes between June 1974 and June 1975.

3. Developments in foreign trade

a. Exports

The Y.A.R. exports, consisting mainly of agricultural items, increased from YRls 21 million in 1971 to YRls 60 million in 1974. The main item of export is cotton, accounting in 1974 for more than half of total recorded exports (Table 14). Cotton exports, which amounted to YRls 7 million, or about one third of total recorded exports in 1972, doubled in 1973 and again in 1974, reflecting increases in both volume and in international prices. Coffee exports, which had been the leading export commodity prior to 1971, stagnated in the last four years due to drought conditions and to increased competition from qat, which adversely affected coffee production. Exports of rock salt ceased following the closure of the Salif salt mine in 1972. Exports of hides and skins, which improved in 1973, declined in 1974 as farmers began to rebuild herds of livestock reduced by the 1972-73 drought. The overall improvement in the export performance during this two-year period was mainly due to the increase in the export value of cotton during 1973 and early 1974. However, export earnings in the first half of 1975 fell reflecting the decline in international prices for cotton during the latter part of 1974.

Table 14. Commodity Composition of Recorded Exports^{1/}

(In millions of Yemen rials)

	1971	1972	1973	1974	Jan. - June	
					1974	1975
Coffee	4.6	5.3	6.0	5.9	4.3	3.3
Qat	2.3	1.0	0.1	--	--	--
Cotton	3.0	7.2	17.8	36.8	22.9	14.2
Hides and skins	2.0	3.3	5.5	3.9	3.0	3.6
Rock salt	2.4	0.6	--	--	--	--
Others	1.8	2.7	6.6	14.2	4.8	6.0
Total	21.6	20.1	36.0	60.8	35.0	27.1

Source: Central Bank of Yemen.

^{1/} Customs statistics.

Although export receipts tripled in the two years ended 1974, their impact on the balance of payments continued to be very small as they averaged less than 6 per cent of imports. Despite efforts to expand the export base by modernizing rock salt mining and by increasing the exports of simple manufactured goods such as textiles, the prospects for reducing the trade deficit in the near and medium terms are not promising.

b. Imports

Import payments rose sharply during the period 1971-74, reflecting the quantum and price increases of imports, particularly foodstuffs, necessitated by the bad agricultural years. The rise in imports was also closely associated with the increase in remittances which provided the foreign exchange earnings to finance the rise in imports. Total imports (including aid-financed imports) rose by about 150 per cent during this period paced by a fivefold increase in imports of foodstuffs (Table 15). However, as drought conditions ended in mid-1974 and international prices moderated, the increase in import payments for foodstuffs, between the first half of 1974 and the corresponding period of 1975, slowed to 10 per cent, and their share in total private imports declined from 48 per cent to 41 per cent. Private imports of manufactured consumer goods, chemicals, machinery and transport equipment have been expanding rapidly, financed by the increase in private remittances and stimulated by the rapid growth in the nonagricultural sectors. Imports of machinery more than doubled in the first half of 1975 compared with the first half of 1974; those of transport equipment increased by 30 per cent, chemicals increased by 39 per cent, and manufactured consumer goods increased by 31 per cent over the period. The increase in fuel imports in 1974 and the first half of 1975, as shown in Table 15, reflected an increase in volume only, as the dutiable base for such imports was stabilized on the basis of pre-October 1973 prices. The Y.A.R. has been partly compensated for the increase in oil import costs in the last two years by Arab oil producing countries in the form of grants and concessionary loans. Aid-financed imports, which increased sharply during 1974, stagnated in the first half of 1975, reflecting the slowdown in the implementation of externally financed development projects. Such imports amounted to SDR 29 million (YRls 163 million) in 1974/75, or about 14 per cent of total imports.

Table 15. Commodity Composition of Recorded Private Imports^{1/}

(In millions of Yemen rials)

	1971	1972	1973	1974	Jan.-June	
					1974	1975
Foodstuffs ^{2/}	81.7	138.6	209.4	432.5	190.5	209.3
Manufactured consumer goods ^{3/}	47.1	96.2	140.8	238.8	116.6	152.8
Fuel ^{4/}	11.7	13.2	23.1	33.4	14.1	16.7
Raw materials	5.4	3.3	1.0	2.3	0.8	1.6
Chemicals	9.4	21.0	36.0	55.5	27.8	33.6
Machinery and equipment	14.1	27.3	34.4	55.0	21.8	45.2
Transport equipment	15.4	21.6	34.5	50.7	25.2	45.5
Total	184.8	376.2	564.2	868.2	396.8	509.7

Source: Central Bank of Yemen.

^{1/} Customs statistics.

^{2/} Includes food and live animals, beverages and tobacco.

^{3/} Includes manufactured goods classified by material, miscellaneous goods, and goods and transactions not classified according to kind.

^{4/} The prices used for customs estimates were the October 16, 1973 prices for periods after that date.

c. Geographical distribution of exports and imports

The geographical distribution of recorded exports in the last two years, indicates that the relative share of Arab countries continued to decline, those of Asian countries continued to increase, while the relative share of CMEA countries remained stable (Table 16). This development reflects primarily the increase in exports of cotton to Asian countries, mainly Japan. In 1974 the Asian countries accounted for 43 per cent of exports, while the Arab and CMEA countries accounted for 22 per cent each.

There were some important changes in the geographical distribution of recorded imports during 1974. Asian countries, mainly Japan, became the major supplier of Y.A.R. imports in 1974 with 27 per cent of total recorded imports. European countries which had held the first position in the two preceding years fell to second place with 25 per cent. The relative share of Arab countries continued to decline to only 16 per cent of the Y.A.R.'s recorded imports in 1974 compared with one third in 1971. On the other hand, the share of imports from CMEA countries, which averaged 9 per cent of total recorded imports during 1971-73, rose to about 14 per cent in 1974 due mainly to a large increase in imports from the U.S.S.R.

4. Balance on current account and transfers

The balance on current account and transfers, which showed a deficit of SDR 12 million in 1973, moved to a virtual balance in 1974. This improvement occurred despite a widening of the trade deficit, reflecting the sharp growth in import payments. As exports financed only a small part of the import bill, the large trade deficit in 1974 was financed by receipts from invisibles, mainly in the form of remittances from Yemenis working abroad, and by official commodity and cash grants. On a fiscal year basis the current account recorded a surplus of SDR 55 million in 1974/75 compared with a deficit of about SDR 16 million in the previous year. As demand for labor in neighboring oil producing countries increased substantially in the last two years, the number of Yemeni workers in these countries, particularly in Saudi Arabia, and their remittances increased sharply. In 1974/75 these remittances and other invisible receipts amounted to SDR 178 million, which exceeded the private sector's trade deficit (trade deficit excluding aid-financed imports). The tripling of official and private commodities and cash grants to SDR 75 million in 1974/75, reflecting mainly the increase in Saudi Arabian cash grants for budget support, also contributed to the large surplus on current account.

5. Nonmonetary capital

The three major components of nonmonetary capital are official project and commodity loans, official cash loans and private capital. Official project and commodity loans, which reflect mainly externally financed development expenditures, have been increasing rapidly in recent years. However, due to stagnation in the utilization of project loans in the first half of 1975, the level of these loans in 1974/75 was about the same as in 1973/74. The item "other official loans" reflects mainly the inflow of cash loans, which, in 1974/75, included a loan from OAPEC of about US\$11 million to help offset the rise in the Y.A.R.'s petroleum import bill.

Table 16. Geographical Distribution of Recorded Exports and Private Imports

(In millions of Yemen rials)

	Exports				Imports				Trade Balance Deficit (-)			
	1971	1972	1973	1974	1971	1972	1973	1974	1971	1972	1973	1974
Arab countries	7.5	7.2	9.6	13.2	61.0	94.0	123.4	137.2	-53.5	-86.8	-113.8	-124.0
African countries	0.3	0.7	1.2	0.8	8.7	17.2	61.9	81.9	-8.4	-16.5	-60.7	-81.1
Asian countries	2.5	0.9	14.0	25.9	37.1	77.1	141.5	238.4	-34.5	-76.2	-127.5	-212.5
CMEA countries	9.9	9.5	8.0	13.4	19.8	37.2	44.1	119.7	-9.9	-27.7	-36.1	-106.3
European countries	1.3	1.7	3.0	7.4	43.9	98.7	155.4	214.6	-42.6	-97.0	-152.4	-207.2
North and South America	0.1	0.1	0.2	0.1	0.5	4.9	28.4	37.8	-0.4	-4.8	-28.2	-37.7
Australia	--	--	--	--	13.9	47.1	9.5	38.6	-13.9	-47.1	-9.5	-38.6
Total	21.6	20.1	36.0	60.8	184.8	376.2	564.2	868.2	-163.3	-356.1	-528.2	-807.4

Source: Central Bank of Yemen.

6. External debt

According to the estimates prepared by the Central Bank, the outstanding foreign debt of the Y.A.R. (Table 17), excluding suppliers' credits, amounted to \$252 million at the end of June 1975 compared with \$210 million a year earlier (a 20 per cent increase). The major creditors were the U.S.S.R. (\$75 million), the Federal Republic of Germany (\$56 million), the People's Republic of China (\$51 million), Saudi Arabia (\$22 million) and Kuwait (\$13 million). The terms of most loans are generally of a concessionary nature. The U.S.S.R., the People's Republic of China and the Arab Fund for Economic and Social Development (on behalf of OAPEC) provided loans free of interest. The Federal Republic of Germany and Kuwait charged rates ranging from one half of one per cent to 2 1/2 per cent per annum, while Italy provided a loan at an interest rate of 4 1/2 per cent. Scheduled debt service payments in 1975/76 amounted to \$21 million in principal and \$2 million in interest. At these levels, debt service obligations constituted about 10 per cent of current receipts from exports, invisibles and private remittances. These payments are scheduled to decline in the next four years to \$14 million in 1979/80 and are not likely to place a heavy burden on the balance of payments.

Table 17. External Public Debt

(In millions of U.S. dollars)

Creditor	Amount Contracted	Amount Outstanding June 30, 1975
U.S.S.R.	105.63	74.70
People's Republic of China	84.80	51.29
Federal Republic of Germany	61.51	55.59
IDA	38.15	5.85
Kuwait	22.57	12.88
Saudi Arabia	21.58	21.58
Egypt	13.80	3.39
Arab Fund for Economic and Social Development	11.00	10.86
Iraq	7.68	5.30
Democratic Republic of Germany	7.70	5.85
Algeria	4.00	4.00
Italy	1.31	0.63
Abu Dhabi Fund for Arab Economic Development	1.01	--
Romania	0.26	--
Total	381.55	251.97

Source: Central Bank of Yemen.

V. Exchange and Trade System

1. Recent exchange rate developments

No par value for the Yemen rial (YR1) has been established with the Fund. The rial is issued by the Central Bank of Yemen and its gold value has not been yet defined.^{1/} In October 1970, the Y.A.R. authorities proposed and the Fund agreed to a provisional rate of YR1 1 = US\$0.20. Practically all transactions in the Y.A.R. took place at the free market rate up to December 1971; by then the rate had stabilized at YR1 1 = US\$0.20. During December 1971-February 1973 the Central Bank maintained this as the Central Bank rate but after the U.S. dollar depreciation, the Central Bank rate was changed to YR1 1 = US\$0.22 with effect from February 25, 1973. This rate has been maintained since then. The Y.A.R. has established a representative exchange rate with the Fund under Rule 0-3, paragraph (c) (i).

All exchange transactions are effected at the central bank rate of YR1 1 = US\$0.22. The exchange rates for currencies other than the U.S. dollar are based on the London market cross rates for these currencies vis-a-vis the U.S. dollar. The Central Bank publishes these rates daily and instructs commercial banks to adhere to them allowing a deviation of no more than 1 per cent on either side.

2. Administration and control

The trade and exchange system of the Y.A.R. has been relatively liberal in practice since 1971, despite the existence of cumbersome statutory regulations. Regulations on imports, exports, current payments and receipts were applied flexibly. In 1972 the Central Government set up a committee to review the laws and regulations relating to the exchange and trade system and to suggest changes to ensure conformity of the statutory regulations to practice. The committee was chaired by the Minister of Economy and included the Governor of the Central Bank and the Chairman of the Central Planning Organization. On the basis of its recommendations, a new law was drafted to replace the Exchange Control Law of 1964 and its related control measures. In anticipation of the promulgation of the new law, the Central Bank issued in 1973 five directives to local banks with respect to trade and exchange dealings. These directives were aimed at virtually eliminating controls on payments and receipts relating to exports, imports, invisibles and gold transactions. To formalize these arrangements law No. 23 of 1975 was issued on August 20, 1975 repealing the old law (No. 16 for 1964) and other regulations, and freeing the exchange and trade system from all restrictions with minor exceptions as described below.

3. Payments for imports and invisibles

All imports require import licenses except for special imports by the Government. The authority to issue import licenses, entrusted since 1971 with the Central Bank, was transferred in November 1975 to the Ministry of Economy;

^{1/} The definition in terms of gold (YR1 1 = 0.89474 gram of fine gold) that was included in the Currency Board Law No. 6 of 1964 was revoked with the promulgation of the Central Bank Law on July 27, 1971.

licenses continue to be granted freely. In addition to an import license, the importation of certain commodities also requires the prior permission of some other government agencies. For three commodities (cigarettes, petroleum products, and medical supplies) the exclusive rights of importation are vested in three trading companies owned jointly by the Government and the private sector, i.e., the National Cigarette and Matches Company, the Yemen Petroleum Company and the Yemen Drug Company, respectively. The importation of certain textiles requires the approval of the Sanaa textile factory. Imports that are financed by the importer with his own foreign exchange held abroad also require an import license. Importers who have obtained an import license may obtain the necessary foreign exchange from the local banks or the free market. In addition to the applicable customs duty, imports are subject to a defense tax of 5 per cent and a statistical tax of 2 per cent.

No outright prohibition on imports with respect to market sources is practiced, except for a ban on trade with Israel. According to Article 7 of Law No. 23 of 1975, however, the Minister of Economy reserves the right to exercise such a prohibition, if necessary. Payments for current invisibles may be made freely. Travelers may freely take out any amount in domestic or foreign banknotes.

4. Exports and proceeds from exports and invisibles

For statistical purposes only, all exports require registration forms, which are issued freely by banks; export licenses are not required. Exports to Israel are prohibited. Exporters are not required to surrender the foreign exchange proceeds; these may be retained in foreign currency accounts with domestic banks. Proceeds from invisibles need not be surrendered but may be retained in foreign currency accounts with domestic banks. Travelers may freely bring in any amount in domestic or foreign banknotes.

5. Capital

No restrictions are imposed on inward or outward capital transfers. Both domestic and foreign investments are regulated by Law No. 18 of 1975 (see Section I, Production, Employment, Prices and Development Planning). Foreign investors in the Y.A.R. are free to transfer abroad any desired proportion of their net profits after taxes or of their capital.

6. Gold

By virtue of Ministerial Decree No. 21/1973, residents are free to purchase, hold and sell gold in any form in the Y.A.R. and to import or export gold in any form without an import, export or exchange license. Two gold coins (20 rial and 30 rial denomination) have been issued; these coins are not legal tender and do not circulate in the Y.A.R.

7. Bilateral agreements

The Y.A.R. maintains bilateral agreements with a number of countries. Except for the one with Egypt, these agreements contain neither bilateral payments arrangements nor specific trade commitments. The Y.A.R. also maintains economic and technical cooperation agreements with Algeria, the Democratic Republic of Germany, Italy, Yugoslavia, the Federal Republic of Germany, Kuwait, Libya, the U.S.S.R. and the People's Republic of China under which it receives long-term project aid and, in certain cases, commodity aid from these countries.

The payments agreement with Egypt, established in January 1963, is inoperative. In 1973 the Y.A.R. authorities started negotiations with Egypt in order to settle outstanding financial issues between the two countries. Termination of the payments agreement depends on the conclusion of these negotiations.

Table 18. Yemen Arab Republic: Production of Cotton

(In metric tons)

	Cotton Lint	Cottonseed	Total
1967/68	1,271	2,057	3,328
1968/69	997	1,720	2,717
1969/70	726	1,193	1,919
1970/71	3,700	6,538	10,238
1971/72	5,420	9,632	15,052
1972/73	6,728	11,742	18,470
1973/74	7,328	15,027	22,355
1974/75	7,956	18,044	26,000

Sources: Ministry of Agriculture and Central Planning Organization.

Table 19. Yemen Arab Republic: Retail Prices of Basic Foodstuffs in Sanaa

(In Yemen rials per kilogram)

	1970	1971	1972			1973			1974			1975	
	Dec.	Dec.	March	July	Nov.	March	July	Dec.	March	July	Dec.	March	June
Wheat	0.73	0.85	0.60	0.88	0.82	0.99	1.11	1.25	1.75	1.75	1.75	1.75	1.75
Barley	0.58	0.93	0.85	0.80	0.55	0.73	1.34	0.72	0.88	0.88	0.88	0.80	0.71
Sorghum	0.65	0.85	0.98	0.75	0.75	0.83	1.28	1.20	1.32	1.38	1.33	1.12	1.09
Maize	0.78	0.95	0.85	--	--	--	--	1.00	1.62	1.62	--	1.12	1.09
Lentils	--	1.71	1.05	--	1.00	1.08	1.03	1.00	--	--	1.50	1.62	2.00
Rice	2.55	2.38	2.30	2.45	2.51	2.50	6.08	6.50	7.50	6.00	6.50	6.00	5.50
Potatoes	0.95	1.20	1.00	0.75	1.00	1.17	1.75	2.00	2.50	1.00	2.00	2.00	2.00
Tomatoes	0.95	1.43	1.15	0.75	1.35	0.80	1.65	2.00	1.00	1.50	2.00	2.50	3.00
Mutton	5.95	7.00	7.00	7.00	7.30	7.00	7.00	9.85	10.00	12.00	12.00	13.00	16.00
Beef	3.38	4.15	4.50	4.88	4.50	5.00	5.05	5.48	6.00	8.00	10.00	11.00	14.00
Veal	4.08	5.20	5.50	5.90	5.90	4.67	6.50	6.45	7.00	9.00	10.00	11.00	14.00
Sugar	0.95	1.28	1.60	1.75	2.25	1.50	2.25	2.50	3.50	3.00	5.00	5.50	5.50
Tea	8.93	9.23	9.43	9.45	10.00	9.00	9.00	9.00	10.00	10.00	10.00	11.00	12.00
Coffee	8.40	8.00	8.00	8.38	6.17	6.75	9.00	8.65	10.00	12.00	12.00	12.00	14.00
Eggs ^{1/}	3.00	3.00	3.00	3.25	3.00	3.00	3.00	4.00	4.00	3.00	4.00	--	6.00

Source: Central Planning Organization.

^{1/} Per dozen.

Table 20. Yemen Arab Republic: Balance Sheet of the Central Bank^{1/}
(In millions of Yemen rials)

	December				June		
	1971	1972	1973	1974	1973	1974	1975
Foreign assets ^{2/}	507.1	548.2	569.2	875.6	617.2	686.5	1,092.8
Gold and silver	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Balances with Central Bank of Egypt	394.5	329.7	274.5	271.6	311.5	276.8	242.5
No. 1 Account	(110.8)	(100.0)	(88.8)	(90.0)	(99.0)	(91.7)	(84.1)
No. 2 Account	(269.0)	(216.4)	(173.9)	(169.7)	(199.3)	(172.9)	(147.3)
Joint Account	(14.7)	(13.3)	(11.8)	(11.9)	(13.1)	(12.2)	(11.2)
Other ^{3/}	5.6	9.5	8.5	10.4	10.6	9.4	10.2
Convertible foreign exchange	93.9	183.6	260.8	568.2	269.7	374.9	814.6
SDR holdings	5.3	11.6	11.6	11.6	11.6	11.6	11.6
IMF reserve position	7.5	13.6	13.6	13.6	13.6	13.6	13.6
Claims on Government	142.0	160.9	162.9	176.2	143.2	147.7	143.6
Treasury bills	135.0	135.0	135.0	135.0	135.0	135.0	135.0
Advances	3.3	21.4	23.4	36.7	3.7	8.2	4.1
Other	3.6	4.5	4.5	4.5	4.5	4.5	4.5
Claims on public enterprises	--	1.5	10.1	17.2	2.1	8.6	19.1
Claims on commercial banks	2.0	19.3	11.8	17.2	13.2	13.6	55.5
Assets = Liabilities	651.1	729.9	754.0	1,086.2	775.7	856.4	1,311.0
Currency issue	261.1	374.1	467.5	640.3	419.2	525.6	808.5
Central Bank	(257.5)	(369.5)	(463.0)	(635.8)	(414.7)	(521.1)	(804.0)
Treasury	(3.6)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)
Foreign liabilities	--	0.4	0.9	1.0	58.8	11.8	1.1
Government deposits	47.4	50.7	39.7	196.1	21.1	73.0	278.9
Due to commercial banks	4.6	16.3	21.5	20.9	14.3	14.7	23.3
Exchange valuation account ^{4/}	311.1	241.1	174.7	171.8	216.2	177.8	141.4
Allocation of SDRs	5.3	11.6	11.6	11.6	11.6	11.6	11.6
Capital and reserves	18.3	28.1	23.0	26.4	24.5	26.4	33.9
Other items (net)	3.2	7.7	15.1	18.1	9.9	15.6	12.3

Source: Central Bank of Yemen.

1/ The Central Bank of Yemen started operations in July 1971.

2/ For December 1971 and December 1972 foreign assets are valued at the rate of YR1 1 = US\$0.20; thereafter, they are valued at the rate of YR1 1 = US\$0.22.

3/ Includes interest accrued on some of the claims with the Central Bank of Egypt and unsettled claims of the Central Bank of Yemen on the YBRD.

4/ The valuation difference is kept in a blocked account with the Central Bank of Yemen.

Table 21. Yemen Arab Republic: Consolidated Balance Sheet
of Commercial Banks

(In millions of Yemen rials)

	December				June		
	1971	1972	1973	1974	1973	1974	1975
Reserves	27.6	40.7	33.2	54.8	35.1	25.5	38.2
Cash on hand	(24.7)	(30.6)	(10.0)	(19.4)	(21.7)	(10.1)	(14.6)
Claims on Central Bank	(2.9)	(10.1)	(23.2)	(35.4)	(14.4)	(15.4)	(23.6)
Foreign assets	34.3	62.3	65.7	60.1	74.9	64.2	103.7
Notes and gold sovereigns on hand	(1.4)	(2.4)	(3.1)	(2.3)	(0.8)	(1.1)	(1.9)
Balances with banks abroad	(32.8)	(57.7)	(57.1)	(50.3)	(68.2)	(59.2)	(154.1)
Other claims on nonresidents	(0.1)	(2.2)	(5.5)	(7.5)	(5.9)	(3.9)	(7.7)
Claims on Government	20.9	16.0	14.5	16.0	15.9	13.7	13.1
Claims on private sector	70.0	110.3	169.5	260.5	166.5	230.1	376.5
Of which: public enterprises	(20.1)	(33.4)	(27.5)	(30.4)	(41.2)	(43.8)	(70.4)
<u>Assets = Liabilities</u>	<u>152.8</u>	<u>230.1</u>	<u>282.9</u>	<u>391.4</u>	<u>292.5</u>	<u>333.6</u>	<u>591.5</u>
Demand deposits	40.4	58.9	73.0	91.5	72.0	96.1	170.0
Of which: public enterprises	(10.0)	(8.7)	(18.6)	(10.4)	(10.1)	(19.1)	(26.3)
Time and savings deposits	35.7	80.6	105.1	151.0	113.6	117.5	180.7
Fixed deposits	(3.0)	(12.2)	(25.3)	(40.0)	(18.4)	(29.5)	(64.1)
Savings deposits	(3.0)	(5.6)	(7.8)	(13.6)	(6.1)	(12.0)	(19.1)
Earmarked deposits ^{1/}	(22.5)	(52.8)	(47.4)	(60.9)	(74.0)	(51.5)	(50.6)
Resident deposits in foreign currency	(7.2)	(10.1)	(24.6)	(36.5)	(15.1)	(24.4)	(46.9)
Due to Central Bank	4.0	23.8	20.0	23.0	14.7	15.7	67.8
Foreign liabilities	25.2	20.1	23.1	41.5	24.5	47.4	72.9
Balances due to banks abroad	(2.5)	(3.0)	(5.1)	(13.0)	(7.1)	(22.5)	(19.5)
Nonresident deposits in rials	(3.7)	(8.4)	(9.6)	(13.9)	(10.9)	(11.3)	(38.1)
Nonresident deposits in foreign currency	(18.9)	(8.7)	(8.4)	(14.6)	(6.5)	(13.6)	(15.3)
Government deposits	5.4	11.2	2.5	11.3	21.7	4.3	22.3
Exchange valuation differential	-1.8	0.1	1.4	1.6	1.2	1.6	1.7
Capital and reserves	35.7	49.2	62.0	76.6	56.5	63.9	75.6
Other items (net)	7.3	-5.8	-5.1	-5.1	-12.6	-13.0	0.5

Sources: Based on data provided by the YBRD and the Central Bank of Yemen.

^{1/} Includes government earmarked deposits.

Table 22. Yemen Arab Republic: Monetary Survey

(In millions of Yemen rials)

	December				June		
	1971	1972	1973	1974	1973	1974	1975
Foreign assets (net) ^{1/}	516.2	590.0	611.4	893.8	608.8	691.8	1,183.4
Domestic credit	180.1	235.7	304.7	242.9	284.8	314.3	229.1
Claims on Government (net)	(110.1)	(115.9)	(135.2)	(-17.6)	(116.2)	(84.2)	(-147.4)
Claims on private sector ^{2/}	(70.0)	(119.8)	(169.5)	(260.5)	(168.6)	(230.1)	(376.5)
<u>Assets = Liabilities</u>	<u>696.3</u>	<u>825.7</u>	<u>916.1</u>	<u>1,136.7</u>	<u>893.6</u>	<u>1,006.1</u>	<u>1,412.5</u>
Money	276.9	402.3	531.8	707.9	471.3	612.0	959.5
Currency outside banks	(236.4)	(343.4)	(457.5)	(616.4)	(398.5)	(515.4)	(789.5)
Demand deposits	(40.4)	(58.9)	(74.2)	(91.5)	(72.8)	(96.5)	(170.0)
Quasi-money	35.7	80.6	105.1	151.0	113.6	117.5	180.7
Money and quasi-money	312.6	482.9	636.9	858.9	584.9	729.5	1,140.2
SDR allocation	5.3	11.6	11.6	11.6	11.6	11.6	11.6
Exchange valuation account ^{3/}	309.3	241.2	176.1	173.4	217.5	179.4	143.1
Other items (net)	69.0	90.0	91.5	92.8	79.7	85.6	117.6

Sources: Appendix Tables 20 and 21.

^{1/} For December 1971 and December 1972 foreign assets are valued at the rate YR1 1 = US\$0.20. Thereafter, they are valued at the rate YR1 1 = US\$0.22.

^{2/} Including claims on public enterprises.

^{3/} The valuation differential is kept in a blocked account with the Central Bank of Yemen.

Table 23. Yemen Arab Republic: Commercial Banks Advances and Investments

(In millions of Yemen rials)

	1971 Dec.	1972 June Dec.		1973 June Dec.		1974 June Dec.		1975 June
<u>Private sector</u>	<u>43.2</u>	<u>68.8</u>	<u>73.6</u>	<u>113.9</u>	<u>128.0</u>	<u>172.5</u>	<u>212.7</u>	<u>285.6</u>
Financing imports	26.7	54.6	42.6	65.5	89.6	125.5	161.4	226.5
Financing exports	2.4	2.2	2.2	2.5	1.0	0.9	0.5	2.1
Financing trade in locally manufactured goods	--	--	--	--	1.5	4.3	5.1	3.2
Financing industrial enterprises	0.5	1.6	4.9	2.1	1.0	--	0.2	--
Financing other business enterprises	7.0	7.3	18.0	28.2	27.3	28.2	34.2	38.6
Private and professional loans	6.6	3.1	5.9	15.6	7.6	13.5	11.3	15.2
<u>Advances to public enterprises, of which:</u>	<u>17.7</u>	<u>28.9</u>	<u>31.1</u>	<u>38.6</u>	<u>24.8</u>	<u>40.7</u>	<u>30.4</u>	<u>70.4</u>
Financing exports	7.9	20.6	19.6	25.6	14.7	19.0	6.6	24.4
Cotton	(7.9)	(19.9)	(17.8)	(24.8)	(11.9)	(19.0)	(6.6)	(24.4)
Rock salt	(--)	(0.7)	(1.8)	(0.8)	(2.8)	(--)	(--)	(--)
Financing imports (including imports of industrial equipment)	4.2	4.5	3.5	3.0	6.4	16.4	0.5	38.4
Other	5.6	3.8	8.0	10.0	3.7	5.3	23.3	7.6
<u>Participation in capital of mixed enterprises</u>	<u>9.2</u>	<u>10.2</u>	<u>13.4</u>	<u>13.8</u>	<u>15.6</u>	<u>16.7</u>	<u>17.2</u>	<u>20.3</u>
<u>Other</u> ^{1/}	<u>--</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
<u>Total</u>	<u>70.0</u>	<u>108.0</u>	<u>118.2</u>	<u>166.4</u>	<u>168.6</u>	<u>230.1</u>	<u>260.5</u>	<u>376.5</u>

Source: Central Bank of Yemen.

^{1/} YBRD's participation in Union des Banques Arabes et Francaises (UBAF).

Table 24. Yemen Arab Republic: Interest Rate Structure^{1/}

(In per cent per annum)

	1971		1972		1973			1974		1975
	June	Dec.	June	Dec.	June	Aug.	Dec.	June	Dec.	June
<u>Debtor interest rates</u>										
Treasury bills	4	3	4	4	4	4	4	4	4	4
Commercial and other advances	8	8½	9	9-9½	9-9½	10-10½	10	10-12	10-12	12
Mortgage and personal loans	11	11	11	11	11	11	11	11-13	11-13	14
<u>Creditor interest rates</u>										
Fixed deposits										
3 months	3	3	4½	4½-5	4½-5	4½-5	5-6½	3-6½	3-6½	6
6 months	3½	3½	5	5-5½	5-5½	6-7	6-7	6-7	6-7	7½
9 months	4	4	5½	5½	5½	6-7½	6-7½	6-7½	6-7½	8
12 months	4½	4½	6	6	6	6-8	6-8	6-8	6-8	9
Savings deposits	3	3	4	4	4	4	4-6	4-6	4-6	5

Source: Central Bank of Yemen.

^{1/} Beginning December 1971, data cover YBRD, Habib Bank and BBME. Beginning June 1972, data cover YBRD, Habib Bank, BBME, Arab Bank and United Bank.

Table 25. Yemen Arab Republic: External Public Debt

(In millions of U.S. dollars)

Creditor and date of agreement	Amount contrac- ted	Utilized		Outstanding	
		From Jan. 7, 1974 to Dec. 31, 1974	From Jan. 1, 1975 to June 30, 1975	Dec. 31, 1974	June 30, 1975
<u>U.S.S.R.</u>	<u>105.68</u>	<u>0.84</u>	<u>0.65</u>	<u>74.05</u>	<u>74.70</u>
July 1956	17.40	--	--	17.40	17.40
August 1957	0.31	--	--	0.31	0.31
January 1958	0.97	--	--	0.97	0.97
June 1961	0.66	--	--	0.66	0.66
March 1964	85.33	0.33	0.63	54.25	54.88
July 1971	0.51	0.01	0.02	0.46	0.48
<u>People's Republic of China</u>	<u>34.80</u>	<u>4.88</u>	<u>1.52</u>	<u>49.77</u>	<u>51.29</u>
January 1958	33.62	--	--	33.62	33.62
July 1972	28.38	0.41	0.14	0.43	0.57
June 1964	21.94	4.47	1.38	14.86	16.24
October 1964	0.86	--	--	0.86	0.86
<u>Federal Republic of Germany</u>	<u>61.51</u>	<u>8.31</u>	<u>1.60</u>	<u>54.40</u>	<u>55.59</u>
November 1969	4.25	--	--	4.25	4.25
July 1970/March 1973/ February 1974	8.77	0.12	--	7.85	7.85
April 1971	2.13	--	--	2.13	2.13
August 1971/March 1974	41.95	8.19	1.60	35.76	37.36
August 1973	4.41	--	--	4.41	4.00
<u>International Development Association (IDA)</u>	<u>38.15</u>	<u>2.10</u>	<u>2.15</u>	<u>3.70</u>	<u>5.85</u>
June 1972	7.70	0.06	0.35	1.21	1.56
May 1973	10.90	1.92	0.90	2.37	3.27
July 1973	11.00	0.09	0.10	0.09	0.19
February 1974	6.25	0.03	0.77	0.03	0.80
March 1974	2.30	--	0.03	--	0.03
<u>Saudi Arabia Guaranteed Loans</u>	<u>21.58</u>	<u>--</u>	<u>--</u>	<u>21.58</u>	<u>21.58</u>
August 1971	14.38	--	--	14.38	14.38
August 1971	7.20	--	--	7.20	7.20
<u>Kuwait</u>	<u>22.57</u>	<u>1.65</u>	<u>1.96</u>	<u>10.97</u>	<u>12.88</u>
February 1970	1.60	--	--	2.02	2.14
July 1970/August 1972	10.47	1.17	1.20	6.08	7.28
March 1972	1.13	--	--	1.12	1.12
August 1972	0.99	--	--	0.23	0.23
June 1973	6.63	0.48	0.76	0.69	1.45
April 1974	1.75	--	--	0.83	0.66
<u>Arab Republic of Egypt</u>	<u>13.80</u>	<u>--</u>	<u>--</u>	<u>4.71</u>	<u>3.39</u>
January 1964	6.12	--	--	0.87	0.32
December 1967	7.68	--	--	3.84	3.07
<u>Arab Fund for Economic and Social Development</u>	<u>11.00</u>	<u>10.86</u>	<u>--</u>	<u>10.86</u>	<u>10.86</u>
October 1974	11.00	10.86	--	10.86	10.86
<u>Iraq - October 1971</u>	<u>7.68</u>	<u>--</u>	<u>--</u>	<u>5.30</u>	<u>5.30</u>
<u>Democratic Republic of Germany</u>	<u>7.70</u>	<u>--</u>	<u>--</u>	<u>5.92</u>	<u>5.35</u>
April 1965	5.00	--	--	3.34	3.84
June 1967	2.70	--	--	2.08	2.01
<u>Algeria - July 1968</u>	<u>4.00</u>	<u>--</u>	<u>--</u>	<u>4.00</u>	<u>4.00</u>
<u>Italy - July 1968</u>	<u>1.31</u>	<u>--</u>	<u>--</u>	<u>0.81</u>	<u>0.66</u>
<u>Abu Dhabi Fund for Arab Economic Development</u>	<u>1.01</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
October 1974	1.01	--	--	--	--
<u>Romania - May 1968</u>	<u>0.26</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>

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