

FOR  
AGENDA

SM/76/76

CONTAINS CONFIDENTIAL  
INFORMATION

April 23, 1976

To: Members of the Executive Board

From: The Secretary

Subject: People's Democratic Republic of Yemen - Recent Economic  
Developments

This paper provides background information to the staff report on the 1976 Article XIV consultation discussions with the People's Democratic Republic of Yemen, which was circulated as SM/76/75 on April 20, 1976.

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

Recent Economic Developments

Prepared by a staff mission consisting of Messrs. A. S. Gerakis (MED),  
S. Thayanithy (MED), S. M. Nsouli (MED), Z. Iqbal (ETR),  
S. Al-Khuri (YPP) and Mrs. M. M. Redman (Secretary)

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

April 19, 1976

	<u>Contents</u>	<u>Page</u>
	Basic Data	iv
I.	Introduction: Economic Structure and Organization	1
	1. Historical summary	1
	2. The commodity sectors	2
	3. Services	4
	4. The public sector	4
II.	Recent Developments in Production, Employment and Prices	5
	1. Overall economic activity	5
	2. Agricultural production	6
	3. Fisheries	8
	4. Industrial production	10
	a. Oil refining	10
	b. Other industrial production	13
	5. Economic performance in other sectors	13
	6. Employment, wages and prices	15
	a. Employment and wages	15
	b. Prices	17
III.	Development Planning	19
	1. The planning system	19
	2. The Three-Year Development Plan (1971/72-1973/74)	19
	3. The Five-Year Development Plan (1974/75-1978/79)	21
	a. Objectives	21
	b. Expenditure targets	21
	c. Sources of finance	23
	d. Performance in 1974/75 and April-December 1975	25

	<u>Contents</u>	<u>Page</u>
IV.	Government Finance	26
	1. Structure of the public sector	26
	2. Budget preparation and execution	26
	3. Budgetary developments until 1974/75	29
	a. Structure and trends in revenues	29
	b. Structure and trends in expenditures	31
	4. The interim budget April-December 1975	33
	5. The 1976 budget estimates	33
V.	Monetary and Banking Developments	34
	1. Institutional background	34
	2. Structure of the banking system	34
	a. The Board of Directors	35
	b. The central bank and monetary policy	35
	c. Commercial banking	37
	3. Monetary developments, 1970-74	39
	4. Monetary developments during 1975	41
VI.	External Sector	43
	1. Balance of payments	43
	a. Overall developments, 1974-75	43
	b. Forecast for 1976	50
	2. External debt management	51
VII.	Exchange and Trade System	54
	1. Payments system	54
	a. Exchange rate structure	54
	b. Administration of exchange control	55
	c. Payments for imports and invisibles	55
	d. Export proceeds and receipts from invisibles	56
	e. Capital movements	56
	2. Trade system	57
	3. Trade and payments agreements	60
	4. Gold	60
	5. Changes in 1975	60
	<b>Text Statistical Tables</b>	
	1. Agricultural Production	7
	2. Production, Exports and Imports of Fish	9
	3. Petroleum Refining Industry	11
	4. Local Cash Outlays of the Aden Refinery	12
	5. Activity in Aden Port	14
	6. Cost of Living and Wholesale Price Indices	18
	7. Actual Investment Expenditures Under the First Plan	20

	<u>Contents</u>	<u>Page</u>
8.	Investment Expenditures Under the Second Plan, by Sector	22
9.	Financing of Investment Expenditures in the First and Second Plans	24
10.	Central Government Budgetary Operations	27
11.	Central Government Ordinary Revenues	28
12.	Summary of Tariff Schedule	31
13.	Central Government Ordinary Expenditures	32
14.	Interest Rates as of December 31, 1975	37
15.	Distribution of Loans and Advances of National Bank of Yemen	38
16.	Factors Affecting Changes in Domestic Liquidity	40
17.	Real Value of Domestic Liquidity at 1970 Prices	41
18.	Ratio of Deposits and Quasi-Money to Total Domestic Liquidity, 1969-75	42
19.	Summary Balance of Payments, 1971-76	44
20.	Composition of Exports and Re-Exports	46
21.	Composition of Imports	48
22.	Net Foreign Assets, 1971-75	51
23.	External Public Debt Outstanding (1972-75)	52
24.	Average Terms of Loans from International Organizations and Governments, 1970-74	53
Appendix Statistical Tables		
25.	Domestic Product at Current Prices, 1969-72	61
26.	Industrial Production	62
27.	Five-Year Development Plan, 1974/75-1978/79: Investment Expenditures by Sector	63
28.	Five-Year Development Plan, 1974/75-1978/79: Financial Sources	64
29.	Financial Sources of Investment Under the Second Plan	65
30.	Summary of the Tax System 1976	66
31.	Summary of Tariff Schedule: Ad Valorem Rates	70
32.	Summary of Tariff Schedule: Specific Rates	73
33.	Consolidated Balance Sheet of National Bank of Yemen	74
34.	Balance Sheet of Bank of Yemen	75
35.	Monetary Survey	76
36.	Balance of Payments, 1971-76	77
37.	Direction of Exports	78
38.	Origin of Imports	79
39.	Technical Notes on the Adjustments of Customs Figures for Exports and Imports	80
		<u>Facing Page</u>
Chart 1.	Factors Affecting Domestic Liquidity 1968-75	80

P.D.R. of Yemen - Basic Data

Area and population

Area 112,000 square miles  
Population 1.59 million

IMF data

Date of IMF membership September 1969  
Status Article XIV  
Quota SDR 29 million  
Fund holdings of Yemeni dinars 207.1 per cent of quota  
Currency Yemeni dinar (YD)  
Par value No par value has yet been established.  
The Yemeni dinar is pegged to the U.S. dollar at a rate of YD 1 = US\$2.89524.  
A representative rate of YD 1 = US\$2.886 is now in force.  
SDR account Participant. Allocations received SDR 9.9 million. Current holdings amount to 32.9 per cent of net cumulative allocation

Fiscal years ended March 31 April-Dec.<sup>1/</sup>  
1971/72 1972/73 1973/74 1974/75 1975

(In millions of Yemeni dinars)

	1971/72	1972/73	1973/74	1974/75	1975
<u>Public finance</u>					
Domestic revenues	16.0	12.1	15.3	18.1	14.0
Current expenditures	<u>20.7</u>	<u>21.7</u>	<u>22.7</u>	<u>27.5</u>	n.a.
Deficit	-4.7	-9.6	-7.4	-9.4	n.a.
Development expenditures	4.1	9.0	12.1	20.0	18.7

Calendar years

1971 1972 1973 1974 1975

(In millions of Yemeni dinars)

	1971	1972	1973	1974	1975
<u>Money and credit (end of year)</u> <sup>2/</sup>					
Money supply	31.7	34.9	40.1	46.1	52.3
Quasi-money	8.2	8.9	8.9	9.0	10.8
Claims on the private sector	9.6	9.9	10.4	18.9	19.7
Claims on the public sector (net)	5.6	10.4	15.1	24.0	30.8

(In millions of SDRs)

	1971	1972	1973	1974	1975
<u>Balance of payments</u> <sup>3/</sup>					
Exports	27.6	25.7	20.6	15.6 <sup>4/</sup>	20.5 <sup>5/</sup>
Imports	-104.2	-96.0	-108.3	-153.4	-154.0
Services and private transfers	<u>70.6</u>	<u>44.2</u>	<u>45.1</u>	<u>56.5</u>	<u>57.5</u>
Balance goods, services and private transfers	-6.0	-26.2	-42.6	-81.3	-76.0
Net capital and government transfers <sup>6/</sup>	9.8	24.5	39.3	56.5	56.3
Monetary movements (decrease -)	3.8	-1.7	-3.3	-24.8	-19.7
<u>Net official and banking foreign assets (end of year)</u>	<u>66.1</u>	<u>64.4</u>	<u>61.1</u>	<u>36.3</u>	<u>16.6</u>
Bank of Yemen's gross reserves	59.2	61.7	63.0 <sup>7/</sup>	55.2	46.7
Government (purchases from IMF)	-0.2	0.1	-	-9.3	-23.6 <sup>8/</sup>
Commercial bank	7.1	2.5	-1.9	-9.7	-6.5 <sup>8/</sup>

<sup>1/</sup> Provisional.

<sup>2/</sup> End of September for 1975 money and credit data.

<sup>3/</sup> Oil refinery treated as a nonresident.

<sup>4/</sup> Preliminary.

<sup>5/</sup> Estimates.

<sup>6/</sup> Includes errors and omissions and SDR allocations.

<sup>7/</sup> Less than SDR 100,000.

<sup>8/</sup> End November for National Bank of Yemen.

## I. Introduction: Economic Structure and Organization

### 1. Historical summary

The P.D.R. of Yemen has a population of approximately 1.6 million and covers an area of 112,000 square miles. Much of its territory is either desert or mountainous and rugged, while the climate is arid, characterized by high temperatures and very little precipitation. These conditions, together with the absence of permanent surface water streams, limit the scope for agricultural development. The country has abundant resources of fish along its 1,200 kilometer coastline, which until recently have been only partially tapped. No oil or hard minerals of commercial importance have been discovered, but exploration activity is in progress.

Prior to independence, by virtue of the development of the Port of Aden and the existence of a large British military base, a thriving economy had been built up around Aden based on bunkering and servicing of ships, trading activities connected with the free port, and the provision of services to military personnel and their families. The country was thus heavily dependent on the services sector and the production of commodities was extremely limited. Commercial production in the agricultural sector was confined to cotton grown in the Abyan delta and Lahej areas; a certain amount of foodgrains, especially sorghum and other millets, was also grown on a subsistence basis. Industrial production was almost totally absent except for oil refining at the Little Aden Oil Refinery. There had been very little infrastructural development, especially in the hinterland where economic conditions were much worse than in Aden.

The circumstances under which the P.D.R. of Yemen achieved independence in 1967 called for a radical and quick change in its productive structure. The closure of the Suez Canal, the withdrawal of British forces and administrative personnel, and the abrupt cessation of British budgetary support not only meant a drastic reduction in income, but affected the very economic foundations of the country. The authorities believed that a return to the previous level of prosperity on the basis of a service-oriented economy was impossible and turned their attention to a diversification of production. In the absence of known mineral resources and, given the limited potential for industrial development, the highest priority was given to the agricultural sector. Industrial production was conceived as playing a subsidiary role and was to be confined to light industries producing consumer goods with local raw materials. Above all, basic infrastructure development in transport and communications was needed to achieve economic and political integration. These objectives were reflected in the development efforts of the initial years of the country's existence, but found more definite expression in the plans launched in 1971 and 1974. The goals set for development and production were also influenced by the political ideals of the Government which laid emphasis on social equality and a dominant role for the state in economic activity. Thus, the Government implemented a policy of nationalization of agricultural land, housing, banking and insurance; reserved the industrial sector almost exclusively to the public sector; and effected strict control over development of fisheries. Moreover, the market system was

replaced by extensive controls on producer and consumer prices and on the allocation of resources generally. The salient features of the current economic structure and organization are described in the following paragraphs.

## 2. The commodity sectors

Agriculture, in which about 60 per cent of the population is engaged, generates only 20 per cent of GNP and 12 per cent of the country's exports. The total cultivable area, given adequate water, is variously estimated at 500,000 to one million acres. The area actually under cultivation, which varies according to the amount of flood water, does not exceed 250,000 acres, or 0.25 per cent of the country's total land area. Approximately 80 per cent of irrigated land depends on seasonal flood water and the remainder on underground water. Floods are regular in the Second and Third Governorates, but largely irregular in the central and eastern regions. Flood irrigation usually permits only one crop per year. When flood waters can be supplemented by pumped water, double cropping becomes possible. Ground water is the main basis of agriculture in the Fifth Governorate, while its use, supplementary to flood water, is found, and being extended, in the Second and Third Governorates. Approximately 60 per cent of the total cultivated area is planted with cereals, mainly sorghum and millet, and to a lesser extent, wheat; about 13 per cent is planted with cotton; and the remainder with vegetables, fruits and fodder crops.

The Agrarian Reform Law of 1970 abolished the traditional sharecropping system and set ceilings on individual ownership of land at 20 acres of irrigated land and 40 acres of rainfed land; the joint ceiling is 40 acres and 80 acres, respectively, for relatives of the first degree. All land in excess of these ceilings was taken over for redistribution to specified beneficiaries with individual allotments ranging from 3 to 5 acres for irrigated and 6 to 10 acres for rainfed land. Beneficiaries do not hold title to the land which rests with the state. All requisitioned land allotted on this basis is organized into cooperative farms. Unallotted requisitioned land is organized into state farms. Land not previously cultivated and recently reclaimed is also organized into state farms. By the end of 1974 there were 37 state farms with a total area of 17,860 acres and 41 cooperative farms covering an area of 229,760 acres; of this acreage, about 40 per cent was being cultivated and the remainder being improved.

The Government maintains strict control over agricultural prices and the cost of inputs. Producer prices have been held relatively stable, while the inputs of fertilizer, water and improved seed varieties are heavily subsidized; capital expenditures on land preparation and agricultural machinery are also subsidized. Taxes are levied on agricultural production, but the subsidies are estimated to be much larger than the taxes. Agricultural credit is provided by the National Bank of Yemen and the Agricultural Development Fund which operates under the Ministry of Agriculture; the latter provides financing for the purchase of agricultural machinery and equipment by cooperatives and state farms.

Fish wealth along the country's 1,200 kilometer coastline had, until recently, been only partially exploited by 15,000 fishermen using traditional methods. The major part of marine resources consists of pelagic species such as sardines, anchovies, tuna and kingfish, other varieties which are commercially important, especially for export, are shellfish (principally lobster and shrimp) and cuttlefish. Quick-yielding investments have already produced beneficial results in increased production and foreign exchange earnings. The fish catch in 1974 was about 144,000 tons, but it is estimated that, with further development, the total yield could reach about 360,000 tons per year. The production potential is considered to be large by international standards; export opportunities are also estimated to be substantial not only in fresh fish but also in fishmeal and fish oil. In order to promote fisheries, the Government established in 1970 the Public Corporation for Fish Wealth (PCFW) which is responsible for the general planning of development in this sector, provides training and general logistic support to fishermen's cooperatives and has the sole responsibility for domestic marketing.

At the time of independence, there was very little industrial activity other than petroleum refining by the British Petroleum refinery at Little Aden. Built in 1954 with a capacity of 0.5 million tons of crude per annum, the refinery processes imported crude oil into refined products for export, ships' bunker fuel and domestic consumption. The refinery's annual output was about 6 million tons during 1967-70, but has been declining since then. The impact of its operations on the Yemeni economy comes from income tax and other payments to the Government, wages and salaries paid to Yemeni employees, and other payments for domestic goods and services. Currently the refinery provides employment to about 2,000 Yemenis.

Other traditional industrial activities included salt production, the building and repairing of dhows (small ships made of wood), the manufacture of furniture and construction materials and the bottling of soft drinks. The scope for industrial development is said to be limited by the narrow domestic market and the scarcity of industrial raw materials. However, since independence several possibilities of domestic manufacturing have been identified and, with the implementation of the development plans, a small beginning has been made in industrialization, mostly in the field of import substituting, consumer goods industries. Since the new industries generally use local raw materials, industrial development has had important linkage effects on other sectors of the economy. Thus, for example, a program of medium staple cotton cultivation has been started to provide the raw material for the newly established textile factory; dairy farming is being expanded to satisfy the needs of the milk products factory; and a tannery has been developed to process raw hides and skins for a leather products factory. Certain industries, such as the fishmeal factory, the tannery and the leather products factory hold promise of increased export earnings. However, it should be noted that the expansion of industrial output in recent years has only partly offset the fall in refinery output, and the total value added by the industrial sector still remains below 15 per cent of GNP.

### 3. Services

Before 1967, there were very limited inland transport facilities between Aden and the 16 small sultanates which later formed the Republic; transport and communications between settled areas was achieved by dhows traveling along the coast and discharging cargo on unprotected beaches. An integral part of the development strategy was therefore the building of a unifying transport system for the whole country. Major highway projects were undertaken during the period of both the First Development Plans and the Second. Besides the expansion of the road network, attention is also being paid to the development of bus services, the improvement of Aden's airport and telephone communications. At present the transport system of the P.D.R. of Yemen comprises about 5,500 km of roads and tracks, two ports and 15 airports and airstrips; there are no railways.

Aden is the principal port of the P.D.R. of Yemen, and the bulk of the country's imports and exports flow through it. However, the shipping activity that developed around the port is predominantly external to the transport requirements of the country. In view of its advantageous position in relation to the major shipping routes between Europe and the Asia-Pacific region via the Suez Canal, Aden was able to attract more than 6,000 ship calls per year before the closure of the Canal. The port thus became the center of considerable economic activity by virtue of its capacity to provide bunkering and other services to ships and of the development of a large volume of trade, especially in the form of duty-free sales to ships' passengers and crewmen; an additional boost to activity resulted from the presence of a British military base. The collapse of this important service sector in 1967 was a major factor in the economic recession during the first years after independence. According to some estimates, about 20,000 people, mainly traders, lost their employment. With the new opportunities presented by the reopening of the Suez Canal in June 1975, the authorities launched a program of rehabilitation for the Port of Aden. A revival of activity at the port is expected but it may not reach the level of pre-closure days in the near future. The Yemen Ports and Shipping Corporation established in 1973, is responsible for all ports and shipping activities in the country. The Corporation has four operational units attached to it, namely the Port of Aden Authority, the National Shipping Company, the National Dockyards Company and Aden Coasters Company.

### 4. The public sector

Law No. 37 of November 1969 radically changed the institutional framework of economic activity and policy in the P.D.R. of Yemen. The law gave the public sector the leading role in the economy and nationalized all foreign banks, insurance companies, postal services and most petroleum distribution companies. Currently the nationalized sector includes the following companies: National Bank of Yemen, National Company for Foreign Trade, National Company for Home Trade, National Insurance and Reinsurance Company, National Shipping Company, National Dockyards Company and Yemen National Oil Company. In addition, there are two important public utility corporations, the Public Corporation for Electric Power and the Public Corporation for Water Supply. The Corporation

for Fish Wealth already mentioned and several other public enterprises in the fields of production, wholesale trade and retail trade. According to Law No. 11 of 1975 these public sector utilities must transfer from their net profits, after payment of taxes and compensation to previous owners, 50 per cent to the Development Fund (see p. 25 below) and 25 per cent to the Treasury for its ordinary budget; the remaining 25 per cent may be credited to their own reserves.

## II. Recent Developments in Production, Employment and Prices

### 1. Overall economic activity

Although some progress has been made in compiling statistics, the scarcity of data continues to hamper a proper evaluation of growth and production trends. The Central Statistical Office has now revised the GDP estimates for the years 1969-72 (Appendix Table 25). Though not recent, these estimates provide useful insights.

Economic developments in 1974 and 1975, which correspond roughly to the first two years of the Second Development Plan, were characterized by a rapid increase in investment. In 1972, when GDP in current prices was estimated at YD 67.2 million, investment expenditures under the Development Plan amounted to nearly YD 6.7 million; by 1974 they had increased to nearly YD 18 million, and by 1975 to an estimated YD 23 million. The contribution of these investments to final output was most immediate in the case of quick-yielding projects such as those in the fishing industry, while the results in the transport sector, agriculture and manufacturing industries lagged because of the longer gestation periods involved. However, a natural result of the acceleration of the development effort must have been a rapid increase in the construction component of GDP.

In other sectors of the GDP developments were less favorable. In both 1974 and 1975, the decline in refinery output continued. Salt production contracted also, although its future prospects looked bright. In agriculture, cotton output suffered a setback owing to a number of factors mentioned below, but other crops recorded increases. Following the reopening of the Suez Canal in June 1975, activity in the Port of Aden proved much smaller than had been expected. Moreover, the country experienced severe floods in August and September 1975. Current production was not seriously affected, but the damage was significant in terms of housing, irrigation channels, capital equipment, and soil erosion. The total losses were officially estimated at YD 7.5 million.

On balance, owing to these adversities, it does not seem that a high rate of growth was achieved during the last two years. However, the vigorous development effort, has laid the foundations for a recovery and the country is likely to pull out of its protracted recession in the near future.

## 2. Agricultural production

Agricultural policy has been increasingly directed toward augmenting the production of domestically consumed foodstuffs even at the expense of export production. A wide variety of grains, including rice, wheat and sorghum, are important staples of human and animal consumption. In the past, the entire requirements of rice have been imported, while domestic cultivation has met the major portion of the requirements of sorghum and millets, but only a third of those of wheat. Although it is realized that the country cannot reach complete self-sufficiency, the authorities have decided to intensify as much as possible their efforts to increase domestic food production and reduce dependence on imports, in view of the foreign exchange problems encountered in the period of rising world prices of foodgrains. Thus, recent agricultural development has been characterized by: accelerated capital expenditures to provide irrigation facilities; considerable increases in agricultural output; and a stagnation and probably a decline in the output of cotton, the major export crop.

Among foodgrains the objective of import substitution has been most vigorously pursued by both horizontal and vertical expansion of wheat cultivation. Large capital expenditures have been undertaken to prepare new lands with permanent supplies of underground water for state farms and cooperatives. High-yielding seed varieties have been introduced, and their use encouraged by the preferential supply of fertilizer. The area under wheat increased from 18,000 acres in 1970/71 to 28,000 acres in 1974/75, and production from 12,500 tons to 20,800 tons (Table 1). The area under barley, sorghum and other millets rose from 93,000 acres to 117,200 acres during the same period and production from 59,000 tons to 74,000 tons; the cultivation of these grains continues to depend largely on flood irrigation, but there has been an increasing use of better seed varieties and fertilizers, especially in the case of sorghum.

Progress has also been made in vegetable cultivation. There are no imports of vegetables or fruits. Production is planned each season on the basis of projected consumption requirements and allocated to each governorate according to available land and water. Vegetable cultivation is undertaken mostly on state and cooperative farms, with the use of permanent irrigation. Subsidized inputs are provided, and the output is delivered to the Central Marketing Board for Vegetables at prices fixed at the time production targets are set. Reliable data are not available on total vegetable production, but the purchases of the Central Marketing Board amounted to 8.8 million kilograms valued at YD 315,000 in 1974 and 14.0 million kilograms valued at YD 575,000 in 1975. The output of fruits, especially bananas and papayas, is also believed to have recorded a large increase; however, the output of dates is estimated to have remained constant at about 40,000 tons a year. Despite the recent increase in vegetable and fruit production, shortages have occurred in urban areas and efforts are being made to achieve a further expansion in output in order to alleviate such shortages and meet the expected upward trend in demand. The authorities believe that their marketing arrangements and pricing and subsidy policies provide adequate incentives for production. The main constraint is considered to be the shortage of cultivable land and water.

Table 1. Agricultural Production

(Area in thousand acres and production in thousand tons)

Crop year <sup>1/</sup>	Cotton			Sesame		Wheat		Barley		Sorghum and Other Millets	
	Area	Production <sup>2/</sup>	Yield	Area	Production	Area	Production	Area	Production	Area	Production
1965/66	38.7	9.5	0.25	9.0	2.6	24.0	19.6	3.0	2.3	110.0	44.8
1966/67	33.5	11.9	0.36	9.8	2.9	24.0	21.0	3.0	3.5	150.0	54.0
1967/68	12.3	4.7	0.38	7.0	2.0	22.0	18.0	3.0	3.0	110.0	45.0
1968/69	48.3	19.4	0.40	10.0	3.0	24.0	21.0	3.0	3.5	170.0	61.2
1969/70	33.8	12.8	0.38	12.3	4.3	18.0	12.0	3.0	2.0	90.0	57.0
1970/71	33.6	15.4	0.46	10.0	3.4	18.0	12.5	3.0	2.0	90.0	57.0
1971/72	27.5	12.1	0.44	10.0	3.4	22.0	15.5	3.0	2.0	105.0	66.2
1972/73	35.3	13.2	0.37	10.2	3.5	24.0	16.8	3.0	2.0	110.0	69.4
1973/74	33.6	10.3	0.31	10.2	3.5	...	...	...	...	140.0 <sup>3/</sup>	90.0 <sup>3/</sup>
1974/75	...	...	...	10.2	3.5	28.8	20.8	3.2	2.1	114.0	72.0

Source: Ministry of Agriculture and Agrarian Reform.

<sup>1/</sup> Crop year is usually July to April for cotton; October to April for wheat, barley and sesame; and February to July for sorghum.

<sup>2/</sup> Seed cotton.

<sup>3/</sup> Includes area and production of wheat and barley.

The production of cotton, the chief export crop, has suffered setbacks in recent years. The area under cotton cultivation declined from 35,300 acres in 1972/73 to 33,600 acres in 1973/74, and production of unginned cotton from 13,200 tons to 10,300 tons. Statistics are not available for 1974/75, but it is likely that there was a further fall in production in that year. Part of the explanation lies in the competition for land from grains and vegetables. An additional factor was the need to set aside certain areas traditionally cultivated with cotton for land conservation or dam construction. The yield per acre has also shown a declining trend owing to pests and soil deterioration. Considerable attention has been paid to these problems and the highest priority in the allocation of fertilizer is given to cotton cultivation. The Five-Year Plan provides for an increase in cotton acreage, but this target may not be realized during the Plan period. In the meantime, and especially in view of the emphasis being placed on quick increases in domestic food production, it is likely that cotton output will continue to fall through the 1977/78 season.

Livestock production is another field in which import substitution is being actively pursued. A survey of the country's potential was completed by a British research organization in 1974, and a development program has been initiated to enable the country's requirements of meat and dairy products to be met by domestic production. Two large cattle farms have already been established with imported cattle from Kenya, and livestock centers have been opened for improvement of breeds, animal health and artificial insemination. The increase in livestock production has also led to an increase in the production of fodder. A Poultry Development Corporation has been established to promote poultry farming on an organized basis.

### 3. Fisheries

Fishing continues to be the most dynamic growth sector and a very promising source of foreign exchange earnings. Following an increase of 8.2 per cent in 1973, fish production expanded by a further 6.6 per cent in 1974 (Table 2); between 1972 and 1974 net exports rose almost 16 per cent. In 1975 output was substantially above the level of the previous year, and in value terms exports increased by about 43 per cent, partly due to the fact that a new fishmeal and fish oil plant started operations. Domestic per capita consumption of fish has gone up in recent years; nevertheless, fish imports are said to have been completely eliminated by 1975.

Table 2. Production, Exports and Imports of Fish

(Quantity in thousands of tons; value in thousands of Yemeni dinars)

Year	Production <sup>1/</sup>	Exports		Imports		Net Exports	
		Quantity	Value	Quantity	Value	Quantity	Value
1965	90.0	6.2	448.5	1.0	72.7	5.2	375.8
1966	85.9	6.2	468.1	0.5	46.0	5.7	422.1
1967	81.0	5.0	366.7	0.9	61.3	4.1	305.4
1968	90.3	5.1	383.8	0.7	44.9	4.4	338.9
1969	108.0	11.4	543.1	1.7	81.3	9.7	461.8
1970	118.0	18.1	968.6	1.7	120.1	16.4	848.5
1971	119.0	20.9	1,344.2	1.2	106.3	19.7	1,237.9
1972	125.0	18.4	2,090.2	2.7	185.5	15.7	1,904.7
1973	135.2	14.6	2,178.9	1.0	139.1	13.4	2,039.8
1974	144.2	17.6	2,329.3	0.6	59.3	17.0	2,270.0

Sources: The Public Corporation for Fish Wealth and the Central Statistical Office.

<sup>1/</sup> Fresh weight.

These increases in production have been made possible by substantial investment expenditures which have expanded fishing capacity, storage, marketing and processing facilities. Trawlers and other fishing vessels have been purchased, fishing methods upgraded and several plants established to can, freeze and process fish, including the fishmeal and fish oil plant mentioned above. In addition, the Government has placed considerable emphasis on the organization of fishermen's cooperatives, which are given preferential access to equipment and bank credit. Prices for the catch have been determined in principle by the PCFW after consultation with the cooperatives, but there has been no adjustment of prices over the past two years. At the retail level, a geographically uniform price structure has been adopted. A shortage of manpower, especially of trained personnel, has been felt, and the increase in the number of fishermen has not kept pace with the increase in the number of fishing vessels. Intensive programs of training have been undertaken, both at home and abroad. A Fisheries Training Institute has been started to provide courses in navigation, mechanics of fishing vessels and refrigeration techniques; about 200 Yemenis are also currently undergoing training in Norway and the U.S.S.R.

#### 4. Industrial production

##### a. Oil refining

Production of the Little Aden Refinery, which has been declining since 1970, fell sharply by a further 1 million tons in 1975; the output of 1.6 million tons in that year was equal to only 20 per cent of the refinery's production capacity (Table 3). This decline is attributable to decreases in the demand for bunker fuel and in petroleum exports (Table 4). Despite the increase in the number of ships calling at Aden since the reopening of the Suez Canal in June 1975, the demand for bunker fuel has remained weak, owing to the availability of fuel in competing ports at lower prices. The disappointing performance of exports of other refined products in recent years has been attributed to the high freight costs involved in shipping these products from Aden to traditional markets as well as construction of competing refineries located mainly near consumption points in many countries.

The impact of the fall in the refinery's output on the domestic economy was minimized by the fact that its local currency expenditures in wages and salaries, tax payments to the Government, etc., were maintained at the previous year's level. In particular, the wage bill remained unchanged, even though casual employment was reduced; the effect of this reduction was offset by salary increases granted to the regular employees. There have been no changes in taxation of the refinery. The method of computing taxable income is based on a "refining fee" of YD 0.500 per ton for the first 4 million tons and YD 0.375 per ton for output above this level; a tax of 37.5 per cent is levied on the income thus computed, with a provision for a minimum annual payment of YD 0.6 million. Other local outlays of the refinery include payments to the Yemen Ports Corporation for oil installations at Aden Port and other services, and payments to contractors for goods and services.

Table 3. Petroleum Refining Industry

(Quantity in millions of long tons; value in millions of Yemeni dinars)

	1970	1971	1972	1973	1974
Imports					
Quantity	6.4	3.7	3.3	3.3	3.2
Value	33.2	23.8	22.9	26.1	87.7
Production (quantity) <sup>1/</sup>	6.2	3.4	3.3	2.8	2.6
Exports					
Quantity	5.6	3.1	3.1	3.0	2.0
Value	45.0	29.2	30.2	28.6	74.9
Ships' bunker fuel oil <sup>2/</sup>					
Quantity	0.6	0.5	0.4	0.4	0.3
Value	4.0	3.3	2.9	2.7	
Domestic consumption (quantity) <sup>3/</sup>	0.3	0.4	0.4	0.4	0.4

Source: Central Statistical Office.

<sup>1/</sup> Provisional estimate for production in 1975 is 1.6 million tons.

<sup>2/</sup> The Aden Refinery does not provide all the fuel oil supplied to ships in Aden; some of the bunkering companies have their own arrangements for the supply of fuel oil from other sources.

<sup>3/</sup> A large part of the refined products consumed in the P.D.R. of Yemen is obtained from the Little Aden Refinery; however, significant quantities are imported from other sources also.

Table 4. Local Cash Outlays of the Aden Refinery  
(In millions of Yemeni dinars)

	1972	1973	1974	1975
Payments to the Government	1.6	1.5	1.4	1.7
Payments to government departments for services	0.1	0.1	0.1	0.1
Payments to the Yemen Ports Corporation	0.3	0.2	0.2	0.2
Payments to contractors	0.1	0.1	0.2	0.2
Salaries and wages	1.5	1.5	1.5	1.5
Other payments <sup>1/</sup>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>
Total	4.2	4.0	4.0	4.3

Source: Aden Refinery.

<sup>1/</sup> Principally for purchases from traders and suppliers.

b. Other industrial production

It was noted above that salt production was the only established industrial activity besides oil refining at the time of independence. Since then, with the implementation of the Development Plans, there has been some diversification mostly in the manufacture of import-substituting, consumer goods. In the context of the overall development strategy, the expansion of the industrial sector has been small, and production probably accounted for not more than 5 per cent of GDP in 1975.

The output of salt fell by 20 per cent to 34,000 tons in 1974 (see Appendix Table 26) and was estimated to have declined further in 1975. Its downward trend over the last few years was due to declining competitiveness in export markets. A modernization and development project for the salt industry was launched in 1974 and completed in October 1975; the project was designed to increase production capacity to 150,000 tons per annum, reduce the cost of production and improve quality. Salt production and exports are expected to rise in 1976.

Several of the new industries are in the field of food processing. They include a tomato paste factory, with a capacity of 2,000 tons per annum which started production in 1975. A milk products factory has been established for the sterilization and packaging of fresh milk and for the processing of powdered milk and other products such as butter, cheese and yoghurt. A flour mill with a capacity of 56,000 tons per annum was also established in 1975. Other consumer goods being produced by factories which have begun operations in recent years are cigarettes, matches, plastic and aluminum housewares, garments and foam mattresses. A relatively large project completed in 1975 was the textile factory with a capacity of 7.5 million square meters of cloth per annum. A leather products factory was started in 1975 and UNIDO is providing technical assistance in the training of skilled labor for the manufacture of shoes and other leather products; production capacity for shoes is 200,000 pairs per annum. In addition, an existing, but unused, tannery was rehabilitated and expanded in 1974. Consequently, hides and skins, which used to be exported in raw form, are now being processed into high quality leather for export as well as for the domestic production of shoes and other items. Production of leather was equal to 177,000 square feet in 1974, and is expected to reach 500,000 square feet in 1976. Lastly, a factory for the manufacture of spare parts for agricultural machinery was started in 1973, and the value of its output in 1974 amounted to YD 59,800.

5. Economic performance in other sectors

With the reopening of the Suez Canal in June 1975, the declining trend in activity at the port of Aden was reversed. The number of ships calling at the port increased from 1,233 in 1974 to 1,451 in 1975, and net registered tonnage from 5.1 million tons to 6 million tons (Table 5). However, bunker fuel deliveries did not rise as much as had been hoped. For the most part this was due to the availability of cheaper fuel at Jeddah. Moreover, a number of ports in the area have been improved since the closure of the Suez Canal, and in recent years there has been an increasing tendency in the shipping industry toward bunkering at the port of departure.

Table 5. Activity in Aden Port

(In thousands of long tons)

	1971	1972	1973	1974	1975
<u>Ships</u>					
Number of ships calling	1,466	1,400	1,320	1,233	1,451
Net registered tonnage	6,512	5,695	5,565	5,107	6,016
Dry cargo imported	269	283	312	374	327
Dry cargo exported	88	40	63	54	31
Oil imports	3,896	3,720	3,342	2,885	2,655
Oil exports	3,138	3,100	2,724	2,185	1,478
Bunker fuel oil	446	308	338	293	296
<u>Transit passengers (in thousands)</u>	0	--	--	--	--
<u>Dhows<sup>1/</sup></u>					
Number of dhows calling	938	795	615	557	596
Net registered tonnage	88	69	62	53	44
Dry cargo imported	30	20	15	13	10
Dry cargo exported	44	33	39	33	25

Source: Yemen Ports and Shipping Corporation.

<sup>1/</sup> Powered barges of small tonnage used mainly for coastal trade.

In a World Bank study completed in August 1975, the net registered tonnage of ships using Aden was forecast to reach a level in 1978 of about six times that of 1974. On the basis of the experience of the first eight months after the reopening of the Suez Canal, this forecast is now believed to be too optimistic, although a considerable increase in ship ping traffic, especially of dry cargo vessels is still expected. Although the port of Aden has a substantial bunkering capacity, a large number of berths and a reputation for efficiency with the quickest turnaround in the region, much of the ship handling equipment (tugs, mooring launches and pilot launches) and cargo-handling equipment (cranes, fork lifts, etc.) has not been adequately maintained since the closure of the Canal. A rehabilitation project has therefore been undertaken for the purchase of new equipment and for minor dredging to increase the depth of the harbor. The project is estimated to cost US\$17.5 million; the foreign exchange component of this amount (US\$16.8 million) is to be jointly financed by IDA (US\$3.2 million) and the Arab Fund for Economic and Social Development (US\$13.6 million).

Commercial activity has been rising as the road network has been expanded and the hinterland gradually integrated in the economy. At the same time the role of the public sector has increased, notably in the field of wholesale trade, including imports and exports, but also in the retail trade. Presently, vegetables and fruits produced by cooperatives and state farms are purchased wholesale by the Central Marketing Board for Vegetables and sold to retail distribution outlets, mainly in the private sector, in urban areas. The wholesale trade in fish is the monopoly of the PCFW. Consumer cooperatives are active in the marketing of locally grown, as well as imported, wheat and other foodgrains. The National Company for Home Trade continues to be the public sector agency for retail distribution of imported goods, while the National Company for Foreign Trade is responsible for most public sector imports, oil sector transactions, and some goods sold to ships. Since the reopening of the Suez Canal, government duty-free shops have also been opened for the sale of goods to tourists and seamen. The reopening of the Canal has also created opportunities for developing entrepot and transit trade. A free zone has therefore been established. It is expected that the facilities of the zone will be used for transshipment of goods from Aden to other countries by sea as well as by land. It is also envisaged that at a later stage the zone will be utilized for the processing of goods for export.

## 6. Employment, wages and prices

### a. Employment and wages

Despite the lack of adequate data, it is believed that unemployment has been greatly reduced in recent years, as a result of the accelerated development effort. This is confirmed by statistics relating to the absorption of unemployed workers registered in Aden; while there are no

comparable data for other areas, it is believed that the rate of absorption was even higher there. The public sector has been the predominant source of employment opportunities; apart from the new jobs created in the development projects completed and under way, direct employment in the Government has also increased as a consequence of expansion in administrative departments. Manpower shortages are said to be appearing, mainly, though not exclusively, in regard to highly skilled personnel. In order to deal with this problem, foreigners are being recruited wherever qualified local staff is not available. Furthermore, considerable attention is being paid to manpower training. Technical education facilities are being rapidly developed with assistance from international organizations (mainly the UNDP) and bilateral sources; on-the-job training is also provided on newly established development projects. Moreover, several hundred Yemenis are being trained abroad in various fields, such as agriculture, fishing and engineering. The Government is also encouraging Yemenis working abroad to return to their country. In order to reduce the degree of illiteracy and raise the general level of education, expenditure on education has been stepped up; a university was set up in 1975.

The Government is applying an extremely tough policy on wages and salaries. In 1972 it reduced salaries substantially on a progressive scale. On the first YD 500 a year, the cuts amounted to 15 per cent; on the second, third and fourth brackets of YD 500, the reductions were 20, 40 and 60 per cent, respectively, for married taxpayers and 30, 60 and 80 per cent, respectively, for single ones. Since then and up to March 1975, despite the increases in the cost of living, there was no across-the-board increase in wages and salaries. In 1974 laws were passed granting special increases to skilled manpower categories holding Master's or higher degrees. These measures included an element of compensation as, for example, in the case of physicians, who were no longer permitted to practice outside the state system, and an element of adjustment to decrease disparities in remuneration between the P.D.R. of Yemen and neighboring countries.

In March 1975, the Government granted an across-the-board increase of 5 per cent in the take-home pay of government and public sector employees.<sup>1/</sup> At the same time, the weekly hours of work were increased from 42 to 47. Presently, the monthly salaries of government employees range from YD 15 to YD 23 (with no additional allowances for semi-skilled and unskilled labor) to YD 63-69 plus an allowance of 25 per cent for executive grades. In addition, engineers, veterinary surgeons, chemists and those with Master's or Ph.D. degrees are paid special allowances of 25 per cent of the basic salary, while senior and supervisory staff in the fields of finance, economy and planning, accountants, tax assessors and graduates in physics, chemistry, biology and

---

<sup>1/</sup> More precisely, there was an increase of 10 per cent in wage and salary rates; however, half of these increases is to be withheld for the Social Security Fund.

mathematics are paid a special allowance of 20 per cent. Special allowances at flat rates per month are paid to general medical practitioners and dental surgeons (YD 76-99), medical specialists (YD 106-156), and to judges and legal advisors (YD 5), effective January 1975, engineers are paid an additional flat allowance of YD 5-15 per month.

### B. Prices

Price control is regarded as a second important instrument for achieving the objectives of the Government's anti-inflationary policy. Initially price fixing at the retail level was limited to a few essential goods, while the prices of other goods were controlled indirectly by the prescription of wholesale and retail margins. The direct control of retail prices was gradually extended and by the end of 1975 it covered all goods considered to be important items of domestic consumption. Retail prices are determined for each item on the basis of invoice prices in the case of imports and the cost of production in the case of locally produced goods, after allowing for markups for the wholesale and retail trade. This policy implies that any increase in import prices would be passed on to consumers. However, in view of the substantial international inflation in 1974 and 1975, the Government modified this policy selectively in an attempt to soften the impact on the cost of living of the poorer classes. Specifically in January 1974 subsidies were granted or increased on seven items, wheat, flour, rice, sugar, milk powder, ghee and cooking oil, but at the same time their prices were raised appreciably. In order to finance these subsidies, a Price Stabilization Fund, independent of the government budget, was created and is administered by the Ministry of Trade and Supplies. The receipts of the Fund include a 10 per cent increase in import duties on all imports other than foodstuffs, a 5 per cent tax on the profits of public sector enterprises and 80 per cent of the commissions earned on public sector imports. Since 1974, there has been no change in the prices charged for the subsidized items, even though international prices have declined. On the basis of cost at the time of purchase (rather than replacement cost), the total amount of the subsidy was estimated at YD 3.5 million in 1974 and 1975. The effect of lower import prices on the subsidy bill for 1976 is expected to be partly offset by the fact that the Government has decided to bear internal transportation costs to provinces outside Aden, with a view to unifying prices throughout the country.

The availability of goods is a major element in any policy of price controls. Since the country's balance of payments has been weak and imports less than adequate, supplies have been limited and the policy had to be supplemented by rationing a few essential commodities. Nevertheless, shortages and black market activity have appeared at times.

The cost of living index in Aden increased by 24 per cent in 1974 reflecting substantial upward adjustments in import prices, particularly those of foodstuffs, clothing and qat (a stimulant leaf), tobacco and alcoholic beverages. Due to energy conservation measures imposed by the authorities, there were also substantial increases in the price of gasoline and rates charged for electricity consumption by households. In 1975, reflecting the deceleration in the world inflationary trend, the increase in the cost of living was held to 6.5 per cent. As regards the wholesale price index it went up by 40.7 per cent in 1974 and 4.6 per cent between December 1974 and September 1975 (see Table 6).

Table 6. Cost of Living and Wholesale Price Indices

(1969 = 100)

	Relative Weights						September		December	
		1970	1971	1972	1973	1974	1974	1975	1974	1975
<u>Cost of living index</u>										
General index	100.0	105.0	110.6	116.4	134.6	167.3	176.3	189.1	179.9	191.8
Foodstuffs	50.8	105.5	114.4	115.9	147.7	181.7	194.5	198.7	193.7	200.3
Fuel, water and lighting	3.5	100.2	102.3	107.9	111.2	155.6	197.3	202.0	200.1	205.0
Rent	6.0	100.0	100.0	89.6	75.0	75.0	75.0	75.0	75.0	75.0
Clothing	9.0	108.7	109.8	135.1	143.3	236.2	243.9	317.2	228.0	324.7
Household supplies	3.5	103.8	110.6	118.0	134.2	151.4	158.7	174.4	166.7	182.7
Cat, tobacco and alcoholic beverages	10.0	105.6	115.5	124.9	146.2	174.5	175.6	201.6	181.6	201.6
Other	17.1	101.2	101.8	102.9	111.2	121.9	122.2	126.2	121.1	129.1
<u>Wholesale price index</u>										
General index	100.0	106.0	117.0	120.0	162.3	229.0	238.9	273.1	261.2	...
Foodstuffs	48.5	111.9	127.0	132.2	181.6	248.7	253.8	276.1	267.2	...
Raw materials	13.1	102.7	113.0	94.7	113.4	116.6	111.9	114.9	126.2	...
Industrial products	23.2	101.3	110.5	113.2	171.7	244.1	268.8	307.4	320.1	...
Building materials	5.5	112.4	124.8	112.0	128.3	221.9	247.9	328.8	276.1	...
Fuel	9.7	100.5	112.1	114.1	135.5	249.8	264.4	264.7	264.4	...

Source: Central Statistical Office.

### III. Development Planning

#### 1. The planning system

The planning system has undergone many changes since the establishment in August 1968 of the High Council for National Planning to determine development strategies and to prepare a comprehensive economic and social development plan. Presently, each ministry and major public enterprise has a planning unit responsible for project preparation, proposal and implementation. The Ministry of Planning coordinates and supervises these units and has the overall responsibility for the planning process. Projects must be submitted to the Ministry for approval, and only it has the power to authorize disbursements of monies from the central financial pool for economic development, which draws from both local and foreign sources.

#### 2. The Three-Year Development Plan (1971/72-1973/74)

The first attempt at drawing up a national plan--the Three-Year Development Plan, 1971/72-1973/74--was essentially a compilation of ongoing projects and others which had been under consideration for some time. Nevertheless, it was stated in the relevant documents that the objectives of the Plan were to: raise living standards through an increase in real per capita income; reduce unemployment by implementing labor-intensive projects; restructure the economy by diversification in favor of the commodity sector; improve the balance of payments; achieve a more equitable distribution of the national product; and build up the educational and health services. Moreover, even though the country's socialist framework was to be strengthened through the Plan, the Government also intended to provide appropriate encouragement to national private capital,

The initial target for total expenditure during the three-year period was YD 40 million; however, it later became necessary to revise this figure downward to YD 32.4 million mainly because of a shortage of financial resources, shortages of trained personnel, administrative bottlenecks and delays in obtaining foreign equipment. Actual expenditure amounted to YD 25.1 million, representing an implementation rate of 77.5 per cent of the revised target. The sectoral pattern of final expenditures was largely in line with the priorities of the original plan. Thus, the emphasis on infrastructural development was reflected in the fact that 38 per cent of total expenditures was absorbed by the transport and communications sector. The importance placed on diversification in the direction of commodity production largely explains the high proportions of expenditure accounted for by the sectors of agriculture and fishing (31 per cent) and industry (16 per cent). Geological and mineral surveys accounted for about 5 per cent, and each of the sectors of education, health and other social services for about 3 per cent of total expenditure (Table 7).

Two major projects initiated in the transport sector were the construction of the 515-km highway between Amin and Al Mukalla and the 320-km highway between Al Mukalla and Saioun. The Amin-Al Mukalla highway, to be completed in 1976, will improve transport facilities between Aden and the Third, Fourth and Fifth Governorates; the project, with a capital investment requirement initially estimated at YD 6.2 million was financed by a long-term loan from

the People's Republic of China which also provided technical assistance. In agriculture three big dam construction works were undertaken at Tuban, Ahwar and Radfan, 378 wells were dug, the cultivable area was increased by 27,000 acres and a number of state farms were established. An Agricultural Research Institute was set up, and several studies and surveys, such as the study on soil and water resources in the Abyan Delta, were undertaken with foreign assistance. In the industrial sector, the accomplishments of the Plan included the rehabilitation of the tannery as well as the completion of the above-mentioned factories for the manufacture of matches, paints, plastic housewares, cigarettes, floor tiles and spare parts for agricultural machinery.

Table 7. Actual Investment Expenditures Under the First Plan

(In thousands of Yemeni dinars)

	1971/72	1972/73	1973/74	Total
Industry	575.7	1,628.5	1,949.1	4,153.3
Agriculture and fishing	1,604.0	2,856.0	3,257.5	7,717.5
Transport and communications	1,475.8	3,663.0	4,428.0	9,566.8
Geological and mineral surveys	302.3	218.5	651.9	1,172.7
Education	5.0	38.0	813.6	856.6
Health	10.0	86.0	810.0	906.0
Housing and municipalities	--	--	--	--
Other social services	75.1	530.8	149.6	755.5
Total	4,047.9	9,020.8	12,060.0	25,128.4
	<u>In Per Cent</u>			
Industry	14.2	18.1	16.5	16.5
Agriculture and fishing	39.6	31.7	27.0	30.7
Transport and communications	36.5	40.6	36.7	38.1
Geological and mineral surveys	7.5	2.4	5.4	4.7
Education	0.1	0.4	6.8	3.4
Health	0.2	0.9	6.7	3.6
Housing and municipalities	--	--	--	--
Other social services	1.9	5.9	1.2	3.0

Source: Ministry of Planning.

a. Objectives

The Second Development Plan, launched in April 1974 is to cover a period of five years and can perhaps be considered an extension of the First Plan; it had similar objectives, but it greatly expanded expenditures and adapted the pattern of sectoral allocations to the changed situation. The principal objectives were stated to be the transformation of the economy toward increased commodity production, import substitution in essential consumer goods and the creation of employment opportunities. Special emphasis was laid on increasing agricultural production by bringing more land under cultivation and by improving cultivation methods. The largest share (37 per cent) of total expenditure was allocated to agriculture and fishing. Allocations for the transportation and communications sector were equal to 25 per cent; the industrial and social services received 18 and 19 per cent, respectively (Appendix Table 27). The shift in priorities, as compared to the First Plan, stems from the fact that while the basic groundwork had been laid in transport infrastructure during the First Plan period, the deterioration in the balance of payments and the stagnation of incomes called for a quick increase in production and employment; the agriculture and fishing sector was perceived as affording the best opportunities for such development.

b. Expenditure targets

The initial global target for investment expenditures during the Plan period was YD 75.4 million at 1972/73 prices, representing on an annual basis almost a doubling of the expenditures realized under the First Plan. The annual distribution of expenditures showed a concentration in the initial years with 70 per cent of the total provided for the first three years, 19 per cent for the fourth and 11 per cent for the fifth. This reflected the fact that the projects included were only those for which there was a reasonable degree of assurance regarding the availability of financial, particularly foreign, resources. The intention of the authorities was to revise the Plan on a continuing basis postponing or advancing certain projects in order to allow for changes in resource availabilities.

The revised targets are shown in Table 8 for the first two completed years of the Plan and the third, current, year.<sup>1/</sup> Total expenditures for these three years (YD 108 million) exceed the corresponding initial target for the entire Plan period. Some of the revisions to the targets were made because of cost overruns. Others reflected certain projects, either originally excluded from the Plan or included as reserve projects. In a few instances, projects meant for later years were advanced, but there were also cases of postponements.

---

<sup>1/</sup> Because of the change in the fiscal year from April 1 to January 1, the second "year" covers only the nine months April-December 1975 (see footnote 1 to Table 9).

Table 8. Investment Expenditures Under the Second Plan, by Sector

(In thousands of Yemeni dinars)

Sector	Initial Targets		Revised Targets			Actual 1974/75
	1974/75	Apr.-Dec. 1975	1974/75	Apr.-Dec. 1975	1976	
Industry	4,269.2	2,633.8	6,129.7	7,196.3	5,178.6	4,763.0
Agriculture and fishing	7,724.5	7,063.9	12,262.4	11,174.6	12,883.6	8,009.6
Transport and communications	3,831.0	5,089.8	6,381.9	4,983.0	11,315.7	4,668.3
Geological and mineral survey	287.7	203.0	465.8	560.8	3,353.5	308.7
Education	690.0	1,370.0	1,581.0	4,934.3	5,509.9	634.9
Health	280.0	270.0	731.7	541.9	1,574.0	380.2
Housing and municipalities	708.0	768.5	1,135.3	2,037.0	2,568.8	635.6
Other social services	434.8	566.7	1,070.9	1,786.3	3,125.7	603.8
Total	18,225.2	17,965.7	29,758.7	33,214.3	45,509.8	20,004.1
			(In per cent)			
Industry	23.4	14.7	20.6	21.7	11.4	23.8
Agriculture and fishing	42.4	39.3	41.2	33.6	28.3	40.0
Transport and communications	21.0	28.3	21.4	15.0	24.9	23.3
Geological and mineral survey	1.6	1.1	1.6	1.7	7.4	1.6
Education	3.8	7.6	5.3	14.9	21.1	3.2
Health	1.5	1.5	2.5	1.6	3.4	1.9
Housing and municipalities	3.9	4.3	3.8	6.1	5.6	3.2
Other social services	2.4	3.2	3.6	5.4	6.9	3.0

Source: Ministry of Planning.

c. Sources of finance

In contrast to the pattern assumed in the First Plan, the Second Plan has been designed with greater reliance on foreign sources of finance than on domestic funds (Appendix Table 28). One of the important conclusions from the implementation of the First Plan was that the scope for domestic financing was limited; moreover, it was evident that large imports of equipment, materials and skilled technical personnel from the country's own resources were beyond the capacity of its balance of payments position. Hence, the availability of foreign finance became an important criterion for inclusion of projects, particularly those with a substantial foreign exchange component. However, domestic finance was provided for a considerable portion of most projects and several projects, especially in the field of housing and social services, depend primarily on domestic resources. Specifically, according to the initial targets, YD 40.9 million, or 54 per cent, of total expenditure was to be financed by foreign funds. However, data for actual expenditures show that the role of domestic funds (Table 9 and Appendix Table 29) was of major importance in the first two years. This reflected both the need to advance certain domestically financed projects and the fall in the flow of foreign assistance.<sup>1/</sup> A larger volume of foreign funds is expected in 1976.

Most of the foreign financing for the Plan is in the form of soft-term loans from bilateral sources such as the U.S.S.R., the People's Republic of China, Czechoslovakia, Kuwait and the Libyan Arab Republic. In general, the loans cover the foreign exchange component of projects to be carried out by the donor countries, but there are also cases of financing for projects to be implemented by agencies in other countries on the basis of international tenders. There has recently been an improvement in the climate for foreign assistance, with several substantial commitments of aid being announced during 1975. For example, the Kuwait Fund for Arab Economic Development granted the P.D.R. of Yemen a credit of US\$15 million to finance, jointly with IDA, a number of projects including the construction of 358 kilometers of roads between the Wadi Hadramawt agricultural area and the coast.<sup>2/</sup> The Libyan Government has pledged assistance of about \$75 million including a soft loan of \$21 million for the electrification of Hadramawt and a contribution of \$20 million toward the formation of a joint company with the Government of the P.D.R. of Yemen for the development of fish and marine resources.

---

<sup>1/</sup> It should be noted, however, that some foreign finance in the form of counterpart funds arising from foreign commodity aid and cash grants are transferred to the Development Fund and thus misclassified as domestic finance.

<sup>2/</sup> In earlier years the Kuwait Fund made available to the P.D.R. of Yemen in loans and grants the equivalent of US\$2 million.

Table 9. Financing of Investment Expenditures in the  
First and Second Plans

(In thousands of Yemeni dinars)

	Revised Plan Targets			Actual		
	Local	Foreign	Total	Local	Foreign	Total
<b>Three-Year</b>						
<u>Plan</u>						
1971/72 <sup>1/</sup>	6,144.8	6,957.8	11,102.6	1,757.2	2,290.8	4,048.0
1972/73	6,113.5	5,384.4	11,497.9	2,390.5	6,130.3	9,020.8
1973/74	<u>5,499.9</u>	<u>4,333.5</u>	<u>9,833.4</u>	<u>4,119.5</u>	<u>7,940.5</u>	<u>12,060.0</u>
Total 1971/72- 1973/74	17,758.2	14,675.7	33,438.9	8,767.2	16,361.6	25,128.8
<b>Five-Year</b>						
<u>Plan</u>						
1974/75	21,128.2	8,630.5	29,758.7	13,565.6	6,438.4	20,004.0
1975 (April- Dec.) <sup>1/</sup>	23,701.4	9,512.9	33,214.3	14,258.1 <sup>2/</sup>	4,408.9 <sup>2/</sup>	18,667.0 <sup>2/</sup>
1976	26,821.0	18,688.8	45,509.8	...	...	...

Source: Ministry of Planning.

<sup>1/</sup> Through 1974/75 the fiscal year was from April 1 to March 31 but from 1976 it coincides with the calendar year. An interim budget was implemented during the last three quarters of 1975.

<sup>2/</sup> Preliminary.

Assistance from multilateral sources comes mainly from the World Bank Group, the Arab Fund for Economic and Social Development (AFESD) and United Nations agencies. Seven IDA credits totaling US\$38.4 million have so far been approved for feasibility studies and projects in the areas of education, fisheries, road construction and the rehabilitation of the Port of Aden. The AFESD has made two loans, one of US\$10.8 million for fisheries and a second of US\$13.2 million for the rehabilitation of the Port of Aden (a project financed jointly with IDA). The United Nations Development Program (UNDP) has been engaged in a program of assistance totaling US\$10 million for the five-year period 1972-76. It has focused on the training of domestic personnel in the fields of agricultural research, higher education, health, manpower development and industrial skills. The UNDP program is likely to be expanded for the next five-year period commencing in 1977. Other United Nations agencies such as UNESCO, UNIDO and WHO have also been engaged in providing aid and technical assistance.

Domestic financing of the Plan is partly shown under the heading "Development Fund" in Appendix Table 29. According to a law adopted in 1974, 50 per cent of the after-tax profits of public corporations are transferred to this Fund.<sup>1/</sup> In addition, the Fund is credited with contributions of Yemenis and bank financing which is permitted mainly for quick-yielding projects. Other domestic resources used for the Plan are self-financing by public sector firms and the small investments made by the private sector.

d. Performance in 1974/75 and April-December 1975

In line with the expenditure targets, the level of actual expenditures has continued to increase year by year; compared to YD 12.0 million in the last year of the First Plan, they amounted to YD 20.0 million in 1974/75 and YD 18.7 million in the nine months April-December 1975. Therefore, investment expenditures must now represent an appreciable proportion of GNP. However, the rate of implementation has not improved: the ratio of actual to planned expenditures was 67.2 per cent in 1974/75 and 56.2 per cent in April-December 1975, compared to 75.1 per cent in the entire First Plan period. Thus, although the development effort has been accelerated impressively, certain factors continue to impede the achievement of desired goals; these include administrative bottlenecks and shortages of skilled manpower as well as delays in obtaining foreign finance and supplies.

---

<sup>1/</sup> The fund may also be credited with some foreign financial resources (see footnote 1, p. 23).

#### IV. Government Finance

##### 1. Structure of the public sector

The public sector consists of the Central Government, municipalities and a number of public enterprises and nationalized companies engaged in trade, banking, insurance, manufacturing, agriculture and transportation. All these entities keep separate budgetary accounts. The budget of the Central Government includes current domestic revenues, current expenditures and some capital expenditures (mainly for maintenance and repairs). Development expenditures and their financing are not included, but are incorporated in the development plans. In the past, the Fifth Governorate maintained its own budgetary accounts and customs system. Customs duties were levied on all imports from the rest of the country, with the exception of foodstuffs. Following the introduction of the general import tariff in 1970, all customs barriers between the Fifth Governorate and the rest of the country were removed and the revenues thus lost by the Governorate were replaced by a Central Government subsidy. As of April 1973, the budgetary accounts of the Governorate were consolidated in the budget of the Central Government.

The budget of the Central Government is on a cash basis. In addition to ordinary receipts, the Treasury may use its holdings on account of the Post Office Savings Fund, the Pension Fund and certain other funds. It can also rely on temporary advances from the Bank of Yemen (the central bank) and may issue bills and securities which the Bank may purchase without limitation. The control of expenditures is the responsibility of the Treasury and the Accountant General and is effected through a preaudit system carried out by an official of the Treasury and a postaudit system by the Audit Department.

##### 2. Budget preparation and execution

As indicated earlier, in the period following independence in 1967, the fiscal position of the Government deteriorated due to the loss of U.K. budgetary support. This prompted the Government to draw up the budget in two stages, i.e., monthly and yearly. Monthly allocations were based on anticipated revenue collections for the current fiscal year and actual expenditures in prior years. The annual budget was based on actual results for the first nine months and was not finalized until after that period. While this procedure proved useful in curbing public expenditures, it hampered meaningful financial and fiscal planning; it was therefore abandoned beginning in 1973/74. Under present procedures, the preparation of the budget starts several months before each fiscal year when the Ministry of Finance issues a circular to all government departments defining the basic guidelines for the estimates. The Ministry reviews the requests received from the departments in light of its own forecasts of overall prospects for the year and then prepares the budgetary estimates for consideration and debate by the Cabinet. In the last phase, the budget proposals are submitted to the Presidential Council for discussion and final approval. In order to keep outlays within the limits prescribed in the budget, the Ministry of Finance exercises control over the expenditures of the government agencies by authorizing them to spend only on a month-by-month basis.

Table 10. Central Government Budgetary Operations

(In millions of Yemeni dinars)

	Actuals					Budget Estimates		
						Apr.-Dec.		
	1970/71	1971/72	1972/73	1973/74	1974/75	1974/75	1975	1976
1. <u>Domestic revenue</u>	13.22	15.99	12.05	15.34	18.13	13.81	10.35	17.80
Direct taxes	2.60	3.96	2.60	3.31	4.90	3.08	2.31	4.84
Indirect taxes	5.19	7.57	6.44	8.27	9.81	6.83	5.12	8.22
Others	4.71	3.55	2.10	3.76	3.42	3.90	2.92	4.74
Fifth Governorate	0.72	0.91	0.91	--	--	--	--	--
2. <u>Expenditures</u>	17.56	20.73	21.68	22.73	27.45	29.35	22.01	35.60
Current	16.32	18.30	19.30	21.84	26.87	28.47	21.35	34.30
Capital <sup>1/</sup>	0.30	0.52	0.47	0.89	0.58	0.88	0.66	1.30
Fifth Governorate	0.94	1.91	1.91	--	--	--	--	--
3. <u>Surplus or deficit (-)</u>	-4.34	-4.74	-9.63	-7.39	-9.32	-15.54	-11.65	-17.80
4. <u>Financing of government deficit</u>	4.98	4.85	9.94	7.52	9.41			
Foreign grants	1.85	0.44	0.30	--	--			
Domestic	3.13	4.41	9.64	7.52	9.41			
Net borrowing from the banking system	(3.07)	(4.31)	(9.64)	(7.52)	(9.41)			
Changes in government foreign assets (increase -)	(0.06)	(0.10)	(--)	(--)	(--)			
5. <u>Discrepancy (5 = 3+4)</u>	0.64	0.11	0.31	0.13	0.09			

Source: Ministry of Finance.

1/ Excludes development expenditures under the development plan. Due to statistical difficulties it was not possible to consolidate the investment and current budgets.

Table 11. Central Government Ordinary Revenues

(In thousands of Yemeni dinars)

	Actuals					Budget Estimates		
	1970/71	1971/72	1972/73	1973/74	1974/75	1974/75	Apr.-Dec. 1975	1976
<u>Direct taxes</u>	<u>2,532</u>	<u>3,762</u>	<u>2,466</u>	<u>3,173</u>	<u>4,874</u>	<u>2,947</u>	<u>2,210</u>	<u>4,657</u>
Taxes on income and profits	2,532	3,762	2,466	3,173	4,874	2,947	2,210	4,657
Corporation	(1,395)	(2,712)	(1,388)	(1,952)	(3,787)	(2,008)	(1,506)	(3,690)
Individual	(192)	(203)	(191)	(279)	(253)	(137)	(103)	(136)
Wages and salaries	(935)	(847)	(887)	(942)	(834)	(802)	(602)	(831)
<u>Indirect taxes</u>	<u>5,171</u>	<u>7,764</u>	<u>6,572</u>	<u>8,405</u>	<u>9,859</u>	<u>6,965</u>	<u>5,223</u>	<u>8,398</u>
Import duties	3,637	5,869	4,406	5,143	5,690	3,632	2,724	4,332
Excise taxes	949	1,067	1,401	2,304	3,072	2,540	1,905	3,070
Stamp duties	249	405	378	432	532	370	277	500
Other	436	427	387	526	545	423	317	496
<u>Nontax revenue</u>	<u>4,708</u>	<u>4,550</u>	<u>2,100</u>	<u>2,763</u>	<u>3,433</u>	<u>3,899</u>	<u>2,924</u>	<u>4,745</u>
Sale of, and other revenue from, government property	227	288	156	565	279	702	526	190
Departmental revenues and miscellaneous <sup>1/</sup>	4,481	3,262	1,944	3,198	3,144	3,197	2,398	4,555
<u>Fifth Governorate revenues<sup>2/</sup></u>	<u>723</u>	<u>210</u>	<u>908</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>Total revenues</u>	<u>13,225</u>	<u>15,986</u>	<u>12,046</u>	<u>15,341</u>	<u>18,136</u>	<u>13,811</u>	<u>10,558</u>	<u>17,800</u>

Source: Ministry of Finance.

1/ Includes transfers of profits by Bank of Yemen. Since 1973/74, this item also includes transfers of 25 per cent of after-tax profits of public enterprises and nationalized companies.

2/ Revenues of the Fifth Governorate have been incorporated in ordinary revenues since April 1973.

### 3. Budgetary developments until 1974/75

The principal characteristic of the Central Government's operations in recent years was a persistent deficit in the current account, despite continuous efforts to increase domestic revenues and curb the rise in ordinary expenditures (Table 10). The current budget deficits in the five years ended in 1974/75 averaged about YD 7 million per year, or about one third of average current expenditures over the same period. These deficits have been financed almost completely through borrowing from the banking system.<sup>1/</sup>

#### a. Structure and trends in revenues

The structure of budget revenues is dominated by receipts from taxes which, in 1970/71-1974/75 averaged about three fourths of total revenues. Indirect taxes accounted for about 70 per cent of all tax receipts over the same period (Table 11).

Direct taxes consist of a corporate income tax, an individual income tax, and a tax on wages and salaries.<sup>2/</sup> The corporate income tax is levied at a rate of 37.5 per cent on the net profits of companies in both the private and public sectors. Receipts from the tax averaged about 67 per cent of direct tax receipts over the five-year period ended 1974/75. The individual income tax is progressive and is levied on the net income of individuals who conduct their own businesses. The tax on wages and salaries is applied in two stages. First, a progressive special tax is withheld from the salaries of all employees except those of the Central Government. Second, any balance remaining after subtracting the amount of special tax paid and other deductions is subject to the individual income tax.

Indirect taxes comprise mainly excise taxes and import duties. The former are both ad valorem and specific and are levied on agricultural products, petroleum products, fisheries, soft drinks and cigarettes. Import duties constitute the biggest single item of government revenues averaging about 65 per cent of indirect tax receipts and 33 per cent of all revenues over the five-year period ended in 1974/75. Initially, such duties were levied at different rates on five categories of imports: alcoholic beverages, cigarettes and tobacco, qat, eggs and nonpotable

---

<sup>1/</sup> There are discrepancies between the data on the budget deficit financed by the banking system shown in Table 10 and the data in the monetary tables. The discrepancy for fiscal year 1974/75 is small. However, relatively large discrepancies have been found for fiscal years 1972/73 and 1973/74. Possibly these discrepancies arise because some of the items in the budget (not disclosed to Fund mission) are classified as "below the line."

<sup>2/</sup> For a detailed description of the tax system, see Appendix Table 30.

alcohol; furthermore, the Fifth Governorate maintained its own customs system. A general tariff was introduced on December 8, 1970 by Law No. 28 in order to: unify tariff rates for the whole country; alleviate the burden on basic goods consumed by low-income groups; extend protection to local industry; and discourage the importation of luxury goods. The tariff schedule was last revised in 1974 and it now contains 15 different ad valorem rates and a number of specific rates.<sup>1/</sup> Basic foodstuffs, raw materials, and capital goods are subject to low duties while luxury items are subject to higher ones (Table 12).

Nontax revenues include receipts from the sale of government properties mostly sales of obsolete equipment, transfers of 25 per cent of after-tax profits of public enterprises and nationalized companies, departmental revenues and other miscellaneous receipts. The relative share of nontax revenues in total revenues have shown no discernible trend in recent years.

Government revenues have increased by about 8.2 per cent per annum in 1970/71-1974/75 due to some expansion in the level of economic activity, the introduction of new tax measures and improvements in tax collection procedures.<sup>2/</sup> In 1970/71 and 1971/72 revenues increased by 27 per cent and 21 per cent, respectively, following the adoption of the general import tariff and its retroactive application to stocks at the wholesale trade level, as well as the conclusion of a new agreement with the refinery increasing the refining fee used for the assessment of the tax liability. However, in 1972/73 there was a decline of 25 per cent, inter alia because accounting difficulties associated with the termination of the Currency Authority in August 1972 and its replacement by the Bank of Yemen prevented the usual transfer of profits from the central monetary institution to the government budget. The upward movement resumed in 1973/74 with an increase of 27 per cent over the level of 1972/73, reflecting primarily a better financial performance of public enterprises and nationalized companies; higher import prices; and new tax measures taken in August 1972, which raised existing excise tax rates on the production of cotton, fruits and vegetables and imposed new excise taxes on the manufacturing of cigarettes and the sale of fish. In 1974/75 revenues rose once again by 18 per cent due to larger receipts from corporate taxes, excise taxes, import duties and departmental revenues.<sup>3/</sup> These increases are attributed to a further improvement in the economic performance of public sector enterprises and nationalized companies, better tax collection methods and the continuing increase in import prices.

---

<sup>1/</sup> For a detailed summary of the tariff schedule, see Appendix Tables 31 and 32.

<sup>2/</sup> Part of the ordinary revenues of the Central Government are assigned to the Price Stabilization Fund whose main function is to subsidize prices of basic commodities (see section 1). These revenues are not included in the ordinary budget. There may also have been transfers to other funds.

<sup>3/</sup> Which include 25 per cent of the after-tax profits of public enterprises and nationalized companies.

Table 12. Summary of Tariff Schedule<sup>1/</sup>

(In per cent)

Item	Rate
Basic foodstuffs (rice, corn and wheat)	5
Other foodstuffs	5-30
Textiles and clothing (except silk)	10-30
Silk and other luxury textiles	40-50
Capital goods	2-20
Industrial raw materials	1-10
Luxury goods and goods produced locally	50 and over

Source: Ministry of Finance.

<sup>1/</sup> The schedule was first introduced in December 1970 and later amended in 1974.

b. Structure and trends in expenditures

When British budgetary support was discontinued in May 1968, stringent efforts were made to reduce the overall level of government expenditures. Wage rates were reduced sharply and a system of monthly allotments was introduced; for existing services these allotments were not to exceed one sixteenth of actual expenditures for the previous fiscal year, except for certain items for which the amount allowed was one twelfth. The policy of containment continued until 1969/70. Subsequently, however, outlays on defense were stepped up; the government administration was expanded, particularly in the interior; and the authorities substantially increased expenditures for education and health (Table 13). As a result, over the period 1970/71-1974/75 current expenditures rose at an average rate of 11.8 per cent per annum, i.e., much faster than revenues.

A classification of expenditures by administrative category reveals that their major component, defense and security, averaged about 46 per cent of total expenditures over the period 1970/71-1974/75, followed by education and national guidance (14 per cent), general administration (9 per cent), finance and economy (6 per cent), public works and communications (5 per cent), and health (5 per cent). There have been no substantial changes in the relative shares of these expenditures during this period (Table 13).

Table 13. Central Government Ordinary Expenditures

(In thousands of Yemeni dinars)

	Actuals					Budget Estimates		
						Apr. - Dec.		
	1970/71	1971/72	1972/73	1973/74	1974/75	1974/75	1975	1976
<u>Administrative category</u>	<u>17,551</u>	<u>20,735</u>	<u>21,681</u>	<u>22,732</u>	<u>27,452</u>	<u>29,354</u>	<u>22,015</u>	<u>35,599</u>
General administration	790	1,152	1,886	2,693	3,518	3,664	2,748	3,849
Defense and security <sup>1/</sup>	8,059	9,184	9,798	10,444	13,185	13,000	9,750	15,336
Assistance to local townships	383	389	365	458	547	614	460	635
Public works and communications	1,239	1,146	1,041	1,076	1,167	1,304	978	1,505
Finance and economy	821	1,886	1,154	1,550	1,257	1,553	1,164	2,414
Health	928	1,013	996	1,152	1,498	1,671	1,253	2,262
Education and national guidance	2,234	2,615	2,711	3,836	4,459	4,735	3,551	6,706
Agriculture	365	417	417	491	531	758	568	836
Pensions	255	287	376	276	343	606	454	499
Others	1,534	736	1,027	756	947	1,449	1,087	1,577
Fifth Governorate	943	1,910	1,910	--	--	--	--	--
<u>Economic classification</u>	<u>17,241</u>	<u>20,215</u>	<u>21,206</u>	<u>21,840</u>	<u>26,868</u>	<u>28,471</u>	<u>21,353</u>	<u>34,295</u>
Wages and salaries	9,739	10,700	11,194	12,713	15,565	15,673	11,754	20,567
Materials, supplies, and miscellaneous	5,829	6,985	7,785	8,994	11,120	12,300	9,225	13,375
Debt service	730	620	317	133	183	498	373	353
Fifth Governorate <sup>2/</sup>	943	1,910	1,910	--	--	--	--	--
<u>Capital</u>	<u>310</u>	<u>520</u>	<u>475</u>	<u>892</u>	<u>584</u>	<u>883</u>	<u>662</u>	<u>1,304</u>
Total expenditures	<u>17,551</u>	<u>20,735</u>	<u>21,681</u>	<u>22,732</u>	<u>27,452</u>	<u>29,354</u>	<u>22,015</u>	<u>35,599</u>

Source: Ministry of Finance.

<sup>1/</sup> Includes the Ministry of the Interior.<sup>2/</sup> After 1972/73 expenditures of the Fifth Governorate are no longer shown separately, but included in the various categories of expenditures of the Central Government.

A different classification by economic function indicates that payments of wages and salaries averaged about 54 per cent of total expenditures over the same five years. Purchases of materials and supplies accounted for about 37 per cent, while the remainder was accounted for by capital outlays, such as maintenance and repairs, and by debt service payments.<sup>1/</sup>

Expenditures on wages and salaries have been increasing steadily. Since the Government has been following an austere policy of wage restraint, their upward trend should be attributed mainly to an increase in the number of employees. Following the reduction in 1968, salary rates were again reduced in 1972; as indicated in section II, p.16 above, there were no general raises for the civil service until March 1975, when the authorities decreed a 5 per cent increase.<sup>2/</sup>

4. The interim budget: April-December 1975

Beginning in 1976, the fiscal year, previously ending March 31, was changed to coincide with the calendar year. This change was prompted by the need to coordinate budgetary and other financial data such as national accounts and the balance of payments; furthermore, it was designed to facilitate comparisons with other Arab countries which are said to be following or switching to a calendar year basis in their statistics. In order to bridge the gap between the 1974/75 and 1976 budgets, an interim budget was drawn up for the period April-December 1975 based on three fourths of the revenue and expenditure estimates for 1974/75 (Table 10). There are no data on the outcome of this budget except that revenues were provisionally given at YD 13.2 million.

5. The 1976 budget estimates

The budget estimates for 1976 show total revenues of YD 17.8 million, total expenditures of YD 35.6 million and a budget deficit of YD 17.8 million (Table 10). As in previous years, there may have been a tendency to underestimate revenues; almost all revenue items are estimated to be lower in 1976 than they were in 1974/75 even though prices and the level of real output have risen between these years. The expenditure forecast represents an increase of 30 per cent over the actuals in 1974/75. Wages and salaries are placed at YD 20.6 million, 32 per cent above the 1974/75 level. It was noted above that a 5 per cent wage increase was granted to employees of the public sector in March 1975. No raises have been planned for fiscal year 1976. There will, however, be a substantial increase in the number of government employees; it is expected that civilians employed by the Central Government will be 25,200 at the end of 1976, 18 per cent more than in 1974/75.

---

<sup>1/</sup> These are payments for debts incurred before independence.

<sup>2/</sup> This 5 per cent increase relates to the take-home pay of employees of the Central Government. Another part of the increase, also equal to 5 per cent, will be credited to the pension fund.

## V. Monetary and Banking Developments

### 1. Institutional background

The banking system in the P.D.R. of Yemen has undergone substantial changes since independence in 1967, when it comprised the South Yemen Currency Authority and eight commercial banks, of which seven were foreign owned.<sup>1/</sup> Commercial banks were nationalized in 1969; their activities were consolidated and entrusted to the National Bank of Yemen, established in April 1970 as a government-owned enterprise. The Bank of Yemen was founded in 1972 to assume the functions of the country's central bank.

Until 1965 the East African shilling was widely used in the area which is now the P.D.R. of Yemen. The South Arabian Currency Authority, instituted by Law No. 10 of 1964, was vested with the right of issuing and managing a Yemeni currency, designated as the South Arabian dinar. The dinar was given a parity equal to one pound sterling or twenty East African shillings and, by the end of 1965, it had replaced the shilling as the main currency in the area. After independence, the Authority was renamed the South Yemen Currency Authority and the South Arabian dinar was replaced by the South Yemen dinar (YD). The Authority's powers were broadened with legislation passed in 1968 and it was given the responsibilities of maintaining external reserves in order to safeguard the value of the South Yemen dinar and of promoting monetary stability and a sound financial structure. Inter alia the Authority was: assigned supervisory power over the banks; permitted to deal in bills of exchange, promissory notes and Treasury bills of short-term maturity; and empowered to hold securities issued or guaranteed by the Government up to a limit of YD 2.5 million. In addition, it was required to maintain reserves in gold, foreign bonds and foreign currencies amounting to at least 50 per cent of currency in circulation and other demand liabilities. In August 1972, under the terms of Law No. 36 of 1972<sup>2/</sup>, the Bank of Yemen started operations replacing the Authority.

### 2. Structure of the banking system

Presently, the structure of the banking system consists of three organizational units: (i) The Board of Directors of the Banking System, (ii) the central bank of Yemen, and (iii) The National Bank of Yemen. The powers, duties and responsibilities of these three organizational units are defined by Law No. 36 of 1972.

---

<sup>1/</sup> The Post Office Savings Bank was the only other financial institution at that time.

<sup>2/</sup> This law was prepared with the assistance of the Fund's Central Banking Service and Legal Department.

a. The Board of Directors

The Board of Directors is the highest monetary authority in the P.D.R. of Yemen. It is responsible for formulating, supervising and implementing banking and monetary policies. Both the Bank of Yemen and the National Bank of Yemen derive their power from, and are responsible to, the Board of Directors. The Board is composed of at least nine directors including the Governor and Deputy Governor of the Bank of Yemen; the General Manager of the National Bank of Yemen; the Permanent Secretaries of the Ministries of Finance, Economy and Industry, and Agriculture and Agrarian Reform; the Technical Director General of the Central Planning Commission; an expert in economics and banking, who is appointed by the Prime Minister, and a representative of the South Yemen General Confederation of Workers. Under the law, the general manager of any other bank that is established in the P.D.R. of Yemen shall be included as a director.

b. The central bank and monetary policy

The Bank of Yemen is entrusted with the usual functions of a central bank, such as: issuing the currency; regulating banking operations; promoting monetary stability; holding gold and foreign exchange reserves; controlling foreign exchange; and implementing credit policy. In addition, the Bank provides the Government with advice on economic, financial and banking matters.

The central bank is required to maintain reserves equal to at least 50 per cent of the sum of currency in circulation and its other sight liabilities.<sup>1/</sup> The reserves can include gold; foreign exchange in the form of currency or bank balances held abroad; bills of exchange, government promissory notes, Treasury bills and securities issued by foreign governments or international financial institutions; and any other internationally recognizable reserve assets, such as the gold tranche with the IMF and holdings of special drawing rights. As of the end of September 1975, the foreign assets of the Bank of Yemen amounted to YD 24.08 million, while currency in circulation and the Bank's sight liabilities taken together amounted to YD 43.53 million. The actual ratio was, therefore, 55 per cent--5 per cent above the required minimum (see Appendix Table 34).

The Bank of Yemen is empowered to license commercial banks with the approval of the Minister of Finance and is authorized to deal with the banks in Treasury bills as well as bills of exchange and promissory notes made for commercial, industrial or agricultural purposes. In addition, it may grant commercial banks loans and overdrafts, establish minimum legal

---

<sup>1/</sup> I.e., balances due to banks.

reserve requirements, determine bank deposits and lending rates and set ceilings on bank credit. The 1972 law required the Bank not to hold government securities and Treasury bills in excess of 35 per cent of ordinary revenues, but Law No. 8 of 1974 removed this limitation.

With the approval of the Minister of Finance, the Bank of Yemen may extend loans to public boards and corporations and to local governments for a period not exceeding seven years, provided that such credit shall contribute to the development of productive activities in the country. However, outstanding credit in this category is limited to a maximum of four times the Bank's paid-up capital. The Bank is also authorized to hold and sell shares of enterprises established with the approval of the Government for the purpose of (i) insuring bank deposits and (ii) facilitating the financing of economic development. The total value of such shares is not to exceed the value of the Bank's paid-up capital and the balance of its General Reserve Fund. Moreover, the central bank may guarantee, in accordance with conditions and means agreed upon with the Minister, the loans and investments made by the Government, public boards and corporations.

The Bank of Yemen has not yet used all these powers, but it has determined the interest rates charged and paid by the commercial banking sector. The lending rates range from 5 per cent to 8 per cent per year, depending on the purpose of the loan (Table 14). The highest rate, 8 per cent, is paid on loans for commercial and personal purposes. Credit for financing imports of essential foodstuffs is available at 6 per cent, while credit for industrial purposes at 5.5 per cent. The most favorable rate of 5 per cent is reserved for credit for seasonal agricultural purposes and for cooperative societies. A penalty of 2 per cent is applicable if loans are not repaid on time. No interest can be paid on sight deposits. Savings deposits, which are not subject to time limitations, earn 3.5 per cent per year. In order to encourage fixed term deposits, the central bank has set rates on time deposits payable in three months, six months and one year at 4.5 per cent, 5.0 per cent and 6.0 per cent; moreover, the maximum amount of an individual savings deposit has been limited to YD 5,000. In an effort to attract foreign exchange from Yemenis residing abroad, higher interest rates have been established on time deposits by nonresidents. Specifically, the rates on nonresident accounts for periods of three, six and twelve months were raised in 1974 to 5 per cent, 7 per cent, and 9 per cent, respectively. Nonresident deposits increased significantly in 1975, from YD 0.82 million to YD 2.14 million<sup>1/</sup> (see Appendix Table 34).

---

<sup>1/</sup> A breakdown of deposits in foreign currency is not available. It is, therefore, not possible to determine whether this increase was due to remittances from Yemenis residing abroad or from increases in the deposits of foreigners residing in Yemen.

Table 14. Interest Rates as of December 31, 1975

(In per cent per annum)

<u>Lending rates</u> <sup>1/</sup>	
Commercial and personal credit	8
Credit for financing imports of essential foodstuffs	6
Credit for industrial purposes	5.5
Credit for seasonal agricultural purposes	5
Credit to cooperative societies	5
<u>Rates on deposits of residents</u>	
Current deposits	Nil
Savings deposits <sup>2/</sup>	3.5
Time deposits, three months	4.5
Time deposits, six months	5
Time deposits, one year	6
<u>Rates on deposits of nonresidents</u>	
Time deposits, three months	5
Time deposits, six months	7
Time deposits, one year	9

Source: Bank of Yemen.

<sup>1/</sup> In excess of the rate applied there is a penalty rate of 2 per cent if loans are not repaid on time.

<sup>2/</sup> A maximum of YD 5,000 has been established for savings deposits.

c. Commercial banking

As noted earlier, the National Bank of Yemen is the only commercial bank currently operating in Yemen. Under the terms of Law No. 36 of 1972, the National Bank is authorized to exercise all commercial and specialized banking activities. It is also empowered to transact the business of development banks and provide loans and facilities to the various sectors in the economy. Furthermore, it is permitted to undertake entrepreneurial activities: According to the banking law, the National Bank can participate as a founder and/or shareholder in industrial and agricultural projects; and it can act as an intermediary in the importation of capital equipment and raw materials and in the exportation of domestically produced goods.

The nominal capital of the National Bank is set at YD 5.0 million, and the paid-up capital at YD 1.5 million. As specified by the banking law, 50 per cent of net annual profits shall be allocated to finance the economic development plan, 25 per cent used to finance compensation bonds issued in connection with the nationalization measures, and the remaining 25 per cent transferred for use in the general budget after the paid-up capital has reached YD 1.5 million.

The activities of the National Bank have been expanding. By 1975 it had 17 branches operating in all six governorates. In the year ended September 1975 the total assets and liabilities of the Bank increased by 19 per cent and deposits by 25 per cent; the corresponding increases in the previous year were 22 per cent and 21 per cent, respectively (see Appendix Table 33). Loans and advances reached YD 18.46 million by September 1975, almost 12 per cent above the end-September 1974 level; nevertheless, over the same period the ratio of the Bank's loans and advances to its deposits decreased from 65 per cent to 59 per cent. Most of the National Bank's credit, over 85 per cent, has been granted to the commercial and service sectors; the shares of industry and agriculture were 6.4 per cent and 6.6 per cent. The allocation of credit has been shifting away from private enterprises to the public entities. In 1973 almost 50 per cent of outstanding loans and advances were to the private enterprises while the public entities' share was 37 per cent; by September 1975 the share of the former had fallen to 22 per cent while that of the public sector had risen to 71 per cent (Table 15).

Table 15. Distribution of Loans and Advances  
of National Bank of Yemen

(In millions of Yemeni dinars)

	December				September	
	1971	1972	1973	1974	1974	1975
<u>By entities</u>						
Public entities	3.96	2.40	3.04	10.12	10.87	13.02
Cooperatives	0.17	0.59	0.92	1.27	1.19	1.18
Mixed sector <sup>1/</sup>	0.01	0.17	0.23	0.39	0.35	0.18
Private entities	5.41	4.70	4.14	4.32	4.11	4.08
Total	<u>9.55</u>	<u>7.86</u>	<u>8.33</u>	<u>16.10</u>	<u>16.52</u>	<u>18.46</u>
<u>By economic activity</u>						
Agriculture and fisheries	0.20	0.57	0.86	1.22	1.08	1.21
Industry	0.20	0.07	0.37	0.97	0.89	1.18
Commerce and services	7.90	6.95	6.37	13.56	14.14	15.75
Other	1.25	0.27	0.37	0.35	0.41	0.32

Source: Bank of Yemen.

<sup>1/</sup> Includes enterprises owned jointly by the Government and the private sector.

### 3. Monetary developments, 1970-74

Monetary developments during the five-year period ended December 1974 were characterized by a relatively fast expansion in domestic liquidity (money and quasi-money) attributable mainly to the financing of the government budget deficit by recourse to the banking system. The rate of growth of domestic liquidity, which was 2.2 per cent in 1969, rose to 14.6 per cent in 1970 and then declined to 4.7 per cent in 1971. Subsequently, however, it accelerated from year to year rising to 9.5 per cent, 12.1 per cent and 12.5 per cent, respectively, in 1972, 1973 and 1974 (Table 16 and Appendix Table 35).

Table 16 and Graph 1 confirm that credit to the government sector was the major expansionary factor during this period. Net claims on the Government rose from minus YD 0.8 million in 1969 to YD 5.6 million in 1971. In the past three years the increases were much larger and by the end of 1974 net claims on the Government reached YD 24.0 million. Credit to the nongovernment sector (including public entities) remained relatively stable until 1974. In that year it increased by 83.6 per cent due to two major developments, a substantial 44 per cent rise in the cost of imported goods and an expansion in the activities of the public entities, which the Government was encouraging; loans and advances to such entities, which had increased by 26.7 per cent in 1973, rose by 232.9 per cent in 1974. The net foreign assets of the banking system were by and large a contractionary factor during this period. In the first five years they declined only slightly, and at the end of 1973 they were 6.6 per cent below the 1969 level (see Table 16 and Graph 1). However, in 1974 the balance of payments deficit reached record proportions, rising to SDR 25 million. As a result, net foreign assets fell by 40.0 per cent.

Whereas domestic liquidity increased at a fast pace in nominal terms, a different picture emerges if its real value is examined. The two available indicators of the price level, the consumer price index (CPI) and the wholesale price index (WPI) have been used in Table 17 to deflate domestic liquidity during the years 1969-74.<sup>1/</sup> The general movement of the deflated magnitudes appears to be the same, regardless of which of the two indices is applied. Real money and quasi-money manifested initially an upward trend peaking in 1972, but it declined in both 1973 and 1974. Deflated by the CPI, domestic liquidity was about the same at the end of 1974 as at the end of 1969; however, using the WPI, it was 28 per cent lower in the latter year. The appropriate deflator, the implicit GDP deflator, would probably lie between the CPI and the WPI, indicating that the real value of domestic liquidity has declined considerably in the five-year period discussed here.

---

<sup>1/</sup> Domestic liquidity at the end of December was deflated by the average price index of the corresponding year, since the December index was not available for all the years considered.

Table 16. Factors Affecting Changes in Domestic Liquidity<sup>1/</sup>

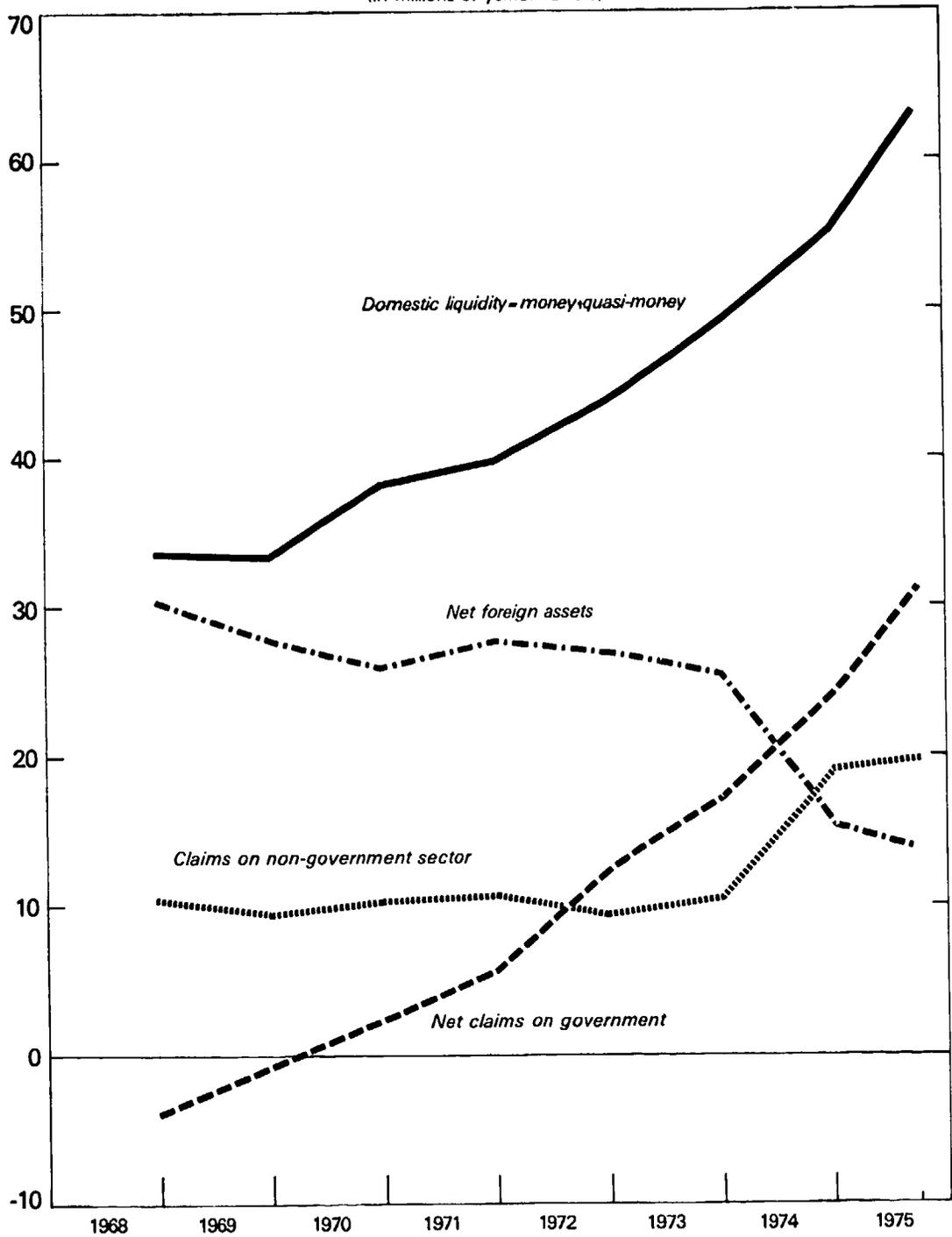
(In millions of Yemeni dinars)

Years Ended	December						September	
	1969	1970	1971	1972	1973	1974	1974	1975
Domestic liquidity <sup>1/</sup>	<u>33.29</u>	<u>38.14</u>	<u>39.93</u>	<u>43.74</u>	<u>49.01</u>	<u>55.15</u>	<u>55.54</u>	<u>63.02</u>
Money supply	<u>26.84</u>	<u>29.02</u>	<u>31.75</u>	<u>34.87</u>	<u>40.10</u>	<u>46.09</u>	<u>46.69</u>	<u>52.27</u>
Currency outside banks	<u>21.25</u>	<u>24.45</u>	<u>25.90</u>	<u>28.84</u>	<u>32.37</u>	<u>35.80</u>	<u>35.15</u>	<u>38.66</u>
Private demand deposits	<u>5.59</u>	<u>4.57</u>	<u>5.85</u>	<u>6.03</u>	<u>7.73</u>	<u>10.29</u>	<u>11.54</u>	<u>13.61</u>
Quasi-money	<u>6.45</u>	<u>9.12</u>	<u>8.18</u>	<u>8.87</u>	<u>8.91</u>	<u>9.04</u>	<u>8.85</u>	<u>10.75</u>
Total change in domestic liquidity	<u>-0.41</u>	<u>4.85</u>	<u>1.79</u>	<u>3.81</u>	<u>5.27</u>	<u>6.12</u>	<u>7.59</u>	<u>7.48</u>
<u>Factors affecting changes</u>								
Net foreign assets	<u>-2.37</u>	<u>-1.75</u>	<u>1.56</u>	<u>-0.74</u>	<u>-1.37</u>	<u>-10.13</u>	<u>-4.53</u>	<u>-9.13</u>
Net domestic assets	<u>1.96</u>	<u>6.60</u>	<u>0.23</u>	<u>4.55</u>	<u>6.64</u>	<u>17.83</u>	<u>12.12</u>	<u>16.61</u>
Net claims on Government	<u>3.18</u>	<u>3.15</u>	<u>3.26</u>	<u>6.81</u>	<u>4.72</u>	<u>6.87</u>	<u>2.31</u>	<u>11.42</u>
Claims on nongovernment sector	<u>-0.79</u>	<u>0.69</u>	<u>0.50</u>	<u>-1.40</u>	<u>1.04</u>	<u>8.62</u>	<u>8.76</u>	<u>0.81</u>
Allocation of SDRs	<u>--</u>	<u>1.54</u>	<u>-1.29</u>	<u>-1.28</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Other items (net)	<u>-0.43</u>	<u>4.30</u>	<u>-2.24</u>	<u>0.42</u>	<u>0.88</u>	<u>2.34</u>	<u>1.05</u>	<u>4.38</u>
(In per cent)								
Money supply <sup>1/</sup>	<u>-5.0</u>	<u>8.1</u>	<u>9.4</u>	<u>9.8</u>	<u>15.0</u>	<u>14.9</u>	<u>19.3</u>	<u>12.0</u>
Domestic liquidity	<u>-1.2</u>	<u>14.6</u>	<u>4.7</u>	<u>9.5</u>	<u>12.0</u>	<u>12.5</u>	<u>15.8</u>	<u>13.5</u>
Claims on nongovernment sector	<u>-7.7</u>	<u>7.3</u>	<u>4.9</u>	<u>-13.1</u>	<u>11.2</u>	<u>83.6</u>	<u>89.3</u>	<u>4.3</u>

Source: Bank of Yemen.

<sup>1/</sup> Money plus quasi-money.

CHART 1  
 P. D. R. OF YEMEN  
 FACTORS AFFECTING DOMESTIC LIQUIDITY 1968-75  
 (In millions of yemeni dinars)



Source: Appendix Table 35.

Table 17. Real Value of Domestic Liquidity<sup>1/</sup> at 1970 Prices

(In millions of Yemeni dinars)

Year ended December	Domestic Liquidity Deflated by the Consumer Price Index	Domestic Liquidity Deflated by the Wholesale Price Index
1969	34.97	35.30
1970	38.14	38.14
1971	37.92	36.17
1972	39.44	38.64
1973	36.91	32.05
1974	34.52	25.36

Sources: Tables 6 and 16.

<sup>1/</sup> The sum of money and quasi-money.

In one sense, the composition of money and quasi-money does not appear to have changed significantly during 1969-74. Total (demand, time and savings) deposits were equal to 36.2 per cent of domestic liquidity at the end of 1969 and 35.0 per cent at the end of 1974 (Table 18); thus the ratio of currency in circulation to domestic liquidity remained rather high and close to 65.0 per cent throughout this period. However, the ratio of time and savings deposits (quasi-money) to domestic liquidity has fallen steadily since 1970, from 23.9 per cent to 16.4 per cent at the end of 1974, indicating a declining interest in such deposits over time.

#### 4. Monetary developments during 1975

During the first three quarters of 1975 money and quasi-money increased by 14.3 per cent as compared with 13.3 per cent in the same period of 1974. The rate of inflation,<sup>1/</sup> however, declined sharply to 5.1 per cent from 21.4 per cent. As in the past, financing of the government budget deficit from the banking system was the principal expansionary factor; net claims

<sup>1/</sup> Measured by the consumer price index.

on the government sector rose by 28.4 per cent. Credit to the private sector went up at a considerably lower rate, i.e., at 4.2 per cent (while it had grown by 83.4 per cent in the comparable period of 1974). The net foreign assets of the banking system continued to decline in January-September 1975.

Table 18. Ratio of Deposits and Quasi-Money  
to Total Domestic Liquidity, 1969-75

(In per cent)

Year Ended	Total Deposits	Quasi- Money
<u>December</u>		
1969	36.2	19.4
1970	35.9	23.9
1971	35.1	20.5
1972	34.1	20.3
1973	34.0	18.2
1974	35.0	16.4
<u>September</u>		
1974	36.7	15.9
1975	38.7	17.1

Source: Table 16.

## VI. External Sector

### 1. Balance of payments

Since 1967 the P.D.R. of Yemen has been beset by serious balance of payments difficulties and, except for a small overall surplus in 1971, it has experienced continuous deficits which have increased sharply over the last two years. These developments have been caused by a combination of factors such as: the loss of foreign exchange earnings following the departure of U.K. troops; the closure of the Suez Canal which sharply reduced the importance of the port of Aden as an entrepot trade and ship-servicing center; a small and stagnant export sector; and substantial increases in import prices due to inflationary pressures abroad. Government nationalization policies have also led to a significant fall in remittances from Yemenis abroad for investment purposes. In the face of a mounting demand for imports, the authorities have applied stringent control of foreign exchange expenditure with the result that there has been little or no increase in real imports over the last several years. Despite these measures, the current account has recorded growing deficits. Notwithstanding sizable increases in capital inflows, due primarily to long-term loans from friendly countries, gross official reserves have been declining; they stood at SDR 46.7 million at end-December 1975, equal to three and a half months of merchandise imports, as against SDR 59.2 million in 1971, equal to seven months of merchandise imports.

#### a. Overall developments, 1974-75

Between 1973 and 1974 the overall balance of payments deficit increased from SDR 3.3 million to SDR 24.8 million (see Table 19 and Appendix Table 36), as the trade deficit rose from SDR 87.7 million to SDR 137.8 million owing mainly to an estimated 44 per cent increase in import prices and a 46 per cent decline in export volume. The fact that the deterioration of the overall balance of payments was much smaller than that of the trade balance reflected the changes in net receipts from services and transfers, which increased by 25 per cent over the 1973 level to SDR 56.5 million, and also in long-term official capital inflows which almost doubled to SDR 39.0 million.

In 1975 the overall deficit was SDR 19.7 million. The sizable reduction as compared with the previous year was realized by keeping the value of imports at about its 1974 level and thus reducing the trade deficit to SDR 133.5 million. Net receipts from services and transfers registered a small increase in 1975. Long-term official capital inflows recorded a 10 per cent decline to SDR 35.9 million, because a large number of loan contracts could not be implemented by donor countries; however, other capital, including private short-term capital<sup>1/</sup> and errors and omissions, rose by 22 per cent. In consequence, while the current account improved by 7 per cent, the capital account remained more or less unchanged, thus resulting in a slight improvement in the overall payments position.

---

<sup>1/</sup> Private short-term capital includes the contra-entry for private sector imports under the "own exchange imports" scheme. For details, see section 2 on the exchange and trade system.

Table 19. Summary Balance of Payments, 1971-1976

(In millions of SDRs)

	1971	1972	1973	Prelim. 1974	Est. 1975	Projec. 1976
Goods, services and transfers	-6.0	-26.2	-42.6	-81.3	-76.0	-97.0
Trade balance	-76.6	-70.3	-87.7	-137.8	-133.5	-157.0
Exports and re-exports (f.o.b.)	27.6	25.7	20.6	15.6	20.5	27.0
Imports (c.i.f.)	-104.2	-96.0	-108.3	-153.4	-154.0	-184.0
Services and transfers	71.6	44.2	45.1	56.5	57.5	60.0
Shipping, aviation, insurance	11.0	3.1	4.3	2.1	3.5	...
Investment income	3.4	2.6	3.4	5.7	3.5	...
Transfers	48.8	25.0	28.1	34.3	37.1	...
Government (n.i.e.)	2.9	1.7	-0.5	5.4	2.0	...
Other services	5.5	11.8	9.8	9.0	11.4	...
Miscellaneous capital and errors and omissions	2.3	12.6	18.4	16.7	20.4	21.0
Private long-term capital	...	1.7	1.2	3.8	) 20.4	) 20.4
Private short-term capital	...	1.7	16.5	13.0	) 20.4	) 20.4
Government investment and assets	--	1.0	1.7	--	--	--
Net errors and omissions	2.3	8.2	-1.0	-0.1	...	--
Grants and loans received by Government	3.4	8.9	20.9	39.8	35.9	45.0
Official grants received	1.0	--	0.5	0.7	) 35.9	) 45.0
Drawings on loans	4.3	10.6	20.4	39.3	) 35.9	) 45.0
Repayment of loans	-1.9	-1.7	--	-0.2	)	)
Allocation of SDRs	3.1	3.1	--	--	--	--
Overall balance	3.8	-1.7	-3.5	-24.8	-19.7	-31.0
Monetary movements (net) (increases in assets -)	-3.8	1.7	3.3	24.8	19.7	31.0
Monetary authorities	0.3	-2.9	-1.2	7.7	8.5	
National Bank of Yemen	-4.1	4.6	4.5	7.8	-3.2	
Use of Fund resources <sup>1/</sup>	--	--	--	9.3	14.4	

Source: Appendix Table 36.

<sup>1/</sup> Includes purchases from the Fund under the Oil Facilities and first credit tranche drawing in 1975.

Note: Due to rounding details may not add up to totals.

(1) Exports

As indicated in Table 19, total exports, including re-exports, followed a downward movement from SDR 27.6 million in 1971 to SDR 15.6 million in 1974, but rose to SDR 20.5 million in 1975 according to initial estimates. Prior to June 1967, the port of Aden was a major entrepot center and export earnings were essentially on account of large re-exports to surrounding countries. However, with the closure of the Suez Canal, traffic through Aden as well as the re-export trade declined precipitously. Another factor responsible for the decline was the development of competing ports like Hodeida in the Yemen Arab Republic and Djibouti in the Territory of Afars and Issas that have steadily diverted a part of the re-export trade away from Aden. Moreover, the nationalization policy and the elimination of the free status of the port of Aden limited the re-export trade to the "free zone" areas.<sup>1/</sup> Re-exports (adjusted for trade not recorded in the customs data) which amounted to SDR 19.2 million in 1971, fell to only SDR 7.7 million in 1974 (Appendix Tables 36 and 39). In the latter year, the main items of re-exports were, as in the past, industrial supplies and raw materials including hides and skins, processed food and beverages, and consumer goods consisting mainly of textiles and clothing (Table 20).<sup>2/</sup> While no firm data are available for 1975, the authorities believe that re-exports (including unrecorded items) rose to SDR 8.5 million. This is partly attributed to incentives granted by the Government, such as six-month credits in foreign exchange for the re-export trade. In addition, it is felt that congestion in other neighboring ports has diverted some of that trade back to Aden.

After registering increases in 1972 and 1973, indigenous exports declined to SDR 7.9 million in 1974 (Table 20 and Appendix Tables 36 and 39). Between 1973 and 1974 (dried and fresh) fish exports rose almost 40 per cent to SDR 5.6 million. However, the other major export commodity, cotton, suffered a severe setback. As the world textile recession intensified in the second half of 1974, prices fell and it became impossible to market existing stocks; the decline in the value of cotton exports from SDR 5.1 million to a mere SDR 0.6 million accounted for almost the entire 1974 shortfall in total indigenous exports. Exports of other domestically-produced goods, such as salt, hides and skins, and coffee declined also.

---

<sup>1/</sup> After the termination of the free port status of Aden, the Government established "free zones" within the port. These free zones served as bonded warehouses where imports and re-exports could be stored without the encumbrances of the usual import tariffs or of general exchange and trade controls.

<sup>2/</sup> The data in Table 20 are based on customs returns and differ substantially from those given in Table 19 which allow for unrecorded exports and undervaluation.

Table 20. Composition of Exports and Re-Exports<sup>1/</sup>

(In millions of SDRs)<sup>2/</sup>

	1971	1972	1973	1974	Jan.-June	
					1974	1975
<u>Food and live animals</u>	5.8	7.0	6.2	6.8	3.6	3.2
Dried fish	2.0	1.6	0.6	0.6	0.4	0.2
Fresh fish	1.0	3.0	3.3	5.0	2.4	2.0
Rice	0.3	0.0 <sup>3/</sup>	--	--	--	--
Wheat	0.4	--	--	--	--	--
Refined sugar	--	0.2	0.5	--	--	--
Coffee	1.0	1.0	1.2	0.9	0.2	0.7
Other	1.1	0.3	0.6	0.5	0.5	0.3
<u>Beverages and tobacco</u>	0.1	0.1	0.1	0.1	0.1	0.0
<u>Crude materials (except fuel)</u>	8.2	7.0	7.2	2.3	1.2	0.5
Hides and skins	2.1	1.6	0.8	0.7	0.5	0.2
Cotton linters and seeds	3.8	4.0	5.1	0.6	0.0	--
Salt	0.5	0.1	0.3	0.4	0.3	0.0
Metal scrap	0.3	0.3	0.3	0.1	0.2	0.0
Other	1.4	1.2	0.8	0.5	0.3	0.3
<u>Petroleum products</u>	--	--	0.3	0.1	0.0	0.0
<u>Animal and vegetable oils</u>	--	0.0	0.0	--	--	--
<u>Chemicals</u>	0.5	0.3	0.1	0.1	0.1	0.0
<u>Manufactured goods</u>	7.3	1.9	1.3	0.6	0.4	0.1
Textiles	5.2	0.9	0.9	0.3	0.3	0.0
Other	2.1	1.1	0.4	0.3	0.1	0.1
<u>Machinery and transport equipment</u>	0.8	0.3	0.2	0.1	0.1	0.0
Passenger cars	--	0.0	0.0	0.0	0.0	0.0
Trucks	--	--	0.0	--	--	--
Other	0.8	0.3	0.1	0.0	0.1	0.0
<u>Miscellaneous manufactures</u>	2.3	1.2	0.7	0.4	0.2	0.1
Clothing	1.0	0.6	0.5	0.2	0.1	0.0
Footwear	0.1	0.0	0.0	0.0	0.0	0.0
Other	1.2	0.5	0.2	0.2	0.1	0.0
<u>Unclassified items</u>	0.3	0.1	0.3	--	--	0.0
<b>Total</b>	<b>25.2</b>	<b>17.9</b>	<b>16.5</b>	<b>10.5</b>	<b>5.7</b>	<b>4.1</b>
Memorandum items, of which:						
<u>Re-exports</u>	16.8	7.0	5.0	2.6	...	...
Food and beverages	3.0	2.1	1.6	0.8	...	...
Industrial supplies	9.4	3.1	1.9	1.2	...	...
Consumer goods	3.0	1.4	0.8	0.3	...	...
Other	1.4	0.4	0.7	0.2	...	...

Source: P.D.R. of Yemen: Central Statistical Office.

<sup>1/</sup> The statistics in this table are based on customs data and they do not include any adjustments for unrecorded exports. Hence, the data differ from the figures used in the Balance of Payments table. For a reconciliation of the statistics, see Appendix Table 39.

<sup>2/</sup> Conversions into SDRs have been made at a rate of YD 1 = SDR 2.40 for 1971-73, YD 1 = SDR 2.3647 for 1974, and at YD 1 = SDR 2.3312 for 1975.

<sup>3/</sup> 0.0 stands for values less than SDR 0.1 million.

Note: Due to rounding, details may not add up to totals.

Initial estimates for 1975 indicate that domestic exports recovered to a level of SDR 12.0 million, owing primarily to an increase in the exports of fish and fish products to SDR 8 million. Cotton exports are estimated to have registered only a slight recovery from the low 1974 level, due primarily to a drawdown of stocks, while prices declined further. The continued expansion of fish exports was the outcome of large investments in the fisheries sector to modernize and expand the fishing fleet and build storage, canning and freezing facilities; it should be noted that a fishmeal and fish oil plant started operations in 1975. The authorities expect exports of fish and fish products to go on rising at a rapid rate.

The direction of exports (including re-exports) underwent marked changes in 1974 (see Appendix Table 37). While the shares of the Arab and the industrialized countries in Yemen's exports remained more or less unchanged at 19 per cent and 45 per cent, respectively, that of the socialist countries declined to 5 per cent from 20 per cent in 1973. On the other hand, the share of other less developed countries rose to 31 per cent as against 15 per cent in the previous year. The largest individual market in 1974 was Japan which received 32 per cent of total Yemeni exports, mainly fresh fish and fish products.

## (2) Imports

Since the nationalization of foreign trade in 1971, imports have been subject to comprehensive control, exercised mainly by restricting foreign exchange allocations to the state import agencies. In 1974 the value of imports rose by 42 per cent to SDR 153.4 million (Table 19 and Appendix Table 36). However, since the import price index registered a 44 per cent increase there was a slight decline in the volume of imports which followed comparable sharp decreases in the previous two years. Despite the emergence of domestic shortages of various imported goods, the restrictive policy was continued in 1975. The value of total imports is estimated to have remained virtually unchanged at SDR 154 million; however, given that prices fell by an estimated 3 per cent, imports in real terms probably rose somewhat. It is interesting to note that in each of the years 1972-1975 the quantum of imports was well below its level in 1971.

In 1974 there was a significant change in the composition of imports (Table 21), the share of food and live animals declining from 46 per cent to 41 per cent, as the domestic agricultural sector recovered from the adverse conditions prevailing in 1973. Similarly, the share of manufactured goods including textiles, clothing, footwear, etc., declined as official import policy sought to discourage such imports in order to save foreign exchange for the development effort. Consequently, the percentages of machinery and transport equipment and of crude materials rose appreciably. However, the major increase was in petroleum imports solely on account of the substantial increase in world prices; their share in total imports went up from 9 per cent in 1973 to 23 per cent in 1974. Almost no information is available on the composition of imports for the full-year 1975. Statistics for the first six months indicate a further shift away from food imports toward machinery and transport equipment and toward imports of manufactured goods.

Table 21. Composition of Imports<sup>1/</sup>  
(In millions of SDRs)<sup>2/</sup>

	1971	1972	1973	1974	Jan.-June	
					1974	1975
<u>Food and live animals</u>	29.8	31.3	40.0	59.9	37.1	23.1
Live animals	2.8	2.5	1.9	1.3	0.6	1.0
Ghee	2.0	1.9	1.9	4.3	2.8	2.9
Wheat and wheat flour	4.7	4.6	8.6	17.1	9.9	2.4
Rice	2.7	3.1	5.8	13.8	12.3	7.6
Refined sugar	3.7	6.1	6.4	10.1	3.9	3.5
Coffee	0.5	1.0	0.6	0.8	0.4	0.5
Tea	1.6	1.5	3.2	1.6	0.9	0.5
Spices	1.8	1.0	1.4	1.3	0.7	0.5
Other	10.0	9.5	10.2	9.4	5.6	4.2
<u>Beverages and tobacco</u>	2.9	2.9	2.7	2.6	0.9	0.8
<u>Crude materials, inedible except fuel</u>	6.3	3.4	3.3	6.1	2.3	2.1
Hides and skins	0.9	0.4	--	0.1	0.1	--
Sesame seeds	2.1	1.9	2.0	3.1	1.2	1.2
Wood	2.3	0.5	0.7	2.2	0.6	0.5
Other	0.9	0.6	0.6	0.8	0.4	0.4
<u>Petroleum products</u>	6.0	5.8	7.6	33.1	8.5	7.4
<u>Animal and vegetable oils</u>	0.7	0.7	0.8	2.1	1.4	1.0
<u>Chemicals</u>	6.4	4.4	3.9	5.8	2.0	3.1
<u>Manufactured goods (classified by materials)</u>	23.9	14.7	14.7	16.9	10.1	12.0
Textiles	12.1	6.2	6.3	6.6	3.1	0.9
Cement	0.3	0.6	1.0	2.5	2.1	1.7
Other	11.4	7.8	7.4	7.7	5.0	9.4
<u>Machinery and transport equipment</u>	9.1	10.6	7.1	14.6	7.7	12.1
Machinery	3.2	4.3	3.0	6.0	3.2	5.4
Passenger vehicles	0.9	1.0	0.5	0.8	0.4	0.1
Trucks	0.4	0.5	0.2	2.8	0.5	1.0
Other	4.5	4.7	3.3	5.0	3.7	5.6
<u>Miscellaneous manufactures</u>	10.7	6.1	6.2	4.7	2.3	1.2
Clothing	3.7	1.9	2.3	1.5	0.9	0.2
Footwear	1.4	0.4	0.6	0.5	0.2	0.1
Other	5.6	3.9	3.4	2.7	1.2	0.9
<u>Unclassified articles</u>	2.3	0.6	0.1	0.1	0.1	0.1
Qat	2.3	0.5	--	--	--	--
Other	--	--	0.1	0.1	0.1	0.1
<b>Total</b>	<b>98.2</b>	<b>80.4</b>	<b>86.4</b>	<b>145.9</b>	<b>72.4</b>	<b>62.8</b>

Source: P.D.R. of Yemen: Central Statistical Office.

1/ The statistics in this table are based on customs data and they do not include any adjustments for unrecorded imports, or insurance and free zone imports. Hence, the data differ from the figures used in the Balance of Payments table. For a reconciliation of the statistics, see Appendix Table 39.

2/ Conversions into SDRs have been made at the rate of YD 1 = SDR 2.40 for 1971-73, YD 1 = SDR 2.3647 for 1974, and YD 1 = SDR 2.3312 for 1975.

Note: Due to rounding, details may not add up to totals.

The area and country distribution of imports is shown in Appendix Table 38. In 1974 the industrialized countries accounted for 44 per cent of total Yemeni imports; they were followed by the socialist countries (22 per cent) and the less developed Asian countries (20 per cent). The People's Republic of China (9.8 per cent), India (9.7 per cent), and the United States (7.8 per cent), were the principal individual suppliers of the P.D.R. of Yemen.

### (3) Services and transfers

Receipts from services and transfers constitute the main source of foreign exchange earnings in the P.D.R. of Yemen. Net earnings from services include those from shipping, aviation, insurance, investment income and domestic expenditures of the Little Aden Refinery which is owned and operated by B.P.<sup>1/</sup> These earnings have declined after the closure of the Suez Canal and continued to be quite low over the period under review. Between 1973 and 1974, they rose from SDR 17 million to SDR 22 million, but subsequently fell to SDR 20 million in 1975 (see Table 10).

Net transfer receipts consist chiefly of inward remittances by Yemeni nationals working abroad which have been very sensitive to the P.D.R. of Yemen's nationalization policies. Subsequent to the nationalization there apparently has been little or no inflow for investment purposes and emigrants have remitted funds solely for family maintenance. Such transfers, which amounted to SDR 47.3 million in 1971, declined to SDR 25 million in 1972 and increased only slightly in 1973 (Appendix Table 36). However, they rose to SDR 34.3 million in 1974, essentially because of the increase in the cost of living which necessitated higher inflows for the same level of family maintenance in real terms. In 1975 remittances increased further by 8 per cent to SDR 37.1 million, as a consequence perhaps of the increase in interest rates on nonresident savings accounts introduced in the previous year.

### (4) Capital movements and development aid

Net official capital inflows, including grants and development loans, were SDR 3.4 million in 1971, SDR 39.8 million in 1974, and SDR 35.9 million in 1975. Grants are not fully recorded in the balance of payments; the amounts shown have not exceeded SDR 1 million in any of the last five years. Drawings on long-term loans have been rising substantially pari passu with the development effort. Repayments have been negligible since 1972, reflecting the concessionary character and the grace periods provided by the loans received.

Miscellaneous capital, including private capital and errors and omissions, has risen from SDR 2.3 million in 1971 to SDR 20.4 million in 1975. Since the data on such capital movements are fragmentary an adequate analysis of this part of the balance of payments is not possible.

---

<sup>1/</sup> In the present analysis, the B.P. refinery is treated as a nonresident and all its domestic expenditures, that is, payments of wages to Yemeni employees, income tax and other local currency outlays, are considered as exchange receipts.

It appears, however, that the bulk of the inflows is associated with the "own exchange" imports scheme (see p. 59 below).

(5) Monetary movements

Official reserves are held almost entirely by the Bank of Yemen, which, as indicated earlier, is required to maintain a 50 per cent cover in gold and other convertible currencies against all notes in circulation and its sight liabilities. Apart from this legal requirement, the official policy is to restrict as much as possible the overall balance of payments deficit inter alia in order to avoid a significant drawdown of official reserves. Consequently, gross reserves declined only by SDR 7.8 million to SDR 55.2 million in 1974 and by SDR 8.5 million to SDR 46.7 million in 1975, while the overall deficits amounted to SDR 24.8 million and SDR 19.7 million, respectively, in the same years (Table 22). The remainder of the deficit was financed mainly by purchases from the International Monetary Fund under the oil facilities and also a drawing in the first credit tranche. The foreign liabilities of the National Bank of Yemen have steadily increased and stood at SDR 19.2 million at end-November 1975; conversely, its foreign assets position has registered a decline since 1971 and stood at SDR 4.6 million in 1974 before registering a sharp increase to SDR 12.7 million by the end of November 1975. This latter increase is explained by the fact that the monetary authorities ceded foreign exchange to the National Bank to cover its anticipated heavy import payments in the near future. The Government's foreign assets, which were sizable prior to 1968, have been all but liquidated to finance budgetary deficits. However, its liabilities increased sharply in 1974 and 1975 owing to the use of Fund resources. Following the declines in both 1974 and 1975 net foreign assets stood at SDR 16.6 million at the end of the latter year.

b. Forecast for 1976

In view of the fact that domestic stocks of consumer goods have been drawn down over the last year and that the intended higher level of development spending will require greater imports than in the past, the import bill is expected to increase to at least SDR 194 million in 1976, i.e., to be 19 per cent higher than in 1975 (Table 19). Exports are forecast to go up also to SDR 27 million, reflecting a 25 per cent increase in fish and fish products together with an anticipated recovery in the re-export trade due to the incentives provided by the authorities. The trade deficit should therefore rise to about SDR 157 million as compared with SDR 134.5 million in the previous year. The authorities do not anticipate any significant improvement in traffic in the port of Aden and there is no strong reason to forecast any sizable change in remittances. Consequently, it is believed that net services and transfers will be about SDR 60 million. Miscellaneous capital movements are projected at SDR 20 million as in 1975, and the authorities are counting on development loans of SDR 45 million. Thus, the overall balance of payments deficit in 1976 is likely to be in the neighborhood of SDR 31 million.

Table 22. Net Foreign Assets, 1971-75

(In millions of SDRs)<sup>1/</sup>

	December				
	1971	1972	1973	1974	1975
Bank of Yemen	59.18	61.70	62.07	55.16	46.68
Gold	0.60	0.60	0.60	0.59	0.50
IMF gold tranche	3.74	3.74	3.74	--	--
Holdings of SDRs	4.78	7.80	7.70	3.67	3.21
Foreign exchange	50.06	49.56	50.84	50.90	42.88
National Bank of Yemen (net)	7.08	2.54	-1.00	-0.65	-6.50 <sup>2/</sup>
Foreign assets	11.47	7.58	6.91	4.61	12.74
Foreign liabilities	-4.39	-5.04	-8.85	-14.26	-19.24
Government	-0.12	0.14	0.07	-9.26	-23.63
Counterpart to oil facility drawing	--	--	--	-9.31	-16.40
Counterpart to first credit tranche drawing	--	--	--	--	-7.25
Other <sup>3/</sup>	-0.17	0.14	0.07	0.05	0.02
Total foreign assets (net)	66.14	64.39	61.10	36.25	16.55

Sources: Bank of Yemen and IMF, International Financial Statistics.

1/ Conversions into SDRs have been made at a rate of YD 1 = SDR 2.40 for the period 1971-73, YD 1 = SDR 2.3647 for 1974, and YD 1 = SDR 2.4731 for 1975.

2/ End-November 1975 data, the latest month for which data are available.

3/ Includes assets of the P.D.R. of Yemen's Trust Fund.

## 2. External debt management

Since there is no systematic procedure for the collection and surveillance of external debt statistics in the P.D.R. of Yemen, the available information as presented in Table 23 is based on data gathered in the course of consultation discussions and whatever other documented sources could be found. As a result, these debt statistics differ from those shown in the balance of payments table. According to Table 23, debt contracted by the P.D.R. of Yemen, including undisbursed, rose from SDR 152 million in 1972 to SDR 270 million in 1975, of which SDR 47 million was from multilateral organizations (IDA and the Arab Fund for Economic and Social Development), and SDR 218 million from bilateral sources. Between these two years, disbursements increased by SDR 72 million to SDR 96 million. By the end of 1974 the principal bilateral donors were the People's Republic of China (SDR 64 million), the U.S.S.R. (SDR 33 million), Libya (SDR 14 million), Kuwait (SDR 13 million), Iraq (SDR 12 million), and the German Democratic Republic (SDR 7 million).

Table 23. External Public Debt Outstanding (1972-75)

(In millions of SDRs)

Type of Creditor	1972		1973		1974		1975	
	Disbursed	Including Undisbursed	Disbursed	Including Undisbursed	Disbursed	Including Undisbursed	Disbursed	Including Undisbursed
International organizations	0.4	2.0	0.9	4.8	2.2	18.1	3.3	47.4
Arab Fund	--	--	--	--	0.6	9.0	...	20.6
IDA	0.4	2.0	0.9	4.8	1.6	9.1	3.3	26.8
Government loans	21.7	148.7	46.2	147.4	74.6	185.3	88.5 <sup>1/</sup>	218.4
Algeria	3.5	5.3	4.3	5.3	5.2	5.2	...	...
Bulgaria	--	--	--	--	2.1	22.7	...	...
China, People's Rep. of	7.0	73.4	14.7	64.9	17.1	64.0	...	...
Czechoslovakia	--	--	1.5	5.2	3.0	5.1	...	...
Denmark	--	--	--	--	1.9	2.2	...	...
German Dem. Rep.	2.7	6.9	4.6	7.2	6.6	6.9	...	...
Hungary	--	--	--	4.2	1.0	4.1	...	...
Iraq	1.1	9.6	4.3	7.7	9.4	11.8	...	...
Kuwait	0.6	0.9	0.8	0.9	1.0	12.8	...	...
Libyan Arab Republic	--	14.0	4.9	14.0	9.7	13.8	...	...
Romania	--	4.2	--	4.2	--	4.1	...	...
U.S.S.R.	6.8	34.4	11.0	33.8	17.6	32.6	...	...
Others <sup>2/</sup>	1.7	1.7	1.7	1.7	4.2	4.2	4.2	4.2
Total	23.8	152.3	48.8	158.6	81.0	207.6	96.0	270.0

Sources: World Bank and staff estimates.

1/ Includes loans from the Arab Fund in 1975.

2/ Including suppliers' credits.

The average terms of loans contracted in 1970-75 are shown in Table 24. In general, the P.D.R. of Yemen has succeeded in borrowing on very favorable terms, as evidenced by the relatively high grant element of its total indebtedness. The average weighted maturity of loans from international organizations and governments was 27.7 years, including grace periods of 5.7 years; the weighted average interest rate was 2 per cent. The Government's policy has been to avoid short- and medium-term loans, including suppliers' credits. The total of such loans outstanding at the end of 1974 was less than 2 per cent of total indebtedness, i.e. about SDR 4 million. More than half of this amount is due to a supplier's credit contracted in 1974 to finance a fishmeal plant at 10 per cent interest and with a seven-year repayment period. No short-term loans were contracted in 1975.

In view of the concessionary nature of the P.D.R. of Yemen's external debt, its debt repayments have been very low and they have not created a burden on the balance of payments position. Actual repayments of loans were SDR 1.9 million in 1971 and SDR 1.7 million in 1972; there were no repayments in 1973 and only SDR 0.2 million in 1974. Even though precise information is not available, it appears that loan repayments were quite low in 1975, and that they would continue to be very small in 1976.

Table 24. Average Terms of Loans from  
International Organizations and Governments, 1970-74

Loan Category	Average Weighted Terms			Grant Element
	Interest (per cent)	Grace period (years)	Maturity (years)	
International organizations	1.9	7.2	36.3	64.5
Government loans	2.1	5.0	23.7	52.3
Total	2.0	5.7	27.7	56.2

Source: IBRD.

## VII. Exchange and Trade System

### 1. Payments system

#### a. Exchange rate structure

The currency of the People's Democratic Republic of Yemen is the Yemeni dinar (YD) which is issued by the Bank of Yemen and is defined as equivalent to 2.13281 grams of fine gold. No par value for the Yemeni dinar has yet been established. On January 12, 1972 the P.D.R. of Yemen established a central rate of YD 1 = US\$2.60571 and availed itself of wider margins under paragraph 3 of Executive Board Decision No. 3453 (71/126). Following the announcement on February 12, 1973 that the U.S. dollar was being devalued, the P.D.R. of Yemen decided to maintain the gold content of its currency since then the dinar has been pegged to the dollar at the rate of YD 1 = US\$2.89524 (US\$1 = YD 0.34539). The representative rate presently in force is YD 1 = US\$2.836.

The National Bank of Yemen is the only commercial bank operating in the country; its buying and selling rates for the U.S. dollar were YD 0.343 per US\$1 and YD 0.350 per US\$1, respectively, on December 31, 1975. Except for the pound sterling for which buying and selling rates are announced on a daily basis, quotations for all other prescribed currencies are set weekly on the basis of the London market rates. Because of this practice, broken cross rates still remain. Although the spreads between buying and selling rates for most currencies have been narrowed to 2 per cent, some still exceed this limit.

The maintenance of the gold value of the Yemeni dinar in both December 1971 and February 1973 and its pegging thereafter to the U.S. dollar have resulted in an appreciation of the dinar in relation to the currencies of the P.D.R. of Yemen's main trading partners. Specifically, the dinar has registered an effective appreciation of 11.6 per cent during the period between the end of 1970 and the end of February 1976.<sup>1/</sup> Consequently, over the same period, the market rate for the Yemeni dinar rose by 3.5 per cent in terms of the SDR from YD 1 = SDR 2.4 to YD 1 = SDR 2.4844.

---

1/ The following formula was used to calculate the change in the effective exchange rate of the Yemeni dinar:  $\Delta EER = \sum S_i (Z_{it}/Z_{ib} - 1)$   
where  $\Delta EER$  is the change in effective exchange rate.

$S_i$  is the share of country i in P.D.R. of Yemen's imports.  
 $Z_{it}$  is the equivalent of one Yemeni dinar in terms of the currency of country i at the end of February 1975.  
and  $Z_{ib}$  is the equivalent of one Yemeni dinar in terms of the currency of country i on December 31, 1970.

b. Administration of exchange control

Beginning December 4, 1967 with few exceptions, all payments and transfers to nonresidents were made subject to prior approval by the Exchange Controller. Several regulations and ad hoc decisions were issued thereafter which modified the preindependence system and imposed additional controls pertaining to payments for invisibles, surrender of export proceeds and receipts from invisible and capital movements. These regulations were subsequently incorporated, with minor changes, in the Exchange Control Law (Law No. 16 of 1971 which came into effect on April 21, 1971) and in the Exchange Control Manual issued by the Exchange Control Committee created under that law.

Administration of exchange control is carried out by the Exchange Control Department of the Bank of Yemen (General Department for Exchange Control) through the Exchange Control Committee headed by the Deputy Governor. The Committee may delegate certain powers to the Director of Exchange Control who is a member of the Committee. Exchange transactions must be carried out through the intermediary of authorized dealers appointed by the Committee. The National Bank of Yemen is at present the only authorized bank dealing in prescribed currencies, that is, the currencies in which import payments must be made and export proceeds received.<sup>1/</sup>

Other dealers in foreign exchange, who may deal only in travelers checks and banknotes, are classified into ordinary money changers and secondary dealers. Ordinary money changers whose principal business is the sale and purchase of foreign exchange for their own account or for the account of the National Bank are permitted to deal only in currencies not on the prescribed list. Secondary dealers, such as hotels, travel bureaus, and retail stores selling tourist goods, are permitted to accept payment in foreign exchange from their customers only and are required to surrender the receipts in foreign exchange to the National Bank no later than the subsequent business day. Whereas the authorized bank and money changers are allowed to charge a commission for the purchase and sale of foreign exchange as specified by the Exchange Control Committee, secondary dealers may not charge commissions on purchases of foreign exchange from their customers.

c. Payments for imports and invisibles

Payments for imports must be made in prescribed currencies and require the prior approval of the Exchange Control Committee, except that imports against letters of credit or documents may be approved by the authorized bank. Payments for the oil refinery's imports and for imports into the free zones are exempt from exchange control.

---

<sup>1/</sup> The list of prescribed currencies is specified by the Exchange Control Committee from time to time. The current list comprises the Belgian franc, the Canadian dollar, the deutsche mark, the French franc, the Italian lira, the Netherlands guilder, the pound sterling, the Swedish krona, the Swiss franc, and the U.S. dollar.

All payments for invisibles require prior approval by the Committee. Approval is generally granted, provided that the request for such payments is considered to represent genuine current payments and that the applicant has paid all local taxes. Documentary evidence specified according to the nature of the case is required. The basic exchange allowance for tourist travel per person per trip is the equivalent of YD 125 (YD 62.5 for children under ten) except that for travel to Kuwait, Oman, Saudi Arabia, the Yemen Arab Republic, Somalia, Ethiopia, Djibouti, and the Persian Gulf States, the allowance is YD 75. Travelers to the Yemen Arab Republic may alternatively take out up to YRls 1,000. Travelers may also take out YD 5 in domestic banknotes. Allowances for medical treatment abroad are normally granted up to the equivalent of YD 200 per person, with higher amounts under exceptional conditions. Allowances for other types of travel are granted on the merits of each case. Nonresidents are allowed to take out foreign exchange up to the amounts declared to Customs upon entry. Foreign employees of approved enterprises and the BP Oil Refinery are allowed to remit abroad 50 per cent of their total earnings after taxes. Insurance is nationalized; existing policies have been transferred to the National Insurance and Reinsurance Company and payment of premiums abroad is not permitted.

d. Export proceeds and receipts from invisibles

Except for exports to the Yemen Arab Republic and neighboring countries as specified by the Exchange Control Committee, export proceeds must be surrendered in prescribed currencies within six months after the shipment of goods and be sold to the authorized bank upon receipt. The proceeds of exports or re-exports to the Yemen Arab Republic and other neighboring countries may be surrendered in the national currencies of these countries within the conditions established by the Committee. All claims of residents for services rendered to nonresidents must be collected in foreign currencies (or received from an External Account as explained below) when due and surrendered to the authorized bank, with the exception that Yemeni nationals working abroad are allowed to establish nonresident foreign currency accounts. The import of domestic currency by travelers is limited to YD 5 a person.

e. Capital movements

Virtually all capital movements require prior approval by the Exchange Control Committee. However, external borrowing by nonresident firms operating in the P.D.R. of Yemen is exempt. Expatriates are normally permitted upon departure to remit their liquid funds to their country of permanent residence.

Nonresident accounts may be held by persons not resident in the P.D.R. of Yemen. The principal type of nonresident account is the External Account in Yemeni dinars. Subject to approval by the Committee, External Accounts may also be held by certain residents. These accounts may be credited with proceeds from convertible foreign currency transferred from abroad, with bank interest payable on these accounts and with balances from other External Accounts. Transfers from abroad must be in the form of bank drafts. External

Accounts cannot be credited with locally raised or locally earned funds or with payments in the form of foreign banknotes unless such banknotes are declared to the Customs authorities upon entry. External Accounts may be debited for any payments to residents, for transfers to other External Accounts and for payments abroad in any convertible currency. The Committee may direct any payment to a nonresident to a Blocked Account. Except for investments in specified securities, balances in Blocked Accounts cannot be used except with prior approval by the Committee. Securities acquired with such approval may be dealt with freely.

Participation of foreign capital in enterprises in the P.D.R. of Yemen is regulated by legislation enacted in May 1971 (Law No. 23 of 1971 for the Organization of Industry and Promotion of Industrial Investment which replaced an earlier law issued in 1969). This legislation liberalized provisions governing foreign investments in the P.D.R. of Yemen with respect to transfers of profits and repatriation of capital. Inward foreign investments approved under this Law may be granted exemptions from import duties and various other taxes for specified periods as provided in the legislation. Remittance of profits abroad is permitted, up to 50 per cent of the annual net profits, in the currency of the original investment or in any other currency acceptable to the Committee. Repatriation of the original investment, calculated on the basis of the surrender or liquidation value of the enterprise or on the basis of its actual or bookkeeping liquidation value, whichever is less, is allowed after five years from the commencement of operation of the enterprise at the rate of 25 per cent of such value per annum. Interest due on loans obtained abroad after the enterprise is established may also be remitted, provided that all duties, taxes, and other government dues are paid. Foreigners working in the enterprise may transfer up to one half of their salaries or wages after income tax.

## 2. Trade system

Most imports and exports have been subject to individual licensing since September 1969. Exempt from licensing are imports of the refinery as well as most overland trade with the Yemen Arab Republic and trade with other neighboring countries which are subject to special provisions as issued by the Minister of Trade and Supply.<sup>1/</sup> Imports from and exports to Israel and Rhodesia are prohibited. Temporary restrictive orders may be issued from time to time, with a view to preventing overstocking of some

---

1/ In addition, the following are exempt from licensing requirements: personal effects brought in by travelers, trade samples, imports by foreign embassies and U.N. agencies, gifts in money or kind not exceeding YD 50, books and publications issued by the U.N. and its agencies, and supplies (fuel, water, food, etc.) for ships and planes which call at the P.D.R. of Yemen's ports.

commodities or encouraging the sale of locally manufactured substitutes. Export licensing is maintained partly for statistical purposes. Importers as well as exporters must register with the Trade Registrar in the Ministry of Trade and Supply and this registration is to be renewed each year. Under Law No. 37 of 1969, the commercial agents for foreign firms were restricted to Yemeni nationals as of April 1, 1970.

A law for the Organization of Foreign Trade enacted in May 1971 (Law No. 21 of 1971) created a separate entity of the Ministry of Economy and Industry (General Department for Foreign Trade) to assume the planning as well as the administrative aspects of foreign trade. In 1975, a new ministry, the Ministry of Trade and Supply, was created to take over full responsibilities with regard to the administration of foreign trade as contained in Law No. 21 of 1971, and domestic distribution of imported goods. The management of foreign trade is effected through a linkage between the annual exchange budget and the annual import program. The Committee on Foreign Exchange, that is composed of the Minister of Trade and Supply, the Governor of the Bank of Yemen and the Director General of the General Department for Foreign Trade, formulates the exchange budget on the basis of expected foreign exchange earnings from domestic sources as well as aid flows. In the light of overall foreign exchange availability, the Ministry of Trade and Supply formulates the import program. Several factors are taken into account in preparing such a program including market need for various commodities, development objectives, and the implementation of the provisions of bilateral trade and economic cooperation agreements with other countries. An import plan establishing quotas for various groups of imports is then determined on the basis of their relative importance and individual import licenses are issued to ensure allocation of exchange consistent with the objective of the import plan. Both the exchange budget as well as the import program are subject to revisions and are implemented flexibly in view of changes in the size of exchange earnings, import needs and changes in priorities assigned by the import plan.

Prior to 1970 the import trade and the domestic distribution of imported commodities were handled by the private sector. Law No. 37 of 1969 set up a state board of trade under the Economic Organization for the Public Sector to assume the trading activities of the nationalized companies. After some reorganization of structure and responsibilities, the two public corporations that took over nationalized trade are: (a) the National Company for Foreign Trade, which has a monopoly over imports of all consumer goods including foodstuffs, automobiles and other general government requirements, and (b) the National Company for Drugs, which has the responsibility for medical supplies and hospital equipment. Apart from these two organizations, certain agricultural cooperative unions are also authorized to import agricultural inputs and fruits. The public sector as composed of the two national companies and the cooperative unions accounted for about 97 per cent of total imports in 1975. The National Company for Home Trade is responsible for the domestic allocation and distribution of the commodities

imported by the afore-mentioned national companies. Virtually all private sector imports are financed under the 'own exchange' imports scheme. Under this scheme, Yemeni nationals are allowed to import a large variety of imports as long as they are financed by their own foreign exchange sources. The most common procedure under this arrangement is for a Yemeni national to have someone abroad finance a specified import that is consistent with the overall annual import program. Import of cars is specifically disallowed under this scheme as a fuel conservation measure while imports of foodstuffs, clothing, raw materials, and other essential items are encouraged. Furthermore, unless obtained for personal use, imports which are subject to distribution by the National Company for Home Trade have to be sold to the Company at the predetermined prices.

Until December 3, 1970 Aden was a free port. The only commodities subject to import tariffs were alcoholic beverages, cigarettes and tobacco, cat, eggs, and nonpotable alcohol. The Government introduced on that date pursuant to Law No. 29 a general import tariff which terminated the free port status of Aden and established free zones within the port. Transactions in the free zones are not subject to import tariff and are generally exempt from exchange and trade controls except that the proceeds of exports and re-exports financed originally by the authorized bank are subject to the surrender requirement discussed earlier. In all cases, exporters from the free zones are required to undertake to repatriate commissions, profits and other expenses relating to the processing of goods in the zones in convertible currencies and surrender them to the authorized bank. Transactions between the free zones and the rest of the country are subject to all exchange and trade regulations applicable to imports and exports. Recently the Government has taken steps to promote the re-export trade through the free zones, such as the extension of credit facilities in foreign exchange for at least six months to finance imports and their sale in these areas or re-exports. Moreover, foreign firms are now allowed to establish tax exempt sales and production facilities in the free zones.

Most of the imports, other than to the free zones, are subject to a comprehensive tariff schedule with rates ranging between 1 per cent and 160 per cent, the higher rates are concentrated on nonessential manufactured consumer goods while low rates apply to foodstuffs, raw materials, and equipment. Some imports are subject to specific duties. Tariff policy is primarily aimed at fiscal objectives and is not intended by and large for protection of domestic import substituting activities.

### 3. Trade and payments agreements

There are no bilateral payments agreements. The P.D.R. of Yemen has a number of trade agreements containing the most-favored-nation clause. It also maintains economic and technical cooperation agreements with Egypt, Iraq, the Libyan Arab Republic, Algeria, the People's Republic of China, the U.S.S.R., the Democratic German Republic, Hungary, Yugoslavia, Bulgaria and a few other countries. These agreements generally provide for loans or lines of credit to be used by the P.D.R. of Yemen as well as conditions of utilization and terms of repayment. It is stipulated in these agreements that repayments must be made in convertible currencies.

### 4. Gold

Only the monetary authorities and authorized dealers may purchase, hold or sell gold bullion. Licensed goldsmiths may purchase, hold and sell other unworked gold and gold coins and ornaments up to specified limits set by the Exchange Control Committee. Other residents may hold gold only in the form of ornaments or numismatic coins. Exports and imports of gold by registered goldsmiths require licenses issued by the General Department for Foreign Trade (Ministry of Trade and Supply) except in special cases where the consent of the Exchange Control Committee is also required. Travelers may bring in or take out reasonable amounts of gold ornaments not exceeding YD 250 in value for incoming travelers and not exceeding YD 100 for departing travelers. Imports and exports of gold by travelers are subject only to customs control, but incoming travelers wishing to sell gold coins or bullion they carry with them, must do so to an authorized dealer.

### 5. Changes in 1975

The following changes in the exchange and trade system have occurred in 1975.

a. The Ministry of Trade and Supply was established to take over the management of international trade and domestic distribution of imports.

b. The limit on outward remittances by expatriate workers at the B.P. Refinery was raised to 50 per cent of their income net of taxes as against three-eighths previously.

Table 25. P.D.R. of Yemen: Domestic Product  
at Current Prices, 1969-72

(In thousands of Yemeni dinars)

	1969	1970	1971	1972
Agriculture	13,444	13,165	14,590	15,264
Mining and quarrying	32	47	48	55
Manufacturing	17,731	17,059	9,703	10,271
Electricity, gas and water	1,021	1,097	1,122	997
Construction	550	680	1,475	3,163
Wholesale and retail trade	16,197	14,324	13,292	11,898
Transportation, storage and communications	4,557	4,644	4,496	4,447
Finance, insurance, real estate and business services	2,651	2,882	2,717	2,652
Community, social and personal services	11,779	13,478	13,929	14,613
A. Net domestic product (at factor cost)	67,962	67,376	61,372	63,360
B. Consumption of fixed capital	2,339	2,333	2,482	2,468
C. Gross domestic product (at factor cost)	70,301	69,709	63,854	65,828
D. Indirect taxes	909	1,064	1,201	1,401
E. Net domestic product (at market prices (A+D))	<u>68,871</u>	<u>68,440</u>	<u>62,573</u>	<u>64,761</u>
F. Gross domestic product (at market prices (C+D))	<u>71,210</u>	<u>70,773</u>	<u>65,055</u>	<u>67,229</u>

Source: Central Statistical Office.

Table 6. P.D.R. of Yemen: Industrial Production

Industry	Units	1970	1971	1972	1973	1974	First 6 Months	
							1974	1975
Cotton linters	Tons	4,639	5,644	4,288	4,266	3,597	...	...
Electric power	Million kwh	115	127	138	136	131	65	...
Water	Million litres	...	17,545	18,771	17,344	16,293	8,033	...
Shipbuilding and repair	Numbers	204	352	443	326	350	200	168
Soft drinks	Million bottles	13	13	14	15	18	8	...
Vegetable oils	Thousand kgs.	...	1,088	1,019	1,242	578	221	...
Vegetable cake	Thousand kgs.	...	5,193	5,724	7,834	4,204	2,074	...
Salt	Tons	76,000	66,168	71,128	42,815	34,270	13,182	...
Matches	Gross	...	97,014	222,489	190,666	231,121	122,294	107,098
Paints	Thousand litres	...	68	265	229	398	190	230
Shirts and tailoring	Numbers	50,123	20,314	87,249	108,245	280,069	137,453	163,075
Packed and skim milk	Thousand litres	...	431	487	642	519	289	886
Unpacked milk	Kilograms	...	5,607	4,477	18,756	264,669	62,392	368,347
Cigarettes	Millions	--	--	--	137	318	148	...
Sheep and goat skins	Dozens	--	--	--	7,722	7,679	7,679	3,981
Patent leather and lining	Square feet	--	--	--	21,560	177,075	160,576	36,799
Cow and camel skins	Pounds	--	--	--	15,844	89,488	6,401	21,550
Chamois leather, furs, etc.	Skins	--	--	--	15,377	2,926	850	1,345
Paper bags	Tons	417	453	469	407	301	143	...
Agriculture machinery spares	Value in dinars	--	--	--	42,104	59,805	...	...
Plastic household utensils	Tons	--	--	12	19	33	13	19
Tiles	Hundreds	7,350	9,552	4,934	5,853	3,606	...	...
Aluminum utensils	Tons	118	133	111	127	139	49	112

Source: Central Statistical Office.

Table 27. P.D.R. of Yemen: Five-Year Development Plan, 1974/75-1978/79: Investment Expenditures by Sector

(In thousands of Yemeni dinars at 1972/73 prices)

Sector	1974/75-1978/79	1974/75	1975/76	1976/77	1977/78	1978/79
Industry	13,456.8	4,269.2	2,633.8	2,845.8	2,301.0	1,407.0
Agriculture and fishing	27,711.2	7,724.5	7,063.9	5,958.4	4,155.1	2,809.3
Transport and communications	19,159.0	3,831.0	5,089.8	5,335.0	4,074.2	779.0
Geological and mineral survey	879.0	287.7	203.0	167.8	199.7	20.8
Education	6,060.0	690.0	1,370.0	1,320.0	1,530.0	1,150.0
Health	3,410.0	280.0	270.0	780.0	995.0	1,085.0
Housing and municipalities	3,563.0	708.0	768.5	738.5	684.0	664.0
Other social services	1,119.5	434.8	566.7	48.0	40.0	30.0
Total	75,358.5	18,225.2	17,965.7	17,243.5	13,979.0	7,945.1
			(In per cent)			
Industry	17.9	23.4	14.7	16.5	16.5	17.7
Agriculture and fishing	36.8	42.4	39.3	34.6	29.7	35.4
Transport and communications	25.4	21.0	28.3	31.2	29.1	9.8
Geological and mineral survey	1.2	1.6	1.1	1.0	1.4	0.3
Education	8.0	3.8	7.6	7.7	10.9	14.5
Health	4.5	1.5	1.5	4.5	7.1	13.7
Housing and municipalities	4.7	3.9	4.3	4.3	4.9	8.4
Other social services	1.5	2.4	3.2	0.3	0.3	0.4

Source: Ministry of Planning.

Note: Due to rounding components may not add up to totals exactly.

Table 28. P.D.R. of Yemen: Five-Year Development Plan, 1974/75-1978/79: Financial Sources

(In thousands of Yemeni dinars at 1972/73 prices)

Sources	1974/75-1978/79	1974/75	1975/76	1976/77	1977/78	1978/79
Development Fund	18,694.8	4,338.7	4,843.4	3,789.8	3,263.6	2,459.3
Banking system	8,593.5	3,364.4	1,838.5	1,375.2	1,184.6	830.8
Self-financing by firms and corporations	6,872.0	1,510.9	1,419.8	1,399.2	1,283.2	1,258.8
Private sector	<u>326.0</u>	<u>47.0</u>	<u>235.0</u>	<u>20.0</u>	<u>14.0</u>	<u>10.0</u>
Subtotal for internal financing	34,486.3	9,261.0	8,336.7	6,584.2	5,745.4	4,558.9
External financing	<u>40,872.2</u>	<u>8,964.2</u>	<u>9,629.0</u>	<u>10,659.0</u>	<u>8,233.6</u>	<u>3,386.2</u>
Total	75,358.5	18,225.2	17,965.7	17,243.2	13,979.0	7,945.1
		(In per cent of total)				
Development Fund	24.8	23.8	27.0	22.0	23.3	31.0
Banking system	11.4	18.4	10.2	8.0	8.5	10.5
Self-financing by firms and corporations	9.1	8.3	7.9	8.1	9.2	15.8
Private sector	<u>0.4</u>	<u>0.3</u>	<u>1.3</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Subtotal for internal financing	45.8	50.8	46.4	38.2	41.1	57.4
External financing	54.2	49.2	53.6	61.8	58.9	42.6

Source: Ministry of Planning.

Note: Due to rounding components may not add up to totals exactly.

Table 29. P.D.R. of Yemen: Financial Sources of Investment Under the Second Plan

(In thousands of Yemeni dinars)

Sources	Initial Targets		Revised Targets			Actual 1974/75
	1974/75	Apr.-Dec. 1975	1974/75	Apr.-Dec 1975	1976	
Development Fund	4,338.7	4,843.4	14,494.5	18,500.5	22,511.4	9,493.2
Banking system	3,364.4	1,838.5	3,597.7	2,215.1	2,283.4	2,035.9
Self-financing by firms and corporations	1,510.9	1,419.8	3,036.0	2,610.6	1,771.3	2,036.5
Private sector	47.8	235.0	--	375.2	254.9	--
Domestic financing	9,261.0	8,336.7	21,128.2	23,701.4	26,821.0	13,565.6
External financing	6,964.2	9,629.0	8,630.5	9,512.9	18,688.8	6,438.4
Total	18,225.2	17,965.7	29,758.7	33,214.3	45,509.8	20,004.0
	(In per cent)					
Development Fund	23.3	27.0	48.7	55.7	49.5	47.4
Banking system	18.5	10.2	12.1	6.7	5.0	10.2
Self-financing by firms and corporations	8.3	7.9	10.2	7.9	3.9	10.2
Private sector	0.2	1.3	--	1.1	0.5	--
Domestic financing	50.8	46.4	71.0	71.4	58.9	67.8
External financing	49.2	53.6	29.0	28.6	41.1	32.2

Source: Ministry of Planning.

Table 30. P.D.R. of Yemen: Summary of the Tax System, 1976

(All amounts in local currency units)

Tax	Nature of Tax	Exemptions and Deductions	rates																												
<b>A. Central Government</b>																															
<b>1. Taxes on net income and profits</b>																															
<b>1.1 Taxes on companies, corporations and enterprises</b>																															
<b>1.11 Corporate income tax</b> Law No. 8 of 1961; amended by Law No. 22 of 1968, Law No. 35 of 1969 and Law No. 52 of 1971.	Tax on the net profits of all companies including private companies, nationalized companies and public enterprises. The net profits for the year are assessed at the beginning of the year and the tax is paid in advance in quarterly installments. A financial review is undertaken at the end of the year and an adjustment in the amount of tax paid is made. The profits of the British Petroleum Company (BP) are determined in accordance with a special agreement: the net profit is assessed at 500 fils per ton for the first 4 million tons of refined oil produced and 375 fils for the remainder. The minimum tax to be collected from BP per year is YD 600,000.	Companies that qualify under the Encouragement of Investment Law No. 23 of 1971 can be exempt from the tax for 3 to 8 years.	37.5 per cent on net profits																												
<b>1.2 Taxes on individuals</b>																															
<b>1.21 Individual income tax</b> Law No. 8 of 1961; amended by Law No. 22 of 1968, Law No. 35 of 1969 and Law No. 52 of 1971.	Annual tax on the net income of individuals who conduct their own private businesses.	Deductions: YD 300 for a married person; YD 175 for a single person; YD 75 for each dependent; insurance and educational expenses.	<table border="1"> <thead> <tr> <th data-bbox="1709 978 1843 1041">Taxable Income (YD per year)</th> <th data-bbox="1864 1000 1906 1041">Per Cent</th> </tr> </thead> <tbody> <tr><td>0-200</td><td>10</td></tr> <tr><td>201-400</td><td>15</td></tr> <tr><td>401-800</td><td>20</td></tr> <tr><td>801-1,200</td><td>25</td></tr> <tr><td>1,201-1,600</td><td>30</td></tr> <tr><td>1,601-2,000</td><td>35</td></tr> <tr><td>2,001-2,500</td><td>40</td></tr> <tr><td>2,501-3,000</td><td>45</td></tr> <tr><td>3,001-4,000</td><td>50</td></tr> <tr><td>4,001-6,000</td><td>55</td></tr> <tr><td>6,001-8,000</td><td>60</td></tr> <tr><td>8,001-10,000</td><td>65</td></tr> <tr><td>10,001 and over</td><td>75</td></tr> </tbody> </table>	Taxable Income (YD per year)	Per Cent	0-200	10	201-400	15	401-800	20	801-1,200	25	1,201-1,600	30	1,601-2,000	35	2,001-2,500	40	2,501-3,000	45	3,001-4,000	50	4,001-6,000	55	6,001-8,000	60	8,001-10,000	65	10,001 and over	75
Taxable Income (YD per year)	Per Cent																														
0-200	10																														
201-400	15																														
401-800	20																														
801-1,200	25																														
1,201-1,600	30																														
1,601-2,000	35																														
2,001-2,500	40																														
2,501-3,000	45																														
3,001-4,000	50																														
4,001-6,000	55																														
6,001-8,000	60																														
8,001-10,000	65																														
10,001 and over	75																														

Table 30. P.D.R. of Yemen: Summary of the Tax System, 1976 (continued)

(All amounts in local currency units)

Tax	Nature of Tax	Exemptions and Deductions	Rates																															
1.22 <u>Tax on wages and salaries</u>	Annual tax on the salaried employees in the private and public sectors. This tax is applied in two stages: (1) a Special Tax is withheld from the salaries of all employees except those of the Central Government; (2) any balance remaining after subtracting the amount of Special Tax paid and other deductions is subject to the individual income tax.	The Special Tax does not apply to employees of the Central Government or to salaries below YD 282 per year.  Deductions for computing individual tax: YD 500 for a married person; YD 350 for a single person; YD 70 for each dependent; and insurance and educational expenses.	<table border="1"> <thead> <tr> <th colspan="2" data-bbox="1734 437 1843 453"><u>Special Tax</u></th> </tr> <tr> <th data-bbox="1675 456 1751 488">Taxable Income</th> <th data-bbox="1881 475 1927 507">Per Cent</th> </tr> <tr> <th data-bbox="1650 494 1780 510">(YD per year)</th> <th></th> </tr> </thead> <tbody> <tr><td>282-300</td><td>5.0</td></tr> <tr><td>301-360</td><td>7.5</td></tr> <tr><td>361-420</td><td>10.0</td></tr> <tr><td>421-480</td><td>12.5</td></tr> <tr><td>481-540</td><td>15.0</td></tr> <tr><td>541-600</td><td>17.5</td></tr> <tr><td>601-900</td><td>27.5</td></tr> <tr><td>901-1,200</td><td>37.5</td></tr> <tr><td>1,201-1,800</td><td>42.5</td></tr> <tr><td>1,801-2,400</td><td>45.0</td></tr> <tr><td>2,401-3,000</td><td>47.5</td></tr> <tr><td>3,001 and over</td><td>47.5</td></tr> </tbody> </table>		<u>Special Tax</u>		Taxable Income	Per Cent	(YD per year)		282-300	5.0	301-360	7.5	361-420	10.0	421-480	12.5	481-540	15.0	541-600	17.5	601-900	27.5	901-1,200	37.5	1,201-1,800	42.5	1,801-2,400	45.0	2,401-3,000	47.5	3,001 and over	47.5
<u>Special Tax</u>																																		
Taxable Income	Per Cent																																	
(YD per year)																																		
282-300	5.0																																	
301-360	7.5																																	
361-420	10.0																																	
421-480	12.5																																	
481-540	15.0																																	
541-600	17.5																																	
601-900	27.5																																	
901-1,200	37.5																																	
1,201-1,800	42.5																																	
1,801-2,400	45.0																																	
2,401-3,000	47.5																																	
3,001 and over	47.5																																	
			<u>Individual Tax</u>																															
			Same as in 1.21.																															
2. <u>Social Security contributions</u>	None.																																	
3. <u>Payroll taxes</u>	None.																																	
4. <u>Taxes on property</u>	None.																																	
5. <u>Taxes on goods and services</u>																																		
5.1 <u>General sales tax</u>	None.																																	

Table 30. P.D.R. of Yemen: Summary of the Tax System, 1976 (continued)

(All amounts in local currency units)

Tax	Nature of Tax	Exemptions and Deductions	Rate																
5.2 <u>Selective excises</u>																			
5.21 <u>Excise taxes on agricultural production</u> Law No. 2 of 1961; amended by Law No. 46 of 1972.	Taxes on all agricultural products except qat are ad valorem. The taxes are collected from the farmers through the cooperatives. Two different rates are applied on cotton production depending on the form of land ownership.	None	<table border="0"> <thead> <tr> <th data-bbox="1654 496 1730 512">Product</th> <th data-bbox="1877 475 1919 507">Per Cent</th> </tr> </thead> <tbody> <tr> <td data-bbox="1654 517 1730 533">Cotton</td> <td data-bbox="1822 517 1919 533">10 and 15</td> </tr> <tr> <td data-bbox="1654 537 1730 553">Cereals</td> <td data-bbox="1877 537 1919 553">15</td> </tr> <tr> <td data-bbox="1654 558 1730 574">Dates</td> <td data-bbox="1877 558 1919 574">15</td> </tr> <tr> <td data-bbox="1654 579 1730 595">Tobacco</td> <td data-bbox="1877 579 1919 595">15</td> </tr> <tr> <td data-bbox="1654 600 1766 632">Fruits and vegetables</td> <td data-bbox="1877 616 1919 632">10</td> </tr> <tr> <td data-bbox="1654 636 1709 652">Other</td> <td data-bbox="1877 636 1919 652">10</td> </tr> <tr> <td data-bbox="1654 679 1688 695">Qat</td> <td data-bbox="1822 679 1919 719">250 fils per lb.</td> </tr> </tbody> </table>	Product	Per Cent	Cotton	10 and 15	Cereals	15	Dates	15	Tobacco	15	Fruits and vegetables	10	Other	10	Qat	250 fils per lb.
Product	Per Cent																		
Cotton	10 and 15																		
Cereals	15																		
Dates	15																		
Tobacco	15																		
Fruits and vegetables	10																		
Other	10																		
Qat	250 fils per lb.																		
5.22 <u>Excise tax on fisheries</u>	An ad valorem tax is collected from the Public Corporation for Fish Wealth which buys the fish from producers at fixed prices.	None	3 per cent																
5.23 <u>Excise tax on soft drinks</u>	Specific tax levied on the sales of soft drinks.	None	<table border="0"> <thead> <tr> <th data-bbox="1675 826 1730 858">Unit</th> <th data-bbox="1864 826 1919 842">Rate</th> </tr> </thead> <tbody> <tr> <td data-bbox="1675 847 1730 863">ounce</td> <td data-bbox="1843 847 1919 863">1 fils</td> </tr> </tbody> </table>	Unit	Rate	ounce	1 fils												
Unit	Rate																		
ounce	1 fils																		
5.24 <u>Excise taxes on petroleum products</u> Law No. 2 of 1961; amended by Law No. 28 of 1970.	Specific taxes per gallon on the sales of various petroleum products.	None	<table border="0"> <thead> <tr> <th data-bbox="1654 951 1730 967">Product</th> <th data-bbox="1864 951 1919 967">Rate</th> </tr> </thead> <tbody> <tr> <td data-bbox="1654 971 1730 987">Benzine</td> <td data-bbox="1835 971 1919 987">94 fils</td> </tr> <tr> <td data-bbox="1654 992 1730 1008">Kerosene</td> <td data-bbox="1835 992 1919 1008">11 fils</td> </tr> <tr> <td data-bbox="1654 1013 1730 1029">Diesel</td> <td data-bbox="1835 1013 1919 1029">18 fils</td> </tr> <tr> <td data-bbox="1654 1034 1730 1050">Mazot</td> <td data-bbox="1835 1034 1919 1050">61 fils</td> </tr> <tr> <td data-bbox="1654 1054 1772 1086">Lubricating oils</td> <td data-bbox="1835 1070 1919 1086">61 fils</td> </tr> </tbody> </table>	Product	Rate	Benzine	94 fils	Kerosene	11 fils	Diesel	18 fils	Mazot	61 fils	Lubricating oils	61 fils				
Product	Rate																		
Benzine	94 fils																		
Kerosene	11 fils																		
Diesel	18 fils																		
Mazot	61 fils																		
Lubricating oils	61 fils																		
5.25 <u>Excise tax on cigarettes</u> Law No. 28 of 1970.	Specific tax per 1,000 cigarettes.	None	<table border="0"> <thead> <tr> <th data-bbox="1654 1118 1730 1134">Brand</th> <th data-bbox="1864 1118 1919 1134">Rate</th> </tr> </thead> <tbody> <tr> <td data-bbox="1654 1139 1751 1155">Pall Mall</td> <td data-bbox="1822 1139 1919 1155">YD 4,520</td> </tr> <tr> <td data-bbox="1654 1160 1730 1176">Radfan</td> <td data-bbox="1822 1160 1919 1176">YD 2,765</td> </tr> </tbody> </table>	Brand	Rate	Pall Mall	YD 4,520	Radfan	YD 2,765										
Brand	Rate																		
Pall Mall	YD 4,520																		
Radfan	YD 2,765																		

Table 30. P.D.R. of Yemen: Summary of the Tax System, 1976 (concluded)

(All amounts in local currency units)

Tax	Nature of Tax	Exemptions and Deductions	Rates
6. <u>Taxes on international trade and transactions</u>			
6.1 <u>Taxes on imports</u>			
6.1.1 <u>Customs duties</u> Law No. 2 of 1961; amended by Law No. 28 of 1970 and Law No. 12 of 1974.	The tariff schedule is based on the Brussels Nomenclature System. Duties are mainly ad valorem although specific rates apply in some cases.	Among the items which are exempt from import duties are grains and fruits for seeding, cotton seed, crude petroleum intended for refineries, fertilizers, printed materials, materials used for construction of means of transportation, and materials used for teaching.	Except for a few selected items, all imports are subject to duties. Basic foodstuffs, raw materials and capital goods are subject to low rates of duty while luxury items are subject to high rates. The schedule covers 15 different ad valorem rates as follows: 0, 1, 2, 3, 5, 10, 15, 20, 25, 30, 40, 50, 75, 120 and 160 per cent. Specific rates apply to 24 items (see Appendix Tables 31 and 32).
7. <u>Other taxes</u>			
7.1 <u>Stamp taxes</u> Law No. 5 of 1961; amended by Law No. 8 of 1971.	A stamp duty applied to most legal documents relating to contracts, transactions and registrations.	A few types of documents are exempt.	Some rates are fixed, others are proportional or progressive.
B. <u>Other levels of Government</u>			
No information available.			

Source: Ministry of Finance.

Table 31. P.D.R. of Yemen: Summary of Tariff  
Schedule: Ad Valorem Rates

---

<u>Exemptions:</u>	Bulbs, plants and other roots; cottonseed, grains, kernels and fruits for seeding; crude petroleum and shale oil intended for refineries; fertilizers; newsprint; printed books, newspapers, magazines, music sheets, printed maps, technical drawings, postage and revenue stamps; coins; materials from iron and steel used for the construction of railroads and other means of transportation; apparatus, materials and models for teaching; and scientific items used for collections and antiques for over 100 years.
<u>1 per cent:</u>	Metal-bearing ores.
<u>2 per cent:</u>	Soft coal, lignite, coke, coal gas, water gas and production gas; carbon; granules, powders, cellulose nitrates and cellulose nitrate solutions; lamb wool and other animal hair, not sorted or scoured; jute, not spun; cast iron and ferrous alloys; copper ores and alloys of copper; matte nickel, raw nickel, nickel waste and scrap; raw aluminum, aluminum waste and scrap; magnesium ore, magnesium waste and scrap; unwrought lead, lead waste and scrap; unwrought zinc, zinc waste and scrap; unwrought tin, tin waste and scrap; engines used for agriculture and fishing.
<u>3 per cent:</u>	Lamb wool and other animal hair, sorted or scoured.
<u>5 per cent:</u>	Grains; milk and cream; crude and reconditioned rubber; animal food preparations; pharmaceutical preparations; firewood; natural cork; materials used in the manufacture of paper; numerous items under the following categories: live animals and their products, animal and vegetable oils, minerals and mineral products, chemicals and chemical products, synthetic resins and plastics, glass and glass products, ordinary metals and products thereof, transportation materials, and precision instruments.
<u>10 per cent:</u>	Salted fish; cheese and milk dregs; fruits; tea and spices; umbrellas; canes; brushes and brooms; numerous items under the following categories: live animals and their products, vegetable products, animal and vegetable oils, food industry products, minerals and mineral products, chemicals and chemical products, synthetic resins and plastics, hides and skins, wood and wood products, paper and products thereof, textile fibers and textile products, glass and glass products, ordinary metals and products thereof, machines and electrical equipment, transportation materials, and precision instruments.

Table 31 (continued). P.D.R. of Yemen: Summary of  
Tariff Schedule: Ad Valorem Rates

---

<u>15 per cent:</u>	Shellfish and jellyfish; birds' eggs; natural honey; coffee; preparation of fruits and vegetables; natural cork products; numerous items under the following categories: vegetable products, food industry products, minerals and mineral products, chemicals and chemical products, hides and skins, wood and wood products, paper and paper products, textile fibers and textile products, glass and glass products, ordinary metals and products thereof, machines and electrical equipment, transportation materials, and precision instruments.
<u>20 per cent:</u>	Natural sponges; amber; sago flour; meat extracts; syrups and molasses; cocoa paste; cereal-based products; soup; soda and mineral water; shaving cream; fireworks; matches; basketwork products; artificial flowers and fruits; imitation jewelry; numerous items under the following categories: synthetic resins and plastics, hides and skins, textile fibers and textile products, glass and glass products, machines and electrical equipment, and transportation materials.
<u>25 per cent:</u>	Fresh fish; bird skins; crude and semiprocessed ivory; cocoa powder; belts, tires, tubes and wheels; bovine and chamois skin; saddles and harnesses; hand fans; spoons, forks and knives with handles made of expensive material; cabinets and safety boxes; electrical apparatus for shaving and cutting hair; electrical water heating apparatus.
<u>30 per cent:</u>	Fresh bananas; preserved shellfish and jellyfish by-products; chocolate; perfumes, cosmetics and toilette products; leather and leather apparel; raw fur skins; carpentry products used for construction; carpets and rugs from wool or hair; fabrics, garments, and textiles from wool or soft hair; stones for construction; bricks and tiles; nonelectric water heaters for home use; washers for household use; vacuum cleaners; motor vehicles not used for public transportation.
<u>40 per cent:</u>	Pigs; pork meat; dressed fur skins; wood frames; household utensils made of wood; fine carpentry articles; wallpaper and window transparent paper; silk fiber; silk fabrics and garments; articles for interior decoration made of metals; air conditioning units; seats and couches.
<u>50 per cent:</u>	Flowers and plant parts used for ornamental purposes; imitation fur skins; cigarette paper; silk carpets and rugs; handmade tapestries; precious and semiprecious stones.

Table 31 (concluded). P.D.R. of Yemen: Summary of  
Tariff Schedule: Ad Valorem Rates

---

75 per cent: Salt; manufactured fur skins; human hair, wigs, false beards,  
and other false hair; articles used for decorative and orna-  
mental purposes.

120 per cent: Cigars.

160 per cent: Cigarettes.

Table 32. P.D.R. of Yemen: Summary of Tariff  
Schedule: Specific Rates

(In Yemeni dinars)

Item	Unit	Rate
Horses and mules	Head	2.000
Cows and buffaloes	"	1.000
Sheep and goats	"	0.150
Beer	Gallon	0.846
Nonalcoholic grape juice	"	0.846
Wine	"	0.870
Effervescent wines	"	0.570-2.000
Vermouth wines	"	0.570
Apple and pear drinks	"	0.570
Ethyl spirits	"	0.850
Other spirits	"	0.400-8.000
Crude petroleum and shale oil not intended for refineries	"	0.070
Benzine upon importation or exit from refineries	"	0.094
Kerosene	"	0.011
Gas oil	"	0.015
Diesel oil	"	0.015
Fuel oil	"	0.005
Greasing oils	"	0.061
Vaseline and paraffin oil	"	0.061
Oil gases	Kilogram	0.006
Imported cigarettes	1,000	0.500
Butter and cooking butter	Net pound	0.010
Raw tobacco	" "	0.100
Qat	" "	0.250

Table 33. P.D.R. of Yemen Consolidated Balance Sheet of National Bank of Yemen

(in millions of Yemeni dinars)

	December						September	
	1969	1970	1971	1972	1973	1974	1974	1975
<u>Liabilities</u>								
Total deposits, of which:	13.82	13.97	15.70	16.53	20.29	23.67	24.14	29.10
Government deposits: Demand	(0.08)	(0.04)	(0.45)	(0.47)	(2.34)	(2.54)	(2.06)	(2.91)
Time	(1.71)	(0.24)	(1.22)	(1.16)	(1.31)	(1.80)	(1.69)	(1.61)
Other deposits: Demand	(5.59)	(4.57)	(5.85)	(6.03)	(7.73)	(10.29)	(11.54)	(13.61)
Time and savings	(6.45)	(8.10)	(6.96)	(7.89)	(7.46)	(7.95)	(7.41)	(9.58)
Deposits against letters of credit	(--)	(1.02)	(1.22)	(0.98)	(1.45)	(1.09)	(1.44)	(1.39)
Credit from Bank of Yemen	--	1.02	--	--	--	--	--	--
Balances due to local banks	1.58	--	--	--	--	--	--	--
Balances due to foreign banks	0.88	0.50	0.36	0.61	0.69	1.44	0.97	1.47
Bills payable in foreign currencies	--	--	1.47	1.49	2.48	3.77	3.09	2.90
Deposits in foreign currencies	--	--	--	--	0.52	0.82	0.82	2.14
Capital accounts	0.40	0.35	3.37	3.48	3.65	4.59	3.85	4.41
Other liabilities	7.21	4.47	1.60	1.49	2.22	2.74	3.15	2.91
Total liabilities = assets	<u>23.89</u>	<u>20.31</u>	<u>22.49</u>	<u>23.61</u>	<u>29.85</u>	<u>37.03</u>	<u>36.02</u>	<u>42.92</u>
<u>Assets</u>								
Cash	0.47	0.36	0.53	0.58	0.58	1.14	1.12	1.43
Balances with Bank of Yemen	0.80	0.56	0.47	3.05	6.37	2.99	3.30	5.17
Balances with local banks	1.63	--	--	--	--	--	--	--
Balances with foreign banks	5.20	1.71	3.37	2.33	2.28	1.12	2.44	4.69
Bills receivable in foreign currencies	--	--	1.42	0.82	0.59	0.77	1.02	1.24
Bills receivable in local currencies	--	--	1.07	1.36	1.93	2.83	2.34	1.26
Treasury bills	--	--	--	2.00	2.00	--	2.00	2.00
Credit to Government	--	--	0.30	0.12	0.19	0.20	0.29	0.02
Loans and advances	9.08	9.92	9.55	7.86	8.33	16.10	16.52	18.46
Claims on the Economic Organization <sup>1/</sup>	--	--	3.47 <sup>2/</sup>	3.31	3.36	3.36	3.36	3.33
Investments: Local	0.40	0.25	0.05	0.05	0.05	--	0.05	--
Foreign	0.10	--	--	0.01	0.01	0.06	0.06	0.07
Other assets	6.22	7.52	2.26	2.12	4.16	8.46	3.52	5.25

Source: Bank of Yemen.

<sup>1/</sup> Claims on nationalized banks.<sup>2/</sup> Claims on Economic Organization were included in other assets before 1971.

Table 34. P.D.R. of Yemen: Balance Sheet of Bank of Yemen

(In millions of Yemeni dinars)

	December						September	
	1969	1970	1971	1972	1973	1974	1974	1975
<u>Liabilities</u>								
Currency in circulation	21.72	24.81	26.43	29.42	32.95	36.94	36.27	40.09
Notes	(21.38)	(24.45)	(26.05)	(29.05)	(32.57)	(36.54)	(35.88)	(39.64)
Coins	(0.34)	(0.36)	(0.38)	(0.37)	(0.38)	(0.40)	(0.39)	(0.45)
Balances due to banks	0.80	0.56	0.47	3.05	6.38	2.98	3.38	3.44
Foreign liabilities	--	--	--	--	--	3.89	--	10.02
Allocation of SDRs	--	1.54	2.83	4.11	4.11	4.11	4.11	4.11
Capital	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Reserves	0.35	0.35	0.35	--	--	0.25	0.25	0.25
Other liabilities	1.31	0.91	1.64	0.97	1.58	4.31	1.16	0.91
Total liabilities = assets	<u>24.43</u>	<u>28.42</u>	<u>31.97</u>	<u>38.05</u>	<u>45.52</u>	<u>52.98</u>	<u>45.67</u>	<u>59.32</u>
<u>Assets</u>								
External assets	23.34	24.71	24.66	25.71	26.24	23.28	24.03	24.08
Gold	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)
Foreign exchange	(22.25)	(22.19)	(20.85)	(20.54)	(21.18)	(21.50)	(22.24)	(22.37)
IMF gold tranche	(0.84)	(1.56)	(1.56)	(1.56)	(1.56)	--	--	--
Holdings of SDRs	--	(0.71)	(1.99)	(3.26)	(3.25)	(1.53)	(1.54)	(1.41)
Claims on National Bank	--	0.99	--	--	--	--	--	--
Claims on Government (net), of which:	0.99	2.72	6.93	11.99	18.63	28.17	20.88	33.58
Government securities	(0.77)	(0.87)	(0.87)	(0.87)	(0.87)	(0.87)	(0.87)	(0.87)
Treasury bills	--	--	(2.00)	--	--	(0.45)	(0.45)	--
Other credit	--	(1.63)	(3.84)	(11.12)	(17.76)	(26.85)	(19.56)	(32.71)
Deposits with the Treasury	(0.22)	(0.22)	(0.22)	--	--	--	--	--
Other assets	0.10	--	0.38	0.35	0.65	1.53	0.76	1.66

Source: Bank of Yemen.

Table 35. P.D.R. of Yemen: Monetary Survey

(In millions of Yemeni dinars)

	December					September		
	1969	1970	1971	1972	1973	1974	1974	1975
<u>Foreign assets (net)</u>	27.76	26.01	27.57	26.83	25.46	15.33	22.69	13.56
Banking system	27.76	25.92	27.62	26.77	25.43	15.33	22.67	13.55
Bank of Yemen	(23.34)	(24.71)	(24.66)	(25.71)	(26.24)	(19.39)	(24.03)	(14.06)
Commercial banks	(4.42)	(1.21)	(2.96)	(1.06)	(-0.81)	(-4.06)	(-1.36)	(-0.51)
Government	--	0.09	-0.05	0.06	0.03	0.02	0.02	0.01
<u>Claims on Government (net)</u>	-0.80	2.35	5.61	12.42	17.14	24.01	19.40	30.82
Claims	0.99	2.72	7.23	14.11	20.82	28.37	23.17	35.60
Deposits	-1.79	-0.28	-1.67	-1.63	-3.65	-4.34	-3.75	-4.74
Counterpart of government foreign exchange	--	-0.09	0.05	-0.06	-0.03	-0.02	-0.02	-0.01
Claims on nongovernment sector	9.48	10.17	10.67	9.27	10.31	18.93	18.91	19.72
Total assets = liabilities	<u>36.44</u>	<u>38.53</u>	<u>43.85</u>	<u>48.52</u>	<u>52.91</u>	<u>58.25</u>	<u>61.00</u>	<u>64.10</u>
Money	26.84	29.02	31.75	34.87	40.10	46.09	46.69	52.27
Currency outside banks	(21.25)	(24.45)	(25.90)	(28.84)	(32.37)	(35.80)	(35.15)	(38.56)
Private demand deposits	(5.59)	(4.57)	(5.85)	(6.03)	(7.73)	(10.29)	(11.54)	(13.61)
Quasi-money	6.45	9.12	8.18	8.87	8.91	9.04	8.85	10.75
Allocation of SDRs	--	1.54	2.83	4.11	4.11	4.11	4.11	4.11
Other items (net)	3.15	-1.15	1.09	0.67	-0.21	-0.97	1.35	-3.03

Source: Bank of Yemen.

Table 36. P.D.R. of Yemen: Balance of Payments, 1971-76<sup>1/</sup>(In millions of SDRs)<sup>2/</sup>

	1971	1972	1973	Pr. lim. 1974	Est. 1975	Projec. 1976
<b>A. Goods, services and private transfers</b>						
Exports, f.o.b. <sup>3/</sup>	27.6	25.7	20.6	15.6	20.5	27.0
Domestic exports	8.4	10.9	11.5	7.9	12.0	17.2
Re-exports	19.2	14.8	9.1	7.7	8.5	9.8
Imports, c.i.f. <sup>3/</sup>	-104.2	-96.0	-108.3	-123.4	-154.0	-184.0
Petroleum	-6.0	-6.5	-7.7	-33.1	-37.4	
Other	-98.2	-89.5	-100.6	-120.3	-116.6	
Services and transfers	71.6	44.2	45.1	56.5	57.5	60.0
Shipping, aviation and insurance	11.0	3.1	4.3	2.1	3.5	...
Investment income	3.4	2.6	3.4	5.7	3.5	...
Other services	5.5	11.8	9.8	9.0	11.4	...
Government n.i.e.	2.9	1.7	-0.5	5.4	2.0	...
Transfers (net)	48.8	25.0	25.1	34.3	37.1	...
Of which: Government transf.	(1.0)	(--)	(0.5)	(0.7)	(--)	...
Private transfers	(47.8)	(25.0)	(27.6)	(33.6)	(37.1)	...
<b>B. Miscellaneous capital and net errors and omissions</b>						
Central Government investment	--	1.0	--	--	--	--
Local government assets	...	--	1.7	--	--	--
Private long-term capital	...	1.7	1.2	3.8		
Private short-term capital	...	1.7	16.5	13.0	20.4	21.0
Net errors and omissions	2.3	8.2	-1.0	-0.1		
<b>C. Grants and loans received by Government</b>						
Official grants received	1.0	--	0.5	0.7		
Drawings on loans received	4.3	10.6	20.4	39.3	35.9	45.0
Repayment of loans	-1.9	-1.7	--	-0.2		
<b>D. Total (A through C)</b>						
Trade balance	-76.6	-70.3	-87.7	-137.8	-133.5	-157.0
Other goods and services	22.8	19.2	17.0	22.2	20.4	60.0
Private transfers	47.8	25.0	27.6	33.6	37.1	
Government transfers	1.0	--	0.5	0.7	--	
Capital of nonmonetary sector (including net errors and omissions)	5.7	21.4	39.3	56.5	56.3	66.0
<b>E. Allocation of SDRs</b>	3.1	3.1	--	--	--	--
<b>F. Total (D + E)</b>	3.8	-1.7	-3.3	-24.8	-19.7	-31.0
<b>G. Monetary movements (net)</b>						
(increase in assets -)						
Deposit money banks	-4.1	4.6	4.5	7.8	-3.2	31.0
Monetary gold	--	--	--	--	--	
SDRs	-3.1	-3.1	--	4.1	0.5	
Reserve position in the Fund	--	--	--	3.7	--	
Foreign exchange reserves of the monetary authority	3.2	0.5	-1.3	-0.1	8.0	
Government foreign assets	0.2	-0.3	0.1	9.3	14.4	

Sources: Bank of Yemen and staff estimates.

<sup>1/</sup> Treating B.P. Refinery as a nonresident.<sup>2/</sup> Conversions into SDRs have been made at a rate of YD 1 = SDR 2.40 for the period 1971-73, YD 1 = SDR 2.3647 for 1974 and YD 1 = SDR 2.4731 for 1975 and 1976.<sup>3/</sup> Adjusted for coverage as indicated in technical notes in Appendix Table 39.

Note: Details may not add up to totals due to rounding.

Table 3/. P.D.R. of Yemen: Direction of Exports<sup>1/</sup>  
(In millions of SDRs and per cent)<sup>2/</sup>

Country	1971		1972		1973		1974	
	Value	%	Value	%	Value	%	Value	%
Arab countries	<u>12.1</u>	<u>48.0</u>	<u>3.9</u>	<u>22.0</u>	<u>3.2</u>	<u>19.5</u>	<u>1.9</u>	<u>18.7</u>
of which: Oman	<u>0.0</u> <sup>3/</sup>	<u>0.0</u> <sup>3/</sup>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>--</u>	<u>--</u>
Saudi Arabia	0.0	0.1	0.0	0.2	0.1	0.6	0.1	0.8
United Arab Emirates	0.2	0.8	0.1	0.7	0.2	0.9	0.2	1.5
Egypt	0.0	0.2	0.0	0.0	0.0	0.1	0.0	0.1
Yemen Arab Rep.	8.4	33.3	1.4	8.1	0.5	3.3	0.2	2.2
Somalia	3.2	12.7	2.1	11.7	2.0	12.0	0.7	6.3
Socialist countries	<u>1.6</u>	<u>6.3</u>	<u>2.7</u>	<u>14.8</u>	<u>3.3</u>	<u>19.7</u>	<u>0.5</u>	<u>5.2</u>
of which: People's Rep. of China	1.4	5.6	2.7	14.8	3.1	19.1	0.0	0.0
Industrial countries	<u>5.3</u>	<u>21.0</u>	<u>6.2</u>	<u>34.8</u>	<u>7.5</u>	<u>45.7</u>	<u>4.9</u>	<u>45.4</u>
of which: United States	<u>0.4</u>	<u>1.6</u>	<u>0.4</u>	<u>2.1</u>	<u>1.0</u>	<u>6.4</u>	<u>0.2</u>	<u>2.0</u>
United Kingdom	0.1	0.4	0.9	4.8	1.4	8.7	0.2	1.7
Germany, Fed. Rep. of	0.5	2.0	0.4	2.5	0.7	4.0	0.3	2.7
Italy	2.0	7.9	1.3	7.2	0.4	2.7	0.4	4.2
Canada	0.1	0.4	0.1	0.3	0.0	0.1	0.0	0.3
Japan	1.6	6.3	2.8	15.6	3.0	18.3	3.2	31.5
Other developed countries	<u>0.2</u>	<u>0.8</u>	<u>0.0</u>	<u>0.2</u>	<u>0.0</u>	<u>0.1</u>	<u>--</u>	<u>--</u>
Asian countries	<u>3.8</u>	<u>15.1</u>	<u>4.0</u>	<u>22.6</u>	<u>1.5</u>	<u>8.9</u>	<u>1.8</u>	<u>18.0</u>
of which: Sri Lanka	<u>1.8</u>	<u>7.1</u>	<u>1.3</u>	<u>7.2</u>	<u>0.5</u>	<u>2.7</u>	<u>--</u>	<u>--</u>
India	1.6	6.3	1.5	8.1	0.0	0.2	0.0	0.2
Thailand	0.1	0.4	--	--	--	--	--	--
Singapore	0.3	1.3	1.2	6.8	0.6	3.8	1.8	17.2
African countries	<u>2.2</u>	<u>8.7</u>	<u>1.0</u>	<u>5.6</u>	<u>0.7</u>	<u>4.3</u>	<u>0.8</u>	<u>8.0</u>
of which: Territory of Afars and Issas	1.5	6.0	0.7	3.8	0.4	2.6	0.4	3.8
Nigeria	0.0	0.0	--	--	0.0	0.0	--	--
Other developing countries	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>	<u>0.3</u>	<u>1.7</u>	<u>0.5</u>	<u>4.5</u>
Total	<u>25.2</u>	<u>100.0</u>	<u>17.9</u>	<u>100.0</u>	<u>16.5</u>	<u>100.0</u>	<u>10.5</u>	<u>100.0</u>

Source: P.D.R. of Yemen: Central Statistical Office.

1/ Unadjusted value; see Appendix Table

2/ Conversions to SDRs have been made at the rate of YD 1 = SDR 2.40 for 1971-73 and YD 1 = SDR 2.3647 for 1974.

3/ 0.0 represents values of less than SDR 0.1 million and less than 0.1 per cent of total exports.

Note: Details may not add up to totals due to rounding.

Table 38. P.D.R. of Yemen: Origin of Imports<sup>1/</sup>(In millions of SDRs and per cent)<sup>2/</sup>

Country	1971		1972		1973		1974	
	Value	%	Value	%	Value	%	Value	%
Arab countries	8.5	9.1	7.0	9.1	8.4	10.4	7.5	9.1
of which: Iraq	0.5	0.5	0.8	1.0	3.5	4.1	1.3	0.9
Kuwait	0.1	0.1	0.0 <sup>3/</sup>	0.0 <sup>3/</sup>	0.1	0.2	0.2	0.2
Qatar	--	--	--	--	--	--	--	--
United Arab Emirates	--	--	0.0	0.0	0.7	0.8	0.1	0.0
Egypt	0.4	0.4	0.4	0.5	0.3	0.4	0.1	0.1
Yemen Arab Rep.	3.1	3.3	1.5	1.9	0.8	1.0	1.5	1.7
Somalia	3.2	3.4	2.9	3.8	2.1	2.6	1.6	1.3
Socialist countries	10.0	10.6	9.4	12.5	16.6	20.9	27.3	22.1
of which: People's Rep. of China	4.4	4.7	0.7	8.8	9.2	11.4	12.1	9.8
Czechoslovakia	1.0	1.1	0.9	1.2	1.7	2.1	0.1	0.1
Germany, Dem. Republic of	0.8	0.8	0.7	0.7	3.3	4.0	2.9	2.4
U.S.S.R.	2.2	2.3	0.8	1.0	1.3	1.6	10.0	8.1
Industrial countries	44.5	47.4	43.1	43.9	39.3	43.7	54.0	43.6
of which: United States	0.7	0.3	0.5	0.7	0.4	0.4	9.6	7.8
United Kingdom	12.1	12.9	9.8	13.0	10.2	13.5	8.6	7.0
Denmark	1.6	1.7	2.4	4.5	1.5	1.8	3.1	2.5
France	1.1	1.2	0.8	1.0	1.7	2.1	1.4	1.2
Germany, Fed. Rep. of	4.0	4.3	2.7	3.6	5.6	6.9	8.3	6.7
Italy	2.3	2.4	1.4	1.8	1.3	1.6	3.3	2.7
Netherlands	4.0	4.2	2.8	3.7	4.4	5.4	8.2	6.7
Japan	17.0	18.1	9.6	12.7	8.0	9.9	9.0	7.3
Other developed countries	3.2	3.4	1.7	2.3	0.3	0.4	0.3	0.2
of which: Australia	2.5	2.7	1.5	2.0	0.2	0.2	0.2	0.1
Latin American countries	--	--	0.0	0.0	--	--	--	--
Asian countries	21.0	22.4	18.0	23.9	12.6	15.6	24.2	19.7
of which: Sri Lanka	1.6	1.7	1.5	2.0	1.0	1.3	0.8	0.7
Hong Kong	4.8	5.1	2.2	2.9	1.9	2.4	1.3	1.1
India	5.5	5.9	3.8	5.1	3.2	4.0	11.9	9.7
Iran	--	--	0.0	0.0	0.0	0.0	--	--
Pakistan	2.2	2.3	1.2	1.6	1.1	1.4	0.4	0.3
Thailand	1.8	1.9	5.5	7.3	1.4	1.7	7.5	6.1
Singapore	5.1	5.4	3.8	5.0	3.8	4.7	2.3	1.8
African countries	6.1	6.5	5.9	7.8	6.0	7.5	9.6	7.8
of which: Ethiopia	1.5	1.6	2.6	3.5	1.1	1.4	3.0	2.4
Kenya	3.3	3.5	2.5	3.3	4.4	5.5	4.8	3.9
Other countries	0.6	0.6	0.2	0.3	1.3	1.6	0.4	0.3
Total	94.0	100.0	75.3	100.0	80.7	100.0	123.2	100.0

Source: P.D.R. of Yemen: Central Statistical Office.

<sup>1/</sup> The data in this table are not the same in those in Table 21. The principal difference is that the former exclude petroleum imports.<sup>2/</sup> Conversions to SDRs have been made at a rate of YD 1 = SDR 2.40 for 1971-73 and YD 1 = SDR 2.3647 for 1974.<sup>3/</sup> 0.0 represents values of less than SDR 0.1 million and less than 0.1 per cent of total exports.

Note: Details may not add up to totals due to rounding.

Table 39. P.D.R. of Yemen: Technical Notes on the  
Adjustments of Customs Figures for Exports and Imports

(In millions of SDRs)<sup>1/</sup>

	1971	1972	1973	1974
<b>Note 1. Adjustment of export figures for the Balance of Payments table</b>				
1. Exports (customs figures)	8.4	10.9	11.5	7.9
2. Re-exports (unadjusted customs figures)	16.8	7.0	5.0	2.6
<b>Adjustments</b>				
(a) Unrecorded re-exports to the Y.A.R. <sup>2/</sup>	2.4	--	--	--
(b) Data reclassification <sup>3/</sup>	--	7.8	4.1	5.1
3. Adjusted re-exports (Re-exports + 2a + 2b)	19.2	14.8	9.1	7.7
4. Total exports adjusted for balance of payments table (1 + 3)	27.6	25.7	20.6	15.6
<b>Note 2. Adjustments for Imports</b>				
1. Imports (customs figures)	98.2	80.4	86.4	145.9
2. Unrecorded government imports <sup>4/</sup>	5.0	8.9	16.2	--
3. Local insurance on imports	1.1	1.2	1.4	--
4. Free zone imports	--	5.5	4.3	7.5
5. Total imports adjusted for balance of payments table (1 + 2 - 3 + 4)	104.2	96.0	108.3	153.4

Source: Bank of Yemen.

<sup>1/</sup> Conversion to SDRs have been made at a rate of YD 1 = SDR 2.40 for the period 1971-73 and YD 1 = SDR 2.3647 for 1974.

<sup>2/</sup> As estimated by the Central Statistical Office.

<sup>3/</sup> Starting in 1972, the General Trade System was replaced by the Special Trade System for compiling trade data; the difference is that the former attempted to estimate the value of items crossing the national boundaries while the latter is based on customs returns. The adjustment is estimated at approximately 5 per cent of the customs figure on exports and re-exports.

<sup>4/</sup> Reflects bulk of imports under bilateral agreements for development projects.

## BIBLIOGRAPHY

### Government documents and publications

- P.D.R. of Yemen, Nationalization Law No. 37 of 1969, Aden, 1969.
- P.D.R. of Yemen, Triennial Plan of National Economic Development, Planning Board Aden, 1971.
- P.D.R. of Yemen, Exchange Control Law No. 16 of 1971, Aden, 1971.
- P.D.R. of Yemen, Exchange Control Manual, Ministry of Economy and Industry, Aden, 1971 (in Arabic).
- P.D.R. of Yemen, Organization of Foreign Trade Law No. 21 of 1971, Aden, 1971.
- P.D.R. of Yemen, Banking System Law No. 36 of 1972, Aden, 1972.
- P.D.R. of Yemen, Amendment to Law No. 23 of 1971 Regarding the Organization of Industry and Encouragement of Industrial Investment. Law No. 12 of 1972, Aden, 1972.
- P.D.R. of Yemen, Establishment of the Ministry of Planning Law No. 6 of 1973, Aden, 1973.
- P.D.R. of Yemen, Quinquennial Plan for Economic and Social Development (1974/75-1978/79), Central Planning Commission, Aden, 1974.
- P.D.R. of Yemen, Prices Stabilization Fund. Law No. 18 of 1974, Aden, 1974.
- Middle East Economic Survey, Beirut, various issues, 1975-76.

### Unpublished documents

- IMF, People's Democratic Republic of Yemen - Recent Economic Developments, SM/74/26.
- IMF, People's Democratic Republic of Yemen - Recent Economic Developments, SM/75/03.
- United Nations Development Programme People's Democratic Republic of Yemen: A Review of Major Sectors and Development Assistance Needs, Aden, February 1975.