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To Members of the Executive Board

From The Acting Secretary

Subject Yemen Arab Republic - Recent Economic Developments

This paper provides background information to the staff report on the 1982 Article IV consultation discussions with the Yemen Arab Republic, which was circulated as SM/82/118 on June 17, 1982 and has been tentatively scheduled for discussion on Friday, August 6, 1982

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INTERNATIONAL MONETARY FUND

YEMEN ARAB REPUBLIC

Recent Economic Developments

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Approved by the Middle Eastern Department and
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July 14, 1982

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Yemen Arab Republic Basic Data

Area and population

Area	195,000 square kilometers
Resident population	6.6 million
Per capita GDP (1981)	YR19 2,025 (US\$450)

1978/79 1/ 1979/80 1/ 1981

(In millions of Yemen rials)

Production and prices

GDP in current prices	10,166	11,919	12,949
GDP in constant 1975/76 prices	5,988	6,318	6,635
Percentage growth of real GDP	(6.6)	(5.5)	(5.0)
Percentage change in Sana'a retail price index	(21.8)	(10.6)	(4.9)

Public finances

Total revenues and grants	3,525	3,214	4,799
Revenues	(2,175)	(2,763)	(3,283)
Grants	(1,351)	(451)	(1,516)
Total expenditures	4,465	5,024	7,061
Current expenditures	(1,847)	(2,531)	(3,253)
Capital expenditures	(2,618)	(2,492)	(3,807)
Overall deficit (-)	-940	-1,810	-2,262
External financing	554	525	921
Domestic bank financing	381	1,808	2,023
Statistical adjustment	5	-523	-681
Deficit as a percentage of GDP	(9.2)	(15.2)	(17.5)

Money and credit (change
during period)

Money	1,192	1,077	303
Domestic liquidity (money and quasi-money)	1,378	1,240	726
Net foreign assets	574	-127	-1,326
Net claims on Government	381	1,808	2,023
Claims on nongovernment sector	645	630	294
Public and mixed enterprises	(188)	(316)	(264)
Private sector	(456)	(315)	(30)
Percentage change in domestic liquidity	(22)	(16)	(8)
Ratios of			
GDP to money <u>2/</u>	(1.79)	(1.75)	(1.68)
GDP to domestic liquidity <u>2/</u>	(1.47)	(1.45)	(1.36)

1/ Year ended June 30.

2/ Denominators are beginning and end of period averages.

Yemen Arab Republic: Basic Data (concluded)

	<u>1978/79 1/</u>	<u>1979/80 1/</u>	<u>1981</u>
	<u>(In millions of U.S. dollars) 2/</u>		
Balance of payments			
Exports, f.o.b.	3	7	10
Imports, f.o.b.	-1,250	-1,546	-1,748
Trade balance	<u>-1,247</u>	<u>-1,539</u>	<u>-1,738</u>
Services (net)	-36	--	-51
Private transfers (net)	833	1,099	788
Official transfers (net)	312	112	337
Current account	<u>-138</u>	<u>-329</u>	<u>-664</u>
Nonmonetary capital	<u>116</u>	<u>158</u>	<u>230</u>
Commercial banks (net)	33	-119	1
Errors and omissions (net)	150	143	102
Overall balance	<u>160</u>	<u>-148</u>	<u>-331</u>
Current deficit as percentage of GDP	(6.1)	(12.4)	(23.1)
Total reserves (end of period)	1,551	1,430	967
In months of imports	(15)	(11)	(7)
Disbursed external debt outstanding (end of period)	543	592	1,101
Percentages of			
External debt to GDP	(24)	(22)	(38)
External debt service to GDP	(0.6)	(0.4)	(2.4)
External debt service to current account receipts	(0.9)	(0.7)	(5.0)

1/ Year ended June 30.

2/ Converted at US\$1 = YRls 4.5.

I Production, Employment, and Prices

1 Overall economic activity

During the early 1970s the economy of the Yemen Arab Republic (Y.A.R.) began the transition from a stage of development dominated by subsistence agriculture and a rudimentary infrastructure to a more advanced stage characterized by modern institutions and more vigorous economic activity. Economic growth was strongest in the modern sectors, reflecting the influence of rapidly growing cash incomes generated mainly from workers' remittances, which opened new markets for imports and domestic trade and provided funds for private investment in housing, as well as in agriculture and industry. The activities of the private sector were augmented by a sharp expansion of government development expenditures during the Three-Year Program and the First Five-Year Plan (FFYP). Despite the achievements of the 1970s, however, the Y A R remains one of the world's least developed countries.

During the three years ended 1978/79, real GDP grew at an average annual rate of 6.7 per cent, but signs of weakening economic activity emerged in the final year of this period and the growth rate declined steadily from a peak of 8.3 per cent in 1977/78 to 3.3 per cent in 1981 (Table 1). ^{1/} This slowdown was mainly due to the performance of the nonagricultural sectors, which grew at an average annual rate of 3.4 per cent between 1977/78 and 1981, compared with 16.7 per cent per annum in the preceding three years. Agriculture, on the other hand, grew at 5.0 per cent per annum during the two and one-half years following its recovery in 1978/79, which stopped the earlier trend whereby its share of GDP had dropped from 52 per cent in 1969/70 to 29 per cent in 1977/78 (Chart 1 and Appendix Table 16). At an 11 per cent growth rate, government services and public utilities, which jointly accounted for 15 per cent of GDP, were the fastest growing sectors in 1981, followed by housing and manufacturing which expanded by 8.4 per cent and 6.9 per cent, respectively.

The poorer performance of the nonagricultural sectors since 1978/79 reflects the tapering off of expenditures financed by workers' remittances and the emergence of other (mainly skilled manpower) constraints on development. The sectors most affected have been manufacturing, construction, and wholesale and retail trade. After having attained 16 per cent per annum in the two years ended 1979/80, growth of manufacturing declined to an average annual rate of 7 per cent over the next 18 months. Construction peaked in 1978/79, contracted by 17 per cent in 1979/80, and has shown no growth since then. Wholesale and retail trade has also fluctuated widely and in 1981 was only 7 per cent above its level in 1978/79.

^{1/} The recently revised national accounts statistics, on which much of the discussion in this section is based, are believed to be generally reliable, although because of weaknesses in the underlying data they must be regarded as having significant margins of error.

Table 1 Yemen Arab Republic Gross Domestic Product by
Economic Activity, 1976/77-1981

	1976/77	1977/78	1978/79	1979/80	Prov. 1981
(In millions of Yemen rials at current prices)					
Agriculture, forestry, and fishing	2,313	2,409	3,049	3,458	3,690
Mining and quarrying	53	100	133	149	156
Manufacturing	301	381	504	655	770
Electricity and water	17	23	38	66	89
Construction	477	796	1,045	1,002	1,140
Housing and business services	260	350	465	578	552
Wholesale and retail trade	1,185	1,448	1,686	2,060	2,124
Transportation and communication	215	308	370	431	483
Financial services	293	512	707	874	1,013
Other private services	143	180	226	273	298
Government services	567	858	1,202	1,505	1,906
Less accounted for banking services	-266	-449	-645	-802	-889
Custom duties	929	1,304	1,386	1,670	1,617
Gross domestic product	<u>6,487</u>	<u>8,220</u>	<u>10,166</u>	<u>11,919</u>	<u>12,949</u>
Real gross domestic product ^{1/}	<u>5,186</u>	<u>5,615</u>	<u>5,988</u>	<u>6,318</u>	<u>6,635</u>
(In per cent)					
Memorandum items ^{1/}					
Growth rate of GDP	5.1	8.3	6.6	5.5	3.3
Growth rate of agriculture	-8.0	-10.6	16.5	4.3	5.5
Growth rate of non- agricultural GDP	14.1	18.8	2.5	6.1	2.3

Source Appendix Table 16

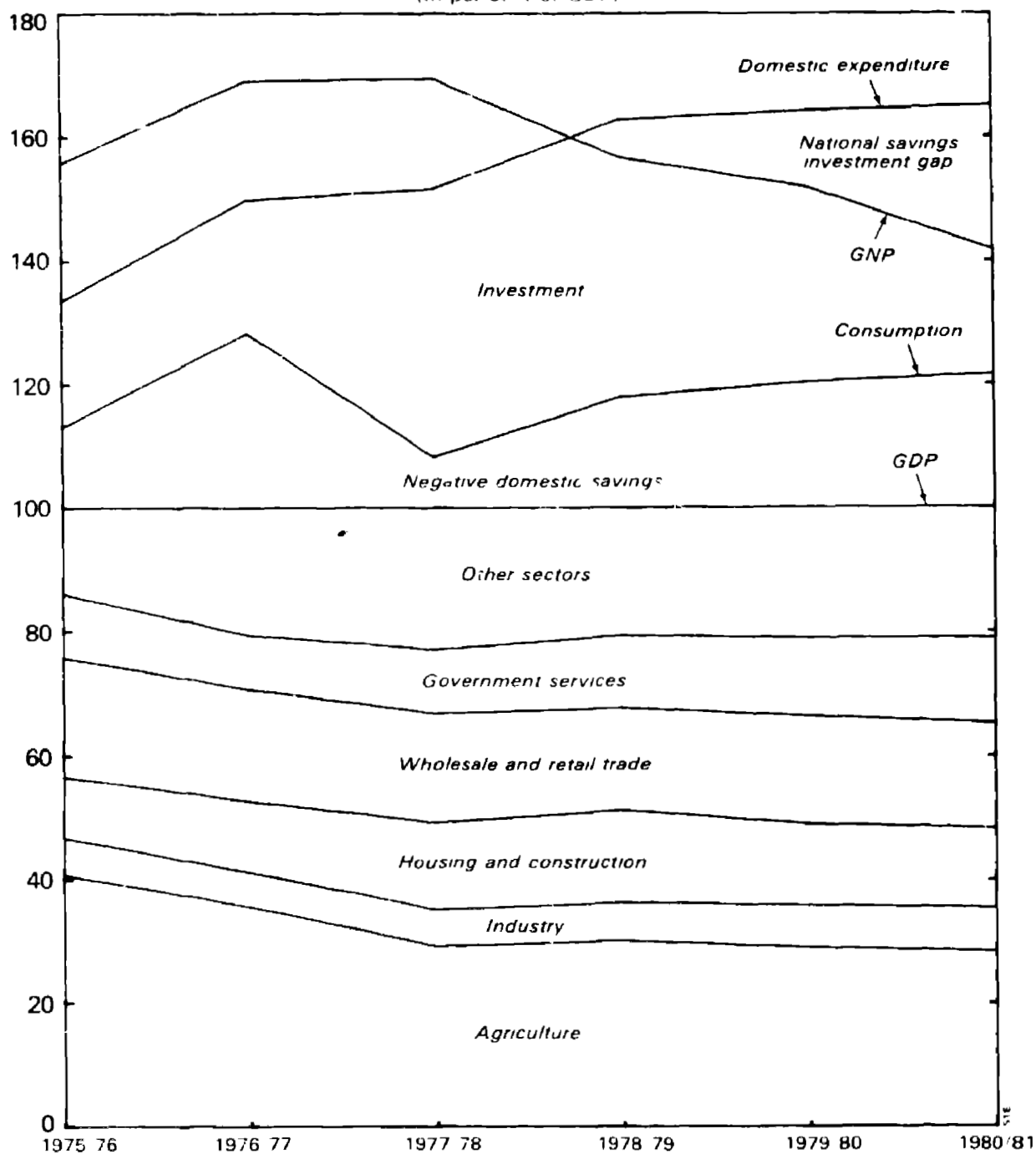
^{1/} At constant 1975/76 prices

(CHART 1)

YEMEN ARAB REPUBLIC

SECTORAL COMPONENTS OF GROSS DOMESTIC PRODUCT, GROSS NATIONAL PRODUCT, AND TOTAL DOMESTIC EXPENDITURE

(In per cent of GDP)



Source: Central Planning Organization

During the early and mid-1970s the Y A.R.'s financial resources were augmented by very large increases in the net inflow of factor income and other current transfers from the rest of the world, however, these two sources, which accounted for 41 per cent of GNP between 1975/76 and 1977/78, dropped to 30 per cent by 1981. This sharp deceleration in the inflow of net income from abroad resulted in a reversal of the trend from 1969/70-1977/78, when nominal GNP grew at an average annual rate of 32 per cent as against a growth rate of 27 per cent for nominal GDP. More recently, between 1977/78 and 1981 the growth rate of GDP outstripped that of GNP, 14 per cent per annum versus 8 per cent per annum, respectively (Table 2 and Appendix Table 17)

The Y A R 's reliance on foreign resources--remittances as well as foreign loans and grants--has increased significantly since the mid-1970s. Total domestic demand, which was 29 per cent higher than GDP in 1974/75, grew much faster than either GDP or GNP and by 1981 was more than 65 per cent higher than GDP (Appendix Table 18). Consumption alone was 121 per cent of GDP in 1981. From 1977/78 to 1981 consumption grew at an average annual rate of 18 per cent in nominal terms, more than twice the rate of growth of GNP over the same three and one-half years. As a result, national savings declined steadily from a peak of 35 per cent of GNP in 1977/78 to 13 per cent in 1981.

Gross domestic investment, at 45 per cent of GDP in 1981, was over double its share in 1975/76. This high rate of investment, combined with the declining trend in national savings, led to a reversal in the Y A R 's net transactions with the rest of the world from a large positive balance in 1977/78 to an even larger negative balance in 1981 (Appendix Table 19). The national savings-investment gap increased sharply from 6 per cent of GDP in 1978/79 to 26 per cent in 1981. The resource gap widened from 50 per cent of GDP in 1976/77 to 66 per cent in 1981.

Reflecting the rapid development of physical and social infrastructure as well as political and administrative institution building, the share of the Government in total expenditure more than doubled between 1976/77 and 1981 and accounted for 45 per cent of GDP in the latter year. Over the same period the Government increased its share in total consumption from 10 per cent to 19 per cent and its share in gross domestic investment from less than one third to more than one half.

2 Sectoral origin of gross domestic product

a Agriculture

Agriculture in the Y A R is still predominantly a subsistence activity heavily dependent on weather conditions characterized by erratic rainfall (75 per cent of the arable land is rainfed) and recurrent droughts and floods. A recent agricultural survey indicated that 92 per cent of land holdings were of less than five hectares, with 66 per cent of less than one hectare. This fragmentation, coupled with the country's rugged terrain, has posed a problem for efforts at mechanization of agriculture to compensate for labor scarcities (especially during planting and harvesting

seasons) caused by the emigration of Yemeni workers to neighboring countries. In addition, the modernization and transformation of agricultural activity have been hindered by the inadequacy of complementary infrastructure, financing, and skilled administrative and technical manpower, as well as by a lack of modern inputs and poor production techniques. As a result, the productivity of the agricultural sector remains relatively low.

In 1981 crops accounted for about 71 per cent of the total value of agricultural production, with about 24 per cent coming from livestock and poultry, 3 per cent from fisheries, and the remainder from forestry. There are two main rainy seasons, March-May and July-September. Sorghum and millet depend on the first light rainy season, while wheat and barley rely on the heavy rains of the second season. In the highland temperate zone, potatoes, grapes, and deciduous fruits are grown. Various legumes such as beans and pulses are planted throughout most of the country. In the subtropical climate and relatively ample rainfall of the southern uplands, a large variety of fruits and vegetables are cultivated. On the Tihama Plain, with its warm tropical climate and scant rainfall, millet is the main dryland crop and irrigated products include cotton, tobacco, sesame, and vegetables.

The low rates of growth of the agricultural sector in the 1970s failed to meet the upsurge in demand for food that resulted from the sharp rise in personal disposable income. This, concurrent with tightening labor markets and increasing labor costs, put upward pressure on the prices of domestically produced agricultural products. In the latter half of the decade agricultural production fluctuated widely, recovering from the declines of 1976/77 and 1977/78 in the subsequent two years; overall, between 1975/76 and 1981 agriculture grew by 1.5 per cent per annum while nonagricultural GDP expanded at an average annual rate of 8 per cent.

Recently revised production estimates for major crops are given in Table 3. Significant shifts in the cropping pattern over the period 1975/76-1981 include an expansion in the area planted to fruits and vegetables and a decrease in the area devoted to cereals and cotton. There was a sizable increase in marginal lands left fallow which partly explains some of the observed higher yields. Some of the areas taken out of production of other crops, however, may have been allocated to qat. Maize, which serves as a foodgrain and fodder, is the only crop that has increased both its area and yield consistently since 1975/76. Wheat, which is rapidly replacing sorghum as the main foodgrain, expanded its area and yield in 1981, but sustained output growth has been hampered by rising harvesting costs and the availability of cheaper imports. Because of good weather, the production of most other crops improved in 1979/80 and in 1981.

Production of cotton, which used to be the Y.A.R.'s main export commodity, peaked in 1974/75 at 27,000 tons and then declined sharply to less than 3,000 tons in 1979/80. This adverse trend resulted from several factors including a change in relative prices which caused farmers to shift to vegetables, oilseeds, and maize, increased wage costs, shortages of cotton pickers, and the suspension of subsidized government credits.

Table 2. Yemen Arab Republic: National Disposable Income
and Gross National Product, 1976/77-1981

(In millions of Yemen rials at current prices)

	1976/77	1977/78	1978/79	1979/80	Prov. 1981
Domestic factor income	5,335	5,555	8,328	9,661	10,576
Net inflow of factor income and other current transfers from rest of world	4,484	5,714	5,679	6,182	5,516
Indirect taxes less subsidies	1,019	1,471	1,593	1,967	2,050
National disposable income	<u>10,838</u>	<u>13,740</u>	<u>15,600</u>	<u>17,810</u>	<u>18,142</u>
Gross national savings	2,515	4,846	3,609	3,466	2,465
Private consumption	7,462	7,652	10,205	12,154	12,707
Government consumption	861	1,242	1,786	2,190	2,970
Capital consumption allowance	133	194	245	291	323
Gross national product 1/	<u>10,971</u>	<u>13,934</u>	<u>15,845</u>	<u>18,101</u>	<u>18,465</u>
Memorandum items					
Gross domestic investment	1,391	3,567	4,475	5,237	5,778
National savings-investment gap	1,124	1,279	-591	-1,771	-3,313

Sources Appendix Tables 17 and 18.

1/ Adjusted to include other current transfers from rest of world
(mostly composed of remittances from Yemenis working abroad for more than
one year).

Table 3 Yemen Arab Republic Production, Area, and
Yield of Major Crops, 1975/76-1981

(Production in thousand metric tons, area in
thousand hectares, yield in tons per hectare)

	1975/76	1976/77	1977/78	1978/79	1979/80	Prov 1981
Cereals (total)						
Production	940	760	712	778	788	812
Area	1,197	924	783	826	812	849
Yield	0.79	0.82	0.91	0.94	0.97	0.96
Sorghum and millet						
Production	785	613	585	627	632	635
Area	1,060	782	644	683	671	697
Yield	0.74	0.78	0.91	0.92	0.94	0.91
Wheat						
Production	62	61	45	63	63	70
Area	60	65	60	66	62	66
Yield	1.03	0.94	0.75	0.96	1.02	1.06
Barley						
Production	58	42	39	42	45	54
Area	53	47	48	46	46	52
Yield	1.09	0.89	0.81	0.91	0.98	1.04
Maize						
Production	35	44	43	46	48	53
Area	24	30	31	31	31	34
Yield	1.46	1.47	1.39	1.48	1.55	1.57
Legumes						
Production	76	82	77	79	80	80
Area	76	72	76	74	72	74
Yield	1.00	1.14	1.01	1.07	1.11	1.08
Potatoes						
Production	76	100	107	116	127	138
Area	6.8	8.6	9.3	9.5	10.6	11.5
Yield	11.18	11.63	11.51	12.21	11.98	12.00
Vegetables						
Production	183	210	226	230	254	291
Area	20.0	22.2	23.6	26.9	26.4	29.4
Yield	9.15	9.46	9.58	8.55	9.62	9.91
Fruits						
Production	65.0	72.0	77.0	73.0	76.0	80.7
Area	12.3	13.4	13.9	13.9	14.2	14.5
Yield	5.28	5.37	5.54	5.25	5.35	5.57
Coffee						
Production	3.0	3.4	3.9	3.6	3.5	3.5
Area	7.0	7.5	7.7	7.7	7.7	7.7
Yield	0.43	0.45	0.51	0.47	0.45	0.45
Grapes						
Production	42.0	47.0	45.0	49.0	55.0	64.3
Area	8.8	10.0	10.2	10.2	11.5	12.5
Yield	4.77	4.70	4.41	4.80	4.78	5.14
Cotton						
Production	13.5	5.3	3.3	4.8	2.8	5.0
Area	15.0	6.3	4.7	5.6	3.0	5.3
Yield	0.91	0.84	0.83	0.86	0.93	0.94
Tobacco						
Production	5.6	6.4	4.6	6.4	7.0	6.3
Area	4.6	5.3	5.6	5.6	6.1	6.1
Yield	1.22	1.21	0.82	1.14	1.15	1.03
Sesame						
Production	5.5	6.4	6.3	6.3	6.0	5.2
Area	9.7	10.2	10.2	10.2	10.1	9.9
Yield	0.57	0.63	0.62	0.59	0.59	0.53
Alfalfa						
Production	40	41	41	42	43	45
Area	3.3	3.4	3.4	3.5	3.6	3.8
Yield	12.12	12.06	12.06	12.00	11.94	11.84

Sources: Ministry of Agriculture and Central Planning Organization

In an effort to revive the domestic textile industry, the General Cotton Company (GCC) has launched a rehabilitation program aimed at increasing cotton output to 30,000 tons by 1986. The GCC introduced a package of incentives designed to make cotton production more remunerative to farmers, and as a result, the area planted to cotton expanded by over three quarters in 1981 and output increased to 5,000 tons.

Qat, which is a plant whose leaves act as a mild stimulant when chewed, has become an increasingly important cash crop in the Y.A.R. Although no systematic data are collected on its cultivation, the Ministry of Agriculture has recently estimated that 40,000-45,000 hectares are devoted to qat. Production has expanded rapidly in response to high demand and escalating prices, which have risen severalfold in recent years. Because of its low production costs and labor requirements, qat tends to be more profitable than most alternative crops, and its high returns have significantly bolstered agricultural incomes.

Estimates based on regional surveys and vaccination records indicate that there has been some increase in the number of cattle, sheep, and goats over the past two years (Appendix Table 20). The number of cattle, however, still falls short of its 1975 level, and there has also been a decline in the number of camels. The lack of grazing facilities and the inadequacy of disease control remain the major obstacles to the expansion of livestock production. Poultry output has increased rapidly in recent years as a result of the introduction of commercial production methods. Reflecting the strong demand for domestically produced livestock and poultry, they fetch prices that are as much as two and one-half times those of frozen imports. The estimated fish catch grew by 8 per cent in 1981, continuing the steady upward trend it has shown since 1975/76.

During the FFYP period a number of major agricultural development projects were completed or nearly completed, such as the Wadi Zabid project, the construction of a 20,000-ton port silo, and several projects in the Tihama area. In 1981 the Government began implementation of the second phase of the Southern Uplands Rural Development Project, which is planned to benefit 86,000 hectares in the Ibb and Taiz Governorates. This is a continuation of the first rural development project in the Y.A.R. (1976-80), which seeks to provide integrated extension, social, and health services, water supplies, farm roads, research centers, and management and engineering services, as well as to coordinate the roles of the Ministry of Agriculture and the Agricultural Cooperative Credit Bank in supplying modern production inputs. Gross fixed capital formation in agriculture accounted for over 7 per cent of the total during the FFYP. However, the immediate output effect of this investment was limited because of its concentration on infrastructure and services, which yield their benefits only over time. The Second Five-Year Plan (SFYP) places more emphasis on directly increasing commodity production.

b Industry

The Y A R 's industrial base is very small. In 1981 manufacturing accounted for 6 per cent of GDP and mining and quarrying for 1 per cent, and they jointly employed somewhat less than 5 per cent of the total labor force. In the 1960s the industrial sector was limited to traditional and artisan activities, but by 1975 an industrial survey showed that there had been considerable expansion in modern manufacturing such as textiles, soft drinks, cottonseed oil pressing, aluminum stamping, and cement. Over 50 establishments (employing ten workers or more) were engaged in producing simple consumer goods and building materials. Since 1975 fragmentary evidence points to a significant increase in the number of projects undertaken by the private sector, and over the FFYP period manufacturing grew by an average annual rate of almost 12 per cent.

Most manufacturing production is of the import-substituting type, with only small amounts of a few items such as biscuits, salt, and dairy products being exported. Estimates of the output of major industrial products are given in Appendix Table 21.

The food processing and beverages subsector is the dominant industrial activity, accounting for about 45 per cent of total industrial value added. Preliminary results of the 1980 industrial survey indicate that the building materials, chemicals, and metal processing subsectors contributed 22 per cent, 11 per cent, and 9 per cent of total industrial value added, respectively. The chemicals subsector has shown the fastest growth rate, in part because it started from a very low base of 3 per cent of total industrial value added in 1975. This subsector is still in an early stage of development and its activities mostly involve last-stage transformation and packaging.

The principal domestic resource-based activities are the building materials, textiles, and hide processing industries. Expansion of the building materials industry was fostered by the recent construction boom. Several small- to medium-sized private enterprises produce red bricks, ready-made concrete, concrete blocks, gypsum plaster, floor tiles, and various types of stone blocks and slabs. Cement production is undertaken by the government-owned Bejil plant which meets 10 per cent of the country's requirements. Its annual capacity is being increased from 80,000 tons to 300,000 tons, and in addition, a 500,000 ton per year plant is nearing completion in Amran and another of equal capacity is planned for Mafrak. As a result of the recent decline in cotton production, the two government-owned textile mills have been operating at below capacity.

An important factor behind the increase in private investment in industry in recent years has been the Investment Law of 1975, which offers duty exemptions and reductions on imports of capital goods and raw materials, profits tax holidays, and complete freedom of capital and profits repatriation. This law applies to domestic as well as foreign investors and has induced an expanded inflow of foreign private investment,

especially from neighboring oil producing countries. Essentially, these incentives are granted to all licensed projects, and investment licenses in turn have been liberally approved by the Ministry of Economy and Industry. In addition, the Industrial Bank of Yemen (IBY) provides financing for industrial projects at relatively low interest rates (Section IV, subsection 4). Recent measures to further promote industrial development include strengthening the IBY, establishing industrial estates in the three main cities of Sana'a, Taiz, and Hodeidah, and entering into several bilateral and regional agreements guaranteeing foreign investments against arbitrary action. The major obstacles confronting the industrial sector are high wage rates and shortages of skilled laborers, technicians, and managers, excessive dependence on imported raw materials and fuel, competition from imports and the small size of the domestic market, and inadequate infrastructure along with the limited endowment of natural resources to support resource-based manufacturing. There is very little scope for providing protection from imports as the extensive and open border trade cannot be effectively controlled. Under the SFYP the intention is to expand heavier industries, such as cement, iron bars, marble quarrying, and other building materials. Project selection is to emphasize utilization of existing productive capacity, import substitution, exploitation of domestic resources, and attraction of foreign and private investors.

c Construction

National accounts data indicate that, following a three-year construction boom during which the sector grew at an average annual rate of 41 per cent, the increase in real value added in construction slowed down to 14 per cent in 1978/79. More recently, construction activity has stagnated, with no growth in the 18-month period ended 1981 coming after a drop of 17 per cent in 1979/80. This downturn reflects the combined effects of several factors, including the completion of a number of major roads and government buildings and the slow implementation of public sector construction projects included in the FFYP, the tapering off of private investment in housing due to the decline in remittances, and the reduced level of activity in the rest of the economy. The value added figures, however, are based on the number of residential construction licenses issued which are very limited in coverage and, because of the time lags involved, are not a good indicator of overall construction activity. Table 4 shows that the number of residential construction licenses increased by 2 per cent in 1981 but remained below the 1979 level. This, together with the reduction in floor space, indicates that the construction sector was stagnant during 1981, although the growth of the same two indicators for Sana'a may reflect signs of recovery. There is no reliable information about building activity in rural areas since licenses are not required and this activity is not captured in the estimates of value added in construction. Construction activity in nonresidential public sector buildings is also not fully reflected.

Table 4. Yemen Arab Republic: Residential
Construction Licenses, 1976-81

	Number of Licenses		Area Covered (In thousand square meters)	
	Main cities <u>1/</u>	Sana'a	Main cities <u>1/</u>	Sana'a
1976	3,744	1,598	1,170	552
1977	4,147	2,423	1,248	785
1978	5,185	2,862	1,598	994
1979	4,450	2,172	1,488	829
1980	4,335	1,674	1,417	570
1981	4,418	2,362	1,196	753

Source Central Planning Organization.

1/ Sana'a, Hodeidah, Taiz, and Ibb.

Some major constraints facing the construction sector are labor shortages, the high cost of construction materials, the inadequacy of electricity and water supplies, and high interest rates. To ease the labor problem, the Government has permitted package building contracts which allow the recruitment of workers abroad, although this practice has decreased of late as the supply of Yemeni workers has stabilized.

d. Services

More than one fourth of the total value added in services is provided by the government sector, mainly in the form of defense, general administration, health, and education services. Real value added in government services grew by 10 per cent per annum during the FFYP and as a result, raised its share in GDP from 10 per cent in 1975/76 to 13 per cent in 1980/81. The fastest growing sector during this period was financial services, reflecting the large inflows of remittances and the expanded activities of private money changers, as well as the rapid development of the commercial banking system. Financial services increased their share in GDP from 3 per cent in 1975/76 to 7 per cent in 1980/81. Value added in wholesale and retail trade has fluctuated widely depending on the level of imports and on remittances from Yemenis working abroad. Overall, the share of services in GDP rose from 20 per cent in 1975/76 to 26 per cent in 1980/81.

3 Employment, wages, and prices

a Employment and wages

The Y.A.R.'s economy has traditionally been characterized by a high population growth rate, substantial underemployment, and concentration of the labor force in the agricultural sector. This has mitigated the impact on agriculture of the massive outflow of labor to urban areas and to neighboring countries. The 1975 census estimated the resident population at 5.3 million and the population outside the country at 1.2 million. Estimates based on the 1980 census put the resident population at between 6 million and 7 million. There are no reliable data on Yemenis residing abroad, although they are believed to number more than 1 million, about two thirds of whom are in Saudi Arabia where they are employed mostly in the construction and services sectors. The number of emigrant workers appears to have peaked some time in 1979 or 1980 and then declined reflecting a slackening of demand (particularly for unskilled workers) in the Gulf region combined with improved employment opportunities at home.

In 1975 the labor force was about 25 per cent of the total resident population, with the ratio of female participation approximately 6 per cent. Recent employment statistics indicate a decline in agricultural employment from 75 per cent of the total in 1975/76 to 69 per cent in 1980/81. The growth of employment in the nonagricultural sectors has been highest in services (especially government services), construction, and manufacturing.

Comprehensive data on wage rates in the private sector are not available, but the slowdown in emigration and subsequent alleviation of the labor shortage may have helped to stabilize wages during 1980 and 1981. According to national accounts statistics, compensation of employees in the aggregate increased by 12 per cent over the 18 months ended 1981, continuing the deceleration that has occurred in recent years. The sharp rise in wages during the mid-1970s reflected similar increases that were taking place in neighboring countries. The Government's liberal policy toward the employment of foreign nationals has continued, although there are signs of this policy being tightened for some categories of labor. Despite the large increases in public sector wages and salaries in 1979 and 1982, public sector employees receive, on average, lower remuneration than their private sector counterparts.

The Y A R suffers from problems of low labor productivity, and unit labor costs have risen rapidly in recent years. In order to improve the quality of the country's labor force, government-sponsored vocational centers are being set up to train workers in various skills. Enrollment in these centers has been increasing although their capacity is limited by the shortage of qualified teachers. Starting from a very low base, overall school enrollment rose by about 60 per cent per annum during the FFYP period.

b. Prices

Table 5 shows the index of retail prices for Sana'a which is the only price index for which data are available prior to 1980. Since the behavior of the five-city index has been broadly similar to that of the Sana'a index, the discussion is confined to the latter.

The rate of increase in the Sana'a retail price index has decelerated significantly since 1978/79 when it was 21.8 per cent, dropping to half as much in 1979/80 and stabilizing at 5 per cent per annum during the 18-month period ended 1981. The moderating trend in the general index mainly reflected the substantial improvement in its component indices of housing, services, and clothing. Movements of the deflator for consumption expenditure in the national accounts closely parallel those of the retail price index during the same period. The improved price performance in 1981 was a reflection of the general slowdown in economic activity as well as the appreciation of the U.S. dollar, to which the Yemen rial is pegged

Reliance on price controls is very limited in the Y.A.R, with only four categories of goods subject to some form of control. Petroleum product prices are determined by the government-owned Yemen Oil and Mineral Resources Corporation (see following subsection). Cement, wheat, flour, rice, and sugar are subject to price fixing, on a cost-plus basis, by the Ministry of Supply, and for a number of imported foodstuffs domestic selling prices are influenced by the authorities through the setting of profit margins for importers, wholesalers, and retailers. Of locally produced manufactures, only soft drinks and mineral water are price controlled. In actuality, most of the existing price regulations function more in the nature of price guidelines. Other price interventions are undertaken by the Agricultural Cooperative Credit Bank in its distribution of agricultural inputs and by the Public Organization for Consumer Goods which sells imported consumer items at discount prices. Both of these organizations operate on a cost-plus basis, but are believed to have a restraining effect on private sector prices.

4 Energy

The Y.A.R. has almost no conventional energy sources of its own, and most of the rural population and about 60 per cent of urban households still use fuel wood and animal waste as primary sources of energy. However, the Y.A.R.'s use of commercial energy, mainly in the form of imported petroleum products, rose rapidly during the 1970s and was estimated at about 20 per cent of total energy consumption in 1980. During the FFYP period installed electricity generating capacity quadrupled. Some oil and gas exploration has taken place, but to date no commercial deposits have been found. The possibility of developing known low-quality coal reserves is being investigated and, with the help of international organizations, the Y.A.R. has also undertaken studies relating to the development of solar and geothermal energy sources.

Table 5. Yemen Arab Republic: Index of Retail Prices
for Sana'a, 1976/77-1981

(1975/76 = 100)

End of Period	Weights	1976/77	1977/78	1978/79	1979/80	1980	1981
General index (Per cent change at annual rate)	<u>10,000</u>	<u>126</u> (26.0)	<u>147</u> (16.7)	<u>179</u> (21.8)	<u>198</u> (10.6)	<u>206</u> (5.1)	<u>216</u> (4.9)
Foodstuffs	<u>6,500</u>	<u>123</u>	<u>143</u>	<u>167</u>	<u>181</u>	<u>190</u>	<u>202</u>
Cereals	<u>1,735</u>	<u>101</u>	<u>95</u>	<u>104</u>	<u>120</u>	<u>128</u>	<u>143</u>
Dry vegetables	130	117	135	150	179	212	250
Meat, fish, and eggs	1,205	138	177	200	206	197	202
Vegetables	447	150	188	205	221	228	254
Dairy products	301	151	196	235	274	316	.
Edible oils and fats	295	109	116	135	148	151	153
Fruits	513	113	119	127	131	126	129
Sugar and sweets	382	90	88	89	113	191	.
Soft drinks	148	124	150	152	173	179	183
Tobacco, etc.	967	147	198	255	280	303	310
Other	377	98	123	160	162	166	
Clothing	<u>581</u>	<u>119</u>	<u>133</u>	<u>162</u>	<u>190</u>	<u>194</u>	<u>197</u>
Housing	<u>1,946</u>	<u>134</u>	<u>160</u>	<u>213</u>	<u>241</u>	<u>245</u>	<u>251</u>
Furniture	<u>206</u>	<u>121</u>	<u>134</u>	<u>163</u>	<u>175</u>	<u>177</u>	<u>177</u>
Durable goods	407	111	123	146	153	154	155
Rent and water	609	133	179	249	282	283	274
Fuel and lighting	724	143	162	178	211	238	300
Miscellaneous	<u>973</u>	<u>120</u>	<u>136</u>	<u>166</u>	<u>200</u>	<u>204</u>	<u>212</u>
Transportation	<u>326</u>	<u>129</u>	<u>145</u>	<u>210</u>	<u>242</u>	<u>252</u>	<u>268</u>
Education	87	110	121	179	219	223	224
Medical care	268	121	142	166	184	190	202
Household cleaning items	166	109	116	123	141	146	149
Cosmetics and other personal items	126	111	127	151	164	168	169
Memorandum items:							
Consumption deflator (Per cent change)		126.1 (26.1)	147.5 (17.0)	176.3 (19.5)	196.1 (11.2)	.. (...)	202.4 (...)
GDP deflator (Per cent change)		125.1 (25.1)	146.4 (17.0)	170.1 (16.2)	188.7 (10.9)	... (...)	195.2 (...)

Source: Central Planning Organization.

Imports of petroleum products are handled by the Yemen Oil and Mineral Resources Corporation (YOMRC), which also distributes all petroleum products in the domestic market either directly or through privately owned distribution outlets. Most petroleum products are imported from Kuwait, but recently Saudi Arabia has begun to supply the Y.A.R. with small amounts of various products, in some cases in the form of commodity aid. In addition, substantial amounts of motor gasoline are smuggled into the Y.A.R., largely from Saudi Arabia, by individual operators who in turn sell these supplies either to the YOMRC or directly to consumers. Estimates of the quantities of gasoline obtained from individual operators by the YOMRC indicate that the proportion of total gasoline imports entering the Y.A.R. in this way may have increased from about one third in 1980 to about one half in 1981.

Although commercial energy consumption in the Y.A.R. has increased considerably, in per capita terms it remains among the lowest in the world. In 1979 per capita consumption stood at 73 kilograms of coal equivalent, about half of the average for comparable low-income developing countries. In 1981 the YOMRC's imports of petroleum products were estimated to have risen by about 10 per cent to approximately 735,000 tons. ^{1/} About 50 per cent of this amount was diesel oil, which is used for public transportation and for small household electric generators and water pumps, and approximately 30 per cent was motor gasoline; kerosene, which is used largely by rural households, accounted for most of the remainder.

Domestic selling prices for petroleum products are set by the YOMRC according to a formula which adds to the c.i.f. import cost proportional charges for local transport and other costs. In addition, import duties, excise taxes, and a surcharge or undercharge (which accrues to the Government) are added to arrive at the total cost to the YOMRC. The difference between this and the domestic selling price determines the YOMRC's operating surplus or loss on each product (Appendix Table 22).

Domestic selling prices have been adjusted frequently to reflect higher import costs (Appendix Table 23). Following the large price increases introduced in December 1980, only diesel oil remained subject to a subsidy (previously kerosene was also subsidized), all other products earn a surplus. The surpluses that accrue to the YOMRC from the sale of these products have been used in part to offset the losses it has sustained on the sale of diesel oil. The YOMRC incurred a small net loss in 1980 as a result of the sharp rises in world petroleum prices in 1979 and 1980 not being matched by equivalent movements in domestic prices. However, as world prices of petroleum products eased in 1981, the financial position of the YOMRC improved.

^{1/} This figure does not take into account smuggled motor gasoline.

II. Development Planning

I. The First Five-Year Plan

The growth rate of real GDP during the FFYP period was 5.9 per cent per annum, compared with a target of 8.2 per cent per annum. ^{1/} The sectors that performed significantly below expectation were agriculture, which grew by only 3.5 per cent per annum compared with a planned 5.5 per cent; wholesale and retail trade, which expanded at 2.2 per cent per annum instead of an anticipated 10.1 per cent, and transportation and communication, which increased by 7.7 per cent per annum relative to a targeted 11.3 per cent (Table 6). On the other hand, the manufacturing, public utilities, construction, and government services sectors all achieved growth rates in excess of 10 per cent per annum.

The FFYP gave priority to developing the country's infrastructure. 46 per cent of total investment was allocated to construction, transportation and communication, and public utilities, 18 per cent to institution building in the services sectors, and 25 per cent to the commodity producing sectors of agriculture and industry. After peaking in 1977/78 the rate of growth of gross fixed capital formation decelerated in the latter half of the Plan period, in the year and one half ended 1981, the increase was only 4 per cent per annum in real terms (Appendix Table 24). The overall implementation ratio under the FFYP was 63 per cent, the private sector invested 53.5 per cent of the total, while the Government accounted for the remaining 46.5 per cent. In 1980/81 investment expenditure was equivalent to 44 per cent of GDP, compared with the planned ratio of 74 per cent (Appendix Table 25).

Investment implementation in the transportation and communication sector exceeded the planned amount by 24 per cent, and in housing it was almost twice the Plan target (Table 7). These two sectors jointly accounted for 55 per cent of total gross fixed capital formation, the share of each being more than 25 per cent. On the other hand, implementation ratios for agriculture, industry, and construction were 33 per cent, 46 per cent, and 19 per cent, respectively, and for services and public utilities they averaged 53 per cent. As a result, the share in total investment during the FFYP was about 7.5 per cent for each of agriculture, public utilities, and construction, and was 9 per cent for industry. The investment shortfalls occurred mainly in the latter half of the FFYP period and reflected shortages of professional and managerial manpower, absorptive constraints, and difficulties in mobilizing domestic resources.

^{1/} The FFYP was originally intended to cover the period 1976/77-1980/81 (fiscal year ended June 30), it was subsequently extended to the end of calendar year 1981.

Table 6. Yemen Arab Republic Performance of Sectoral Components of Real GDP in the First and Second Five-Year Plans, 1976/77-1980/81 and 1982-86

(In per cent)

	First Five-Year Plan (1976/77-1980/81)			Second Five-Year Plan (1982-86)		
	Planned growth rate	Actual growth rate	Per cent share of GDP 1/ 1975/76	Planned growth rate	Per cent share of GDP 2/ 1981	1986
Agriculture, forestry, and fishing	5.5	1.0	40.7	4.8	28.5	25.7
Mining and quarrying	12.6	18.2	0.6	12.0	1.2	1.5
Manufacturing	11.0	11.7	5.2	14.5	6.0	8.3
Electricity and water	20.4	20.4	0.3	25.0	0.7	1.5
Construction	14.4	10.6	5.7	2.0	8.8	6.9
Housing and business services	3.6	5.1	4.2	6.5	4.3	4.2
Wholesale and retail trade	10.1	2.2	19.2	6.0	16.4	15.7
Transportation and communication	11.3	7.7	3.0	6.0	3.7	3.6
Financial services	9.5	25.9	2.9	8.1	7.8	8.3
Other private services 3/	--	7.0	2.4	7.9	2.3	2.4
Government services	10.0	10.4	10.4	9.0	14.7	16.2
Less accounted for banking services	--	25.5	-2.7	8.7	-6.9	-7.5
Customs duties	--	16.2	8.0	8.2	12.5	13.2
Gross domestic product	8.2	5.9	100.0	7.0	100.0	100.0

Source Central Planning Organization, Second Five-Year Plan (draft), March 1982.

1/ In constant 1975/76 prices.

2/ In constant 1981 prices.

3/ Consists of services of restaurants and hotels, and social and personal services including those of nonprofit organizations and households.

Table 7. Yemen Arab Republic. Sectoral Composition of Gross Fixed Capital Formation in the First and Second Five-Year Plans, 1976/77-1980/81 and 1982-86

(In millions of Yemen rials)

	First Five-Year Plan (1976/77-1980/81) 1/			Second Five-Year Plan (1982-86) 2/	
	Planned total	Per cent share of planned	Actual total	Planned total	Per cent share
Agriculture	2,644	14.4	866	4,430	15.8
Mining and manufacturing	2,250	12.3	1,040	4,415	15.7
Electricity and water	1,433	7.8	863	2,340	8.3
Construction	4,580	25.0	851	640	2.3
Transportation and communication	2,461	13.4	3,054	4,640	16.5
Housing	1,720	9.4	3,284	3,745	13.3
Other sectors 3/	3,249	17.7	1,600	7,890	28.1
Total gross fixed capital formation	18,337	100.0	11,558	28,100	100.0

source: Central Planning Organization, Second Five-Year Plan (draft), March 1982.

1/ In constant 1975/76 prices

2/ In constant 1981 prices.

3/ Includes trade, hotel, government, financial, and other services.

Financing of investment during the FFYP relied entirely on factor income and current transfers from abroad, which amounted to 135 per cent of total gross capital formation (domestic savings were negative). Gross national savings financed 88 per cent of investment spending, with the gap of 12 per cent being covered mostly by foreign borrowing and by some capital transfers from abroad.

Over the FFYP period the consumption/GDP ratio rose from 113 per cent to 117 per cent despite the Plan's intention to reduce this ratio to 98 per cent. This resulted from the weakness in domestic resource mobilization efforts, particularly as the increase in the consumption ratio was wholly on account of the Government. The ratio of imports to GDP increased to 66 per cent in 1980/81, and the resource gap widened to 61 per cent of GDP. This gap was significantly smaller than planned, as imports (particularly of capital goods and raw materials) were kept in check, partly because of the slowdown in investment.

2 The Second Five-Year Plan

The SFYP ^{1/} aims at a real GDP growth rate of 7 per cent per annum. The commodity producing sectors are projected to enlarge their overall share of GDP, with the agriculture, manufacturing, and public utilities sectors growing at 4.8 per cent, 14.5 per cent, and 25 per cent per annum, respectively (Table 6). Total investment is set at YRIs 29.3 billion, ^{2/} which is 45 per cent more than was invested during the FFYP, and a substantially larger proportion is allocated to the commodity producing sectors (40 per cent compared with 24 per cent under the First Plan). The Second Plan calls for a reduction in the ratio of consumption to GDP, from 121 per cent in 1981 to 110 per cent in 1986, as well as for substantial increases in government and private savings.

The SFYP will be subject to annual and quarterly reviews as it is translated into more concrete and detailed investment projects. Planned gross fixed capital formation by sector is shown in Table 7. The largest share of investment will go to the services sector, which includes government as well as financial services. About 16 per cent of total investment is planned for each of agriculture, industry, and transportation and communication. The Government's share in total gross capital formation is projected to rise to 66 per cent, compared with 46.5 per cent under the FFYP (Table 8). The investment/GDP ratio, which was 45 per cent in 1981, is expected to fall to 34 per cent in 1986; however, a lower capital/output ratio is anticipated because of the higher concentration of investment in the productive sectors.

^{1/} The SFYP covers the period 1982-86 but the Plan document was intentionally left in draft form in order to incorporate the views of participants in the Yemen Second International Development Conference, which was convened in April 1982. The Plan is expected to be finalized and ratified by mid-1982.

^{2/} This figure is in constant 1981 prices, in current prices both the amount of investment and the increase over the FFYP would be higher.

Table 8. Yemen Arab Republic: Sources of Finance of Gross Capital Formation in the First and Second Five-Year Plans, 1976/77-1980/81 and 1982-86

(In millions of Yemen rials and per cent of total)

	First Five-Year Plan (1976/77-1980/81)		Second Five-Year Plan (1982-86)	
	Actual total <u>1/</u>	Per cent share	Planned total <u>2/</u>	Per cent share
Negative savings from gross domestic product	-9,481	-46.9	-11,765	-40.2
Net current transfers and factor income from abroad	27,320	135.3	25,600	87.4
Gross national savings	<u>17,839</u>	<u>88.4</u>	<u>13,835</u>	<u>47.2</u>
Net capital transfers from abroad	642	3.2	500	1.7
Net drawings on foreign loans	1,709	8.4	13,500	46.1
Direct private foreign investment	--	--	1,500	5.1
Gross capital formation	<u>20,190</u>	<u>100.0</u>	<u>29,292 <u>3/</u></u>	<u>100.0</u>
Government <u>4/</u>		46.5		66.0
Private		53.5		34.0

Source Central Planning Organization, Second Five-Year Plan (draft), March 1982

1/ In current prices.

2/ In constant 1981 prices

3/ Includes a net change (-) in reserves of YRls 43 million.

4/ Includes cooperative and mixed sectors.

The macroeconomic objectives of the SFYP envisage a reduction in the domestic savings gap from 21 per cent of GDP in 1981 to 10 per cent in 1986. This is based on the assumption that all of the decrease in consumption will be borne by the private sector. The SFYP also projects a decline in imports from 74 per cent of GDP in 1981 to 56 per cent in 1986. Combined with the assumed increase in exports, this would enable the resource gap to be narrowed from 66 per cent of GDP to 44 per cent over the Plan period

The reliance of investment on the inflow of factor income and current transfers from abroad, which characterized the FFYP and contributed to the slowdown in investment implementation in the latter part of the Plan period, is reduced in the SFYP projections. However, gross capital formation is still assumed financed entirely from abroad, financing, with the projected decline in remittances substituted for by increased foreign borrowing

III Public Finance 1/

1 Institutional background

The public sector in the Y A R consists of the Central Government, regional governorates and municipalities, public enterprises, and the Central Government's share in mixed (public and private) enterprises. The governorates and municipalities do not possess any significant revenue sources of their own and depend on the Central Government for most of their current and capital expenditure requirements. In most local jurisdictions, however, Local Development Associations mobilize resources, in cash and in kind, for infrastructural projects. In such cases, the Central Government provides its share of the cost either directly or through the Agricultural Cooperative Credit Bank (Section IV, subsection 4).

The coverage of the budget 2/ is confined to the operations of the Central Government, including all financial allocations to, and from, public and mixed enterprises. Until 1980 the fiscal year ran from July 1

1/ For a detailed discussion of the fiscal system in the Y.A.R., see World Bank, Mobilization of Domestic Financial Resources in the Yemen Arab Republic, Report No. 3554a-YAR, January 6, 1982.

2/ The budget document divides revenues into five and expenditures into six chapters. The first three revenue chapters are tax revenues, administrative fees and fines, and property income. Chapter IV, capital revenues, is a minor item. Chapter V consists mainly of certain financing items which are normally excluded from revenues. Chapters I-I' of expenditures comprise employees' compensation (wages, salaries, and benefits), other purchases of goods and services, current transfer payments, and unclassified items relating mostly to defense expenditures. Chapter V of expenditures covers budgeted capital expenditures while Chapter VI comprises capital transfers, which include external and domestic loan repayments. The expenditure counterpart of external project and commodity loans is not included in the official budget document (this item is, however, incorporated into the tables included in this report).

to June 30, a transitional period was designated for the second half of 1980 and since 1981 the Government and all public enterprises have adopted the calendar year as their accounting period. Budgetary revenues and expenditures are recorded on a cash basis, but a number of intragovernmental revenue and expenditure obligations continue to be settled on a noncash basis, giving rise to discrepancies between the budgetary accounts and the Government's cash accounts with the Central Bank.

Publicly owned enterprises do not play a major role in the economy except in the financial sector. Most nonfinancial public enterprises are either public utilities or agencies engaged in sectors such as broadcasting, distribution, tourism, and transportation. Among manufacturing concerns are establishments specializing in the production of cement, textiles, matches, medicines, and printed matter. The YOMRC has overall responsibility for the importation and distribution of petroleum products. Public financial institutions include, in addition to the Central Bank, the Yemen Bank for Reconstruction and Development and three specialized credit institutions. The nonfinancial public enterprises publish budgetary estimates of revenues and expenditures, but historical balance sheets and income statements are not available. As a rule, these enterprises do not receive any subsidies for their current operations, but they do rely on the Government for capital expansion. A minimal amount of profits taxes has been collected from them

2. Recent fiscal developments

a Overall budgetary position

During the early years of the FFYP sharp increases in government revenues, coupled with substantial inflows of foreign aid, enabled the Government to rapidly expand its current and capital outlays without resorting to domestic borrowing. Between 1975/76 and 1977/78, government revenues rose from YRls 0.6 billion to YRls 2.0 billion, two thirds of which were from import duties. Expenditures on all items, particularly on education, health, and economic infrastructure, increased considerably, boosting total expenditures from YRls 1.0 billion to YRls 2.4 billion (Table 9). With external grants of about YRls 0.4 billion in 1977/78, the budget was essentially in balance. Project and commodity loans, which comprise the bulk of the external financing received by the Y.A.R., rose to YRls 0.3 billion and allowed the Government to continue to add to its deposits with the Central Bank, albeit by a sharply reduced amount. In 1978/79, however, total expenditures jumped to YRls 4.5 billion, with over half of the increase accounted for by a rise in defense outlays to YRls 1.7 billion, while revenues expanded by only 9 per cent, compared with an average growth of over 80 per cent in the preceding two years. Despite a YRls 1.0 billion increase in external grants received, equivalent to the rise in defense expenditures, the budget recorded a deficit of YRls 0.9 billion. The Government increased its foreign borrowing from YRls 0.3 billion to almost YRls 0.6 billion and, for the first time in several years, resorted to borrowing from the Central Bank in order to finance the remainder of the deficit. In 1979/80 the budgetary deficit widened further from 9 per cent of GDP to 15 per cent despite an improvement in revenue collections and the containment of expenditure growth (Table 10).

Table 9. Yemen Arab Republic Summary of Government Finances, 1976/77-1982

(In millions of Yemen rials)

	Actuals					Budget 1982
	1976/77	1977/78	1978/79	1979/80	1981 1/	
Revenues and grants						
Current revenues	1,716.4	2,397.7	3,525.3	3,214.0	3,716.1	4,798.6
Tax revenues	1,292.8	1,985.4	2,160.6	2,755.4	3,041.6	3,277.4
Nontax revenues	(1,074.4)	(1,603.0)	(1,731.9)	(2,123.4)	(2,424.9)	(2,621.0)
Capital revenues	(218.4)	(382.4)	(428.7)	(632.0)	(616.7)	(656.4)
Grants	5.7	3.0	14.1	7.5	8.5	5.6
	417.9	409.3	1,350.6	451.1	666.0	1,515.6
Expenditures						
Current expenditures	1,444.4	2,417.4	4,464.9	5,023.7	6,873.0	7,060.5
Capital expenditures	841.0	1,250.4	1,847.2	2,531.3	2,953.3	3,253.4
Financed by external loans 2/	603.4	1,167.0	2,617.7	2,492.4	3,919.7	3,807.1
Budgeted development expenditures	(188.1)	(276.9)	(581.6)	(558.8)	(1,918.4)	(940.9)
Capital transfers	(274.4)	(613.7)	(1,632.1)	(1,420.6)	(1,485.4)	(2,224.4)
	(140.9)	(276.4)	(404.0)	(513.0)	(515.9)	(641.8)
Overall surplus or deficit (-)	272.0	-19.7	-939.6	-1,809.7	-3,156.9	-2,261.9
Financing of overall surplus or deficit						
External financing	-272.0	19.7	939.6	1,809.7	3,156.9	2,261.9
Project and commodity loans	188.2	281.7	553.8	525.3	2,030.9	920.7
Cash loans	(188.1)	(276.9)	(581.6)	(558.8)	(1,918.4)	(940.9)
Less repayments	(19.5)	(30.9)	(16.5)	(--)	(180.9)	(238.6)
Domestic financing	(-19.4)	(-26.1)	(-44.3)	(-33.5)	(-68.4)	(-258.8)
Central Bank	-532.1	-51.0	380.7	1,807.9	1,263.1	2,022.6
Commercial banks	(-484.9)	(-50.4)	(350.5)	(1,813.9)	(1,263.2)	(2,023.7)
Statistical adjustment	(-47.2)	(-0.6)	(30.2)	(-6.0)	(-0.1)	(-1.1)
	71.9	-211.0	5.1	-523.5	-137.1	-681.4
Memorandum item						
Surplus on current operations	451.8	735.0	313.4	224.1	88.3	24.0
						630.3

Sources Ministry of Finance and Central Bank of Yemen

1/ Provisional (April 27, 1982)

2/ Includes some current expenditures, in particular in 1980.

Revenues rose by 27 per cent (to YRls 2.8 billion) while the rate of growth of expenditures was held to 12 per cent (to YRls 5.0 billion), largely as the result of a 5 per cent reduction in defense spending. Nonetheless, as external grants received returned to their pre-1978/79 levels (of approximately one third the YRls 1.4 billion obtained in 1978/79), the budgetary deficit doubled to YRls 1.8 billion. To finance this deficit, the Government borrowed YRls 1.8 billion from the Central Bank, compared with YRls 351 million in 1978/79.

Table 10. Yemen Arab Republic: Government Revenues and Expenditures in Relation to GDP, 1976/77-1981

(In per cent)

	1976/77	1977/78	1978/79	1979/80	1980	1981
Revenues	<u>20.0</u>	<u>24.2</u>	<u>21.4</u>	<u>23.2</u>	<u>24.9</u>	<u>25.4</u>
Of which tax revenues	(16.6)	(19.5)	(17.0)	(17.9)	(19.8)	(20.2)
Grants	<u>6.4</u>	<u>5.0</u>	<u>13.3</u>	<u>3.8</u>	<u>5.4</u>	<u>11.7</u>
Expenditures	<u>22.3</u>	<u>29.4</u>	<u>43.9</u>	<u>42.1</u>	<u>56.0</u>	<u>54.5</u>
Current	<u>13.0</u>	<u>15.2</u>	<u>18.2</u>	<u>21.2</u>	<u>24.1</u>	<u>25.1</u>
Capital	9.3	14.2	25.7	20.9	31.9	29.4
Overall surplus or deficit (-)	<u>4.2</u>	<u>-0.2</u>	<u>-9.2</u>	<u>-15.2</u>	<u>-25.7</u>	<u>-17.5</u>
Bank-financed surplus or deficit (-)	<u>8.2</u>	<u>0.6</u>	<u>-3.7</u>	<u>-15.2</u>	<u>-10.3</u>	<u>-15.6</u>

Sources: Ministry of Finance and Central Bank of Yemen.

Preliminary actual data for 1981 indicate that revenues grew by less than 8 per cent to YRls 3.3 billion ^{1/} External grants more than doubled to YRls 1.5 billion, thus bringing total government receipts to a level of YRls 4.8 billion. Total expenditures, on the other hand, were YRls 7.1 billion, with capital outlays decreasing somewhat and current expenditures

^{1/} For comparison purposes, fiscal data for 1980 were constructed by aggregating figures for the last half of 1979/80 and for the transitional period July-December 1980.

rising by 10 per cent. However, comparisons of expenditures in 1980 and 1981 are strongly affected by a US\$207 million commodity loan from the U.S.S.R. received in the second half of 1980 (the counterpart of which was recorded as a capital expenditure). Compared with 1979/80, current expenditures rose by 18 per cent per annum and capital expenditures by 33 per cent per annum, bringing the growth rate of total expenditures to 26 per cent per annum. The resulting YRls 2.3 billion deficit amounted to 17 per cent of GDP, somewhat higher than the 15 per cent recorded in 1979/80. The deficit was financed by borrowing YRls 0.9 billion from foreign sources and YRls 2.0 billion from the Central Bank. As a proportion of GDP, Central Bank financing of the deficit amounted to 16 per cent.

Budget estimates for 1982 indicate that revenues are to rise by 56 per cent over their 1981 level (to YRls 5.1 billion), while expenditures are to increase by one third (to YRls 9.4 billion). The budget does not include an estimate of foreign grants.

b. Revenues

Government revenues rose rapidly during the FFYP as a result of increased tax coverage and improved efficiency of collection. Between 1975/76 and 1979/80 total revenues grew at an average annual rate of 46 per cent and expanded as a proportion of GDP from 12 per cent to 23 per cent. Tax receipts, four fifths of which were from import duties, more than quadrupled in the first four years of the Plan and accounted for about 80 per cent of total revenues. ^{1/} Taxes on net income and profits and indirect taxes on goods and services also registered high growth rates, with receipts from the former increasing by 72 per cent per annum and those from the latter by 49 per cent per annum (Table 11). Nontax revenues, about four fifths of which were transfers of Central Bank profits, rose steadily from YRls 112 million in 1975/76 to YRls 632 million in 1979/80.

Tax revenues showed considerable variability during the FFYP period, rising rapidly in the first two years, slumping in 1978/79, and then recovering in the following year. Between 1975/76 and 1977/78 taxes on net income and profits more than quadrupled, taxes on goods and services almost doubled, and all other taxes tripled. In 1978/79, however, the growth of tax revenues fell to 8 per cent compared with about 80 per cent per annum in the preceding two years. Religious and stamp taxes declined in 1978/79 while import duties, whose growth had exceeded the growth of private imports in earlier years, rose by only 6 per cent despite a 47 per cent increase in private import payments. The slackening off of import duties resulted from a reduction in the average tariff rate and from increased exemptions of investment goods.

^{1/} For a summary of the Y.A.R. tax system, see Yemen Arab Republic - Recent Economic Developments, SM/81/173 (8/19/81), Appendix II, pp. 76-82.

Table 11 Yemen Arab Republic Government Revenues, 1976/77-1982

(In millions of Yemen rials)

	Actuals						Budget 1982
	1976/77	1977/78	1978/79	1979/80	1980	1981 1/	
Current revenues	1,292.8	1,985.4	2,160.6	2,755.4	3,041.6	3,277.4	5,120.8
Tax revenues	1,074.4	1,603.0	1,731.9	2,123.4	2,424.9	2,621.0	3,918.4
Taxes on net income and profits	40.3	100.9	139.0	204.2	225.9	310.6	445.5
Wages and salaries	15.6	38.7	66.3	112.8	134.1	169.8	250.0
Commercial and industrial profits	21.7	56.8	66.7	73.3	73.2	116.0	155.0
Rental income	2.3	4.5	4.5	10.9	10.3	17.7	25.0
Other	0.7	0.9	0.5	7.2	8.3	7.1	15.5
Taxes on property	3.4	4.4	4.2	5.5	5.2	4.0	12.0
Real estate transfers	3.4	4.4	4.2	5.5	5.2	4.0	12.0
Taxes on goods and services	34.8	69.0	104.5	189.3	287.4	306.2	498.7
Selective excises on goods	26.8	42.9	47.2	126.0	221.3	232.2	388.0
Tobacco and cigarettes	(4.1)	(1.6)	(0.3)	(5.1)	(4.8)	(5.4)	(8.0)
Petroleum products	(21.1)	(39.4)	(44.4)	(106.2)	(162.8)	(114.0)	(170.0)
Soft drinks	(1.5)	(1.9)	(2.5)	(5.7)	(11.5)	(25.5)	(35.0)
Qat	(--)	(--)	(--)	(9.0)	(42.2)	(87.3)	(175.0)
Selective taxes on services	0.7	0.6	0.6	0.6	0.7	0.5	0.7
Transport	(0.1)	(--)	(--)	(--)	(--)	(--)	(--)
Cinemas	(0.6)	(0.6)	(0.6)	(0.6)	(0.7)	(0.5)	(0.7)
Motor vehicle taxes	6.1	21.7	48.1	62.5	65.4	73.5	110.0
Other	1.2	3.8	8.6	0.2	--	--	--
Taxes on international trade	928.9	1,304.6	1,385.9	1,619.9	1,794.5	1,613.6	2,348.2
Import duties and taxes	928.6	1,304.1	1,385.5	1,619.8	1,794.5	1,613.4	2,348.2
Customs duties	(675.0)	(950.5)	(1,021.1)	(1,169.4)	(1,291.3)	(1,159.2)	(1,550.0)
Defense tax	(176.0)	(235.6)	(245.2)	(320.8)	(369.6)	(301.3)	(555.0)
Statistical tax	(68.9)	(111.4)	(117.5)	(126.7)	(120.5)	(124.7)	(222.0)
Other	(8.7)	(6.6)	(1.7)	(2.9)	(3.1)	(28.2)	(21.2)
Export duties and taxes	0.3	0.5	0.4	0.1	--	0.2	--
Other taxes	67.0	124.1	98.3	104.5	111.9	386.6	614.0
Religious taxes (Zakat)	32.8	59.9	40.0	46.6	38.3	25.1	184.0
Stamp taxes	34.2	64.2	58.3	57.9	73.6	361.5	430.0
Stamp duties	(--)	(19.6)	(16.2)	(27.8)	(32.3)	(55.6)	(80.0)
Consular fees	(--)	(44.6)	(42.1)	(30.1)	(41.3)	(305.9)	(350.0)
Nontax revenues	218.4	382.4	428.7	632.0	616.7	656.4	1,202.4
Property income	157.2	306.4	337.7	510.1	487.6	449.8	893.6
Administrative fees and charges	47.1	61.6	73.1	96.5	98.4	160.0	264.4
Fines and forfeitures	11.4	11.1	14.0	20.0	24.6	24.4	44.4
Other	2.7	3.3	3.9	5.4	6.1	22.2	--
Capital revenues	5.7	3.0	14.1	7.5	8.5	5.6	8.0
Total	1,298.5	1,988.4	2,174.7	2,762.9	3,050.1	3,283.0	5,128.8

Source Ministry of Finance

1/ Provisional (April 27, 1982).

Collections of all taxes improved in 1979/80. Taxes on net income and profits increased from YRls 139 million to YRls 204 million as a result of the collection of past due taxes which had accumulated since 1972, and excise taxes on petroleum products rose from YRls 44 million to YRls 106 million mainly as a consequence of the settlement of accounts between the YOMRC and the Ministry of Finance. With significant increases in collections of most other taxes, total tax revenues were 23 per cent higher in 1979/80, while nontax receipts were up by 47 per cent, reflecting the growth in the Central Bank's foreign assets and the relatively high international interest rates.

Preliminary actual data for 1981 indicate a decline in the growth rate of government revenues to 8 per cent largely as the result of an absolute decrease in the collection of import duties. Import duties fell from YRls 1.8 billion to YRls 1.6 billion, their share in total revenues dropping from 59 per cent to 49 per cent. This downturn was attributable to a number of causes: the value of imports decreased as a result of the sluggish domestic economy and the relatively large imported goods inventories; the valuation of imports for customs duty purposes was lowered from YRls 5.5 to YRls 5.0 per U.S. dollar; and a higher proportion of imports, amounting to about one fifth, was exempt from duty. Furthermore, as in earlier years, difficulties were encountered in the full collection of duties on overland imports. The decline in import duties was accompanied by a decrease in excise taxes on petroleum products from YRls 163 million in 1980 to YRls 114 million in 1981, as the YOMRC continued to offset its liability arising from the collection of excise taxes against purchases of petroleum products by the Government. However, the poor performances of import duty and petroleum excise tax receipts were more than offset by increased collections of other taxes. Taxes on net income and profits rose by 37 per cent as the authorities cleared all the large tax arrears cases and instituted simplified procedures for tax collection; the excise tax on qat doubled to YRls 87 million with the opening of the Hodeidah central market; and the introduction of a YRls 2,000 annual fee for the postponement of military service led to an increase in consular fees from YRls 41 million in 1980 to YRls 306 million in 1981. Nontax revenues were up only slightly as Central Bank profits declined as a result of the lower level of international reserves.

Revenues for 1982 are budgeted at YRls 5.1 billion, with tax collections rising by 50 per cent to YRls 3.9 billion and nontax receipts doubling to YRls 1.2 billion. A number of administrative improvements and additional taxes are expected to have a significantly favorable effect on tax revenues. Taxes on net income and profits are budgeted to increase by 43 per cent as a result of the continued application of the simplified collection procedures introduced in 1980, settling the remaining tax arrears cases, and subjecting the salaries of members of the armed forces to taxation. Excise taxes on petroleum products are estimated to rise by almost 50 per cent as the practice of offsetting excise tax liabilities against government purchases of petroleum products

has been discontinued. In addition, a further increase in consular fees is expected as the Y.A.R.'s embassies abroad start collecting the annual fee for the postponement of military service. Although collections of these taxes during the first quarter of 1982 fell short of their budgetary estimates, they nonetheless displayed sharp rises compared with the corresponding period of 1981. The reduction in the real estate transfer tax rate from 10 per cent to 2 per cent, coupled with the removal of the exemption for transfers of small parcels, caused first quarter receipts to more than double; however, this is not likely to have a noticeable effect on the overall fiscal outcome. In contrast, first quarter import duty collections declined slightly despite the sharp budgeted increase from YRls 1.6 billion to YRls 2.3 billion. Excise taxes on qat are also expected to rise significantly with the coming into operation of the Sana'a and Taiz central markets.

c. Expenditures

During the first four years of the FFYP total government expenditures increased by over 400 per cent to a level of YRls 5.0 billion, rising from 20 per cent of GDP in 1975/76 to 42 per cent in 1979/80. Current expenditures grew from YRls 617 million to YRls 2.5 billion, while capital outlays expanded from YRls 361 million to about the same level as current expenditures. All components of current and capital spending increased rapidly, particularly outlays on health, education, and economic and social services, the result of which was a reduction in the share of the defense and general public services categories from 72 per cent to 55 per cent of total budgeted expenditures (Table 12). ^{1/} Outlays on health, education, and economic and social services rose from YRls 169 million in 1975/76 to YRls 1.5 billion in 1979/80, equivalent to 22 per cent and 33 per cent of total budgeted spending, respectively.

Between 1979/80 and 1981 total outlays rose by 41 per cent to YRls 7.1 billion (55 per cent of GDP). Capital expenditures increased by 53 per cent, with the externally financed portion rising by over two thirds from YRls 559 million to YRls 941 million, while current spending was up by 29 per cent. As in the earlier years of the Plan, expenditures on health, education, and economic and social services grew faster than defense and general public services outlays. In terms of the budgetary classification of expenditures, the share of salaries and wages in current spending, which had increased significantly in earlier years as a result of the expanding size of the public administration, remained unchanged at 40 per cent (Appendix Table 26).

^{1/} Data on the functional classification of externally financed capital expenditures are not available, and therefore only budgeted current and capital outlays are taken into account in calculating the functional distribution of government expenditures.

Table 12. Yemen Arab Republic: Functional Classification of Government
Total Expenditures, 1976/77-1982

(In millions of Yemen rials)

	Actuals					1981 1/	Budget 1982
	1976/77	1977/78	1978/79	1979/80	1980		
General public services	328.9	518.6	736.3	940.6	1,087.6	1,169.2	1,723.1
General administration	219.4	331.8	471.4	590.7	746.3	716.5	1,137.1
Public order and safety	109.5	186.8	264.9	349.9	341.3	452.7	586.0
Defense	488.9	655.7	1,705.1	1,507.8	1,545.3	2,025.2	2,403.9
Education	96.0	220.0	427.7	568.8	673.0	873.5	1,420.6
Health	37.5	86.0	135.3	180.1	206.6	223.9	467.0
Community and social services	29.3	56.1	98.7	154.2	104.1	112.1	163.9
Recreational and related activities	12.0	31.6	51.3	60.4	51.9	39.2	53.5
Broadcasting, press, and information	7.7	9.6	15.2	56.4	52.2	72.8	110.4
Religion	9.6	14.9	32.2	37.4	--	--	--
Economic services	124.2	312.3	359.2	578.3	795.0	830.6	987.5
Agriculture	19.1	42.0	43.1	61.7	76.4	108.0	139.2
Mining	0.9	6.3	--	--	--	--	--
Electricity and water	--	--	--	--	--	0.6	5.3
Construction	70.4	190.5	204.5	255.6	364.6	404.5	649.3
Transportation and communication	30.4	60.8	91.2	244.7	338.2	300.2	169.3
Commerce	3.4	12.7	20.4	16.3	15.8	17.3	24.4
Interest on public debt	10.6	15.4	17.0	22.1	27.0	35.3	20.0
Capital transfers	140.9	276.4	404.0	513.0	515.9	641.8	1,026.8
Unclassified capital expenditures	--	--	--	--	--	208.0	--
Budgeted expenditures	1,256.3	2,140.5	3,883.3	4,464.9	4,954.5	6,119.6	8,212.8
Capital expenditures financed by external loans 2/	188.1	276.9	581.6	558.8	1,918.4	940.9	1,215.0
Total	1,444.4	2,417.4	4,464.9	5,023.7	6,872.9	7,060.5	9,427.8

Source: Ministry of Finance.

1/ Provisional (April 27, 1982)

2/ Counterpart of project and commodity loans, which is not included in the budget documents.

More than 40 per cent of all current outlays were on defense in 1981, 29 per cent on general administration and public safety, and the rest on health, education, and other services, with expenditures on education exceeding those on health and other services combined (Appendix Table 27). As regards capital expenditures, defense, economic services, and capital transfers each accounted for about one quarter of total budgeted outlays (excluding YRls 208 million of unclassified expenditures), with the remaining quarter allocated mainly to general public services, health, and education, capital spending on education increased by 50 per cent in 1981 (Appendix Table 28). In addition to budgeted capital expenditures, YRls 941 million of capital spending was externally financed in 1981, thus bringing total capital outlays to YRls 3.8 billion, equivalent to 29 per cent of GDP

For 1982 current expenditures are estimated to increase by 38 per cent to YRls 4.5 billion, while budgeted capital outlays are projected to rise by 30 per cent to YRls 3.7 billion. With an anticipated 29 per cent increase in externally financed capital spending, total capital outlays would be YRls 4.9 billion, leading to an overall level of government expenditures of YRls 9.4 billion. In terms of the budgetary classification of expenditures, salaries and wages are estimated to rise by 50 per cent in 1982 and to account for 43 per cent of total current outlays. Except for education, health, and economic services, all functional current expenditure categories are budgeted to expand by about one third. Current outlays on education are projected to increase by 58 per cent to YRls 879 million, while current spending on health, which had decreased to YRls 103 million in 1981, is estimated to rise to YRls 193 million in 1982. Current expenditures on economic services, in contrast, are expected to grow by only 14 per cent, to a level of YRls 207 million. Similar to the allocations for current spending, capital expenditure allocations for education and health are sharply higher. Substantial increases are also budgeted for capital spending on general administration, broadcasting, and construction, as well as for capital transfers. The allocation for capital projects in defense, on the other hand, is slightly lower than the preliminary actual figure for 1981.

IV Money and Credit

1 Introduction

The banking system in the Y A R consists of the Central Bank of Yemen (established in 1971), eleven commercial banks, and three specialized banks. The Yemen Bank for Reconstruction and Development is the largest commercial bank (with about two thirds of the commercial banks' total assets) and is the only one with branches outside the main cities, it is 51 per cent owned by the Government. Eight of the other ten commercial banks are branches of foreign banks, while the remaining two are locally

incorporated joint ventures with the Y.A.R. and foreign participation. ^{1/} The number of specialized banks was reduced from four to three at the end of 1981 with the merger of the Agricultural Credit Bank and the National Cooperative Development Bank into the Agricultural Cooperative Credit Bank. This bank, along with the Industrial Bank of Yemen and the Housing Credit Bank, are government-sponsored institutions set up to promote economic activity in their respective sectors; they do not generally accept deposits from the public and are not included in the monetary survey.

2. Recent developments

The rate of growth of domestic liquidity (money and quasi-money) declined steadily from 74 per cent in 1976/77 to 8 per cent in 1981 (Table 13 and Appendix Tables 29-32). In the first two years of this period, external transactions exerted a highly expansionary impact on domestic liquidity as reflected in the large increases in the net foreign assets of the banking system, while the liquidity effect of the Government's financial operations was contractionary. The year 1978/79 was pivotal, with the addition to net foreign assets being considerably smaller than in the previous year and the Government becoming a net borrower from the banking system for the first time in several years. The continued deceleration in monetary expansion in the following two and one-half years occurred as the Government's bank-financed budgetary deficit widened substantially. As government financial operations became more expansionary, their liquidity impact was offset by rising overall balance of payments deficits.

In 1981 the growth of domestic liquidity was less than in the preceding several years in absolute as well as in relative terms. This reduced monetary expansion reflected the weakening overall balance of payments position and the resulting very large decrease in the net foreign assets of the banking system. Net bank borrowing by the Government, at over YR1s 20 billion, was 60 per cent higher than in the preceding year. Credit to the nongovernment sector was less than half its level in 1980 as public and mixed enterprises and particularly the private sector reduced their borrowing. Most of the public and mixed enterprises' borrowing was from the Central Bank to obtain counterpart funds for matching with foreign financing or to cover project expenditures pending the disbursement of external loans, borrowing of working capital from the commercial banks increased very little (Appendix Table 33). The very substantial drop in credit to the private sector was a consequence of several factors: the less buoyant economic conditions in the Y.A.R. and abroad which, among other things, led to a reduction in private sector imports, more restrained lending practices on the part of the foreign branch banks, which in earlier years had been trying to establish a presence in the local market, the growing proportion of imports transported over land routes, which tend to be financed outside the banking system, and the high level of interest rates.

^{1/} For a detailed discussion of commercial banking in the Y.A.R., see Yemen Arab Republic - Recent Economic Developments, SM/81/173 (8/19/81), pp. 34-35.

Table 13. Yemen Arab Republic Factors Affecting Domestic Liquidity, 1976/77-1982

	1976/77	1977/78	1978/79	1979/80	1980	1981	January-March 1981	1982
(In millions of Yemen rials)								
Changes in:								
Domestic liquidity	1,861.4	1,834.7	1,377.9	1,239.6	882.1	725.5	8.2	501.2
Money	1,487.7	1,564.9	1,192.4	1,077.0	541.0	303.4	-5.8	438.8
Quasi-money	373.7	269.8	185.5	162.6	341.1	422.1	14.0	62.4
Net foreign assets ^{1/}	1,520.7	1,913.8	574.0	-127.3	-176.4	-1,326.0	-980.2	-71.3
Domestic assets	340.8	-79.1	803.9	1,366.5	1,058.7	2,051.3	988.2	572.5
Claims on Government (net)	-532.1	-51.1	380.7	1,807.9	1,263.1	2,022.6	927.3	666.5
Claims on nongovernment sector	908.2	80.7	644.5	630.3	649.2	294.3	-2.5	33.1
Public and mixed enterprises	(-24.5)	(162.9)	(188.2)	(315.6)	(324.9)	(264.5)	(-31.3)	(-122.1)
Private sector	(932.7)	(-82.2)	(456.3)	(314.7)	(324.3)	(29.8)	(28.8)	(155.2)
Other items (net)	-35.3	-108.7	-221.3	-1,071.7	-853.6	-265.6	63.4	-127.1
(In per cent per annum)								
Growth rates of:								
Domestic liquidity	74	42	22	16	11	8	--	20
Net foreign assets ^{1/}	60	47	10	-2	-3	-22	-66	-6
Claims on Government (net)	-131	-5	38	...	168	100	184	66
Claims on public and mixed enterprises	-24	209	78	74	55	29	-14	-41
Claims on private sector	201	-6	35	18	19	1	6	30
(Ratio)								
Memorandum items.								
Ratio of GDP to money ^{2/}	2.34	1.91	1.79	1.75	1.68	1.68	...	...
Ratio of GDP to domestic liquidity ^{2/}	1.89	1.55	1.47	1.45	1.40	1.36	...	...

Sources: Central Bank of Yemen and Central Planning Organization.

^{1/} Adjusted to remove the effect of changes in the valuation of the Central Bank's foreign assets and liabilities resulting from exchange rate fluctuations.^{2/} Denominators are beginning and end of period averages.

In the first quarter of 1982, on the other hand, monetary expansion accelerated to 20 per cent at an annual rate, compared with no growth in the same period of the preceding year. The liquidity impact of external transactions was much less contractionary, as substantial foreign cash grants were received, and this factor also led to a reduced need for bank financing of the budgetary deficit. Credit to public and mixed enterprises contracted by a larger amount than in the first quarter of 1981, but this was more than offset by increased lending to the private sector. Private sector demand for credit was stimulated by optimism engendered by the initiation of the SFYP, a higher level of private sector imports, and the lowering of commercial bank interest rates in December 1981.

The velocity of money (as measured by the ratio of GDP to either money alone or to domestic liquidity) has more or less stabilized in recent years after having declined significantly during the mid-1970s. The decrease in velocity during the earlier period reflected the growing monetization of the economy which helped mitigate the impact of the rapid monetary expansion on the domestic price level and the balance of payments.

3. Monetary policies

Commercial banks are subject to two reserve requirements--one obliging them to hold clearing balances with the Central Bank and vault cash (termed cash reserves) and the other requiring them to hold additional deposits with the Central Bank (termed statutory reserves). Prior to March 1981 these reserves had to be held against deposits in both domestic and foreign currency, and against all deposits and borrowings from banks, including the head office and other branches of the same bank. To stimulate the local interbank market, interbank deposits and borrowings were exempted from the reserve requirements in March 1981, and in June 1981 foreign currency deposits were also exempted. Furthermore, to deal with an anomaly in the interest rate/reserve requirement structure which had discouraged banks from accepting longer-term deposits, in November 1981 time deposits with a maturity of nine months or more were exempted from the cash reserve requirement and those with a maturity of one year or more were exempted from both the cash and the statutory reserve requirements.

Since the end of 1975 both the cash and the statutory reserve requirements have been set at 10 per cent, for a combined ratio of 20 per cent. However, to encourage banks to provide low-cost financing to certain development projects, from time to time they have been permitted to deduct amounts loaned to these projects from their required reserves. In addition, so that the cotton crop can be marketed at low interest rates, banks have annually been allowed to reduce their required reserves by the amount of their seasonal lending to the government-owned General Cotton Company.

The structure of interest rates on commercial bank loans and deposits in Yemen rials was revised on several occasions in 1980 and was changed again in May and in December 1981 (Appendix Table 34). In May the maximum

interest rate allowed to be charged on loans was raised by 2 percentage points and the minimum rates to be paid on deposits were increased by 1 percentage point for each category of deposit. In December, on the other hand, the maximum lending rate was lowered to the level (15 per cent) that had prevailed before May and the minimum deposit rates were decreased by 1-2 percentage points (making the rate on savings deposits 10 per cent and the rates on time deposits 9½-12 per cent depending on maturity). The interest rate adjustments in the last two years have been undertaken in the light of movements in international rates and also taking into account domestic economic and financial conditions. Frequently, there has been a differential in favor of Eurodollar rates, which has encouraged some capital outflow.

Until November 1980 the specialized banks' lending rates were adjusted in line with the commercial banks' maximum lending rate so that the specialized banks' rates on short-term and on medium- and long-term loans were 3 percentage points and 4 percentage points below the commercial banks' maximum lending rate, respectively. Since November 1980, however, the lending rates of the specialized banks have been held constant at 11 per cent for short-term loans and 10 per cent for medium- and long-term loans. The lower interest rates offered by specialized banks are intended to encourage investment in priority sectors.

4. Specialized banks

The specialized banks--the Agricultural Cooperative Credit Bank (ACCB), the Industrial Bank of Yemen (IBY), and the Housing Credit Bank (HCB)--were set up by the Government to provide credit and foster the development of their respective sectors. The ACCB is wholly owned by the Government, and the Government is the major shareholder in the IBY and HCB. Through its capital subscriptions and loans, the Government had furnished over 60 per cent of the banks' resources as of the end of 1981. The ACCB and the IBY have also obtained financing from bilateral and multilateral foreign sources. The balance sheets of the specialized banks are shown in Appendix Tables 35-38. ^{1/}

As of the end of 1981, the Agricultural Credit Bank (ACB), which had been established in 1975, and the National Cooperative Development Bank (NCDB), which had begun operations in 1980, were merged into the ACCB. This organizational move was intended mainly to reduce administrative duplication and improve coordination. The ACB was the oldest as well as the largest of the specialized banks, and was set up to provide low-cost production credit to farmers. Its loans were mainly seasonal in nature and generally took the form of fertilizers, insecticides, or other production inputs rather than cash; the average size of loan appears to have been about YR1s 500. The NCDB was intended to supply

^{1/} The ACCB was created at the end of 1981 by the merger of the Agricultural Credit Bank and the National Cooperative Development Bank, but separate balance sheets for the latter two banks continued to be prepared pending the completion of some legal formalities.

banking services and credit to cooperatives and Local Development Associations rather than to individual farmers. The NCDB could lend up to half the cost of a project; the maximum maturity of its loans was fixed at three years or the period remaining until the term of the borrowing organization's board of directors expired, whichever was shorter. The ACCB will carry out the functions of both the ACB and the NCDB, while endeavoring to eliminate overlap.

The IBY was established in 1976 to promote new industries and foster the expansion of existing ones including small-scale operations and handicrafts. The IBY may take an equity interest in an enterprise as well as lend for the acquisition of fixed assets, but its combined equity and lending exposure in any one firm may not exceed half the firm's capital or 10 per cent of its own capital, the maturities of its loans range from 1-7 years. The IBY also has a unit to undertake project identification and feasibility studies.

The HCB was set up in 1977 to provide housing credit to low-income earners. The HCB's loans have a maximum maturity of seven years and an average size of about YRls 60,000, most have in fact been accorded to government employees. The HCB also finances housing projects, and has invested in construction firms to stimulate house building.

V External Sector

1 Recent balance of payments developments

After showing considerable strength during the mid-1970s, the Y A R 's balance of payments began to weaken in the latter part of the decade (Table 14 and Appendix Table 39). Inflows of workers' remittances, by far the largest source of foreign receipts, and imports, the main payment item, have been the principal determinants of the overall balance of payments position, although in some years receipts of official grants and loans have also been important. Through the mid-1970s the Y A.R. experienced an extraordinary growth in remittances from its nationals working abroad, principally in Saudi Arabia. At the same time, the growth of imports was restrained by transportation bottlenecks and by the lagged response of import demand to the remittance-induced increases in disposable income. As a consequence, in 1976/77 and 1977/78 the balance of payments recorded both current and overall surpluses (averaging about US\$260 million and US\$405 million, respectively). However, in 1978/79 remittances declined somewhat reflecting regional uncertainties as well as a tapering off of demand for Yemeni workers while imports expanded sharply, leading to a current deficit for the first time in several years and to a drop in the overall surplus to US\$160 million. These trends have more or less continued since then with the result that the overall balance, which slipped from surplus to deficit in 1979/80,

has remained in deficit. Slackening demand for labor in neighboring countries has caused remittances to ebb, while imports, stimulated by improvements in the domestic transportation system, the delayed response of demand to income growth, and the large injections of liquidity into the economy through the bank-financed budgetary deficit, have continued to expand, although there was a decrease in dollar terms in 1981.

In 1981 inward remittances declined by 26 per cent to US\$988 million. This sharp drop was a result of two main factors: reduced emigration caused by narrowing wage differentials and by increased competition for jobs in the oil producing countries from workers of other nationalities; and a greater tendency for expatriate workers to remit their earnings through money changers or in the form of imports brought overland (in both of which cases the remittances are likely to go unrecorded in the balance of payments). Imports also decreased in dollar terms from US\$1,915 million in 1980 to US\$1,748 million in 1981, although because of the appreciation of the dollar over this period this exaggerates the actual fall in import payments. ^{1/} Service payments were somewhat higher in 1981 than in 1980 while service receipts remained about the same, leading to a small widening of the deficit on services account. Government transfer receipts rose reflecting the receipt of large external grants, but this was not sufficient to offset the decrease in private remittances and the transfers account also showed a slight deterioration. With the improved trade balance there was some narrowing of the current deficit to US\$664 million, but the return of foreign loan disbursements to closer to their historical trend (they were also affected in 1980 by the U.S.S.R. commodity loan) meant that the overall deficit more than doubled from US\$147 million in 1980 to US\$331 million in 1981.

In the first quarter of 1982 imports in dollar terms were up by almost 50 per cent from their level in the corresponding period of the preceding year, with much of the increase occurring in government imports. The continued rise in service payments, combined with the stagnation of receipts, led to a further deterioration in the services account, but the receipt of additional foreign grants and the somewhat higher level of inward remittances caused a substantial improvement in the transfers account. The current deficit remained virtually unchanged, but with the increased disbursements of external loans (combined with lower repayments) and the turnaround in the impact of net errors and omissions, the overall deficit declined to US\$30 million from US\$233 million in the first quarter of 1981.

^{1/} This comparison is also affected by the fact that government imports in 1980 were above trend due to the receipt of a large commodity loan from the U.S.S.R.; moreover, imports in 1981 may be understated as a result of the shift to overland trade routes (which is the counterpart of the under-recording of remittances mentioned above).

Table 14 Yemen Arab Republic Balance of Payments, 1976/77-1982

(In millions of U.S. dollars) 1/

	1976/77	1977/78	1978/79	1979/80	1980	1981	January-March 1981 1982	
Trade balance	-619.0	-794.0	-1,247.4	-1,539.0	-1,902.6	-1,737.9	-342.6	-507.6
Exports, f.o.b. 2/	18.6	7.1	2.9	7.1	12.8	10.3	3.7	0.9
Imports, f.o.b. 3/	-637.6	-801.1	-1,250.3	-1,546.1	-1,915.4	-1,748.4	-346.3	-508.4
Government	(-72.4)	(-134.5)	(-268.3)	(-308.2)	(-516.4)	(-364.1)	(-48.4)	(-174.1)
Private	(-565.2)	(-666.6)	(-982.0)	(-1,237.9)	(-1,399.0)	(-1,384.3)	(-297.9)	(-334.4)
Services (net)	-56.0	-69.0	-35.7	-0.3	-20.8	-51.5	-28.3	-54.2
Receipts	93.8	131.0	221.7	339.1	345.3	357.1	80.6	59.2
Government 5/	(38.6)	(70.5)	(113.8)	(161.0)	(136.3)	(111.6)	(27.8)	(17.0)
Private	(55.2)	(60.5)	(107.9)	(178.1)	(209.0)	(245.5)	(32.8)	(42.2)
Payments	-149.8	-200.0	-257.4	-339.4	-366.2	-408.5	-88.9	-13.4
Government 6/	(-22.7)	(-46.1)	(-55.8)	(-26.3)	(-29.8)	(-79.8)	(-16.1)	(-35.7)
Private	(-127.1)	(-153.9)	(-201.6)	(-313.1)	(-336.4)	(-328.7)	(-72.8)	(-77.7)
Unrequited transfers (net)	922.7	1,139.4	1,145.0	1,210.3	1,232.2	1,125.1	206.3	395.3
Receipts	1,039.8	1,412.8	1,555.0	1,471.4	1,488.8	1,324.4	274.0	473.6
Government 7/	(104.4)	(100.5)	(311.7)	(111.8)	(148.0)	(336.8)	(31.4)	(212.8)
Private 8/	(935.4)	(1,312.3)	(1,243.3)	(1,359.6)	(1,340.8)	(987.6)	(242.6)	(260.8)
Payments	-117.1	-273.4	-410.0	-261.1	-256.6	-199.4	-67.7	-78.2
Government	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(-0.2)
Private 8/	(-117.1)	(-273.4)	(-410.0)	(-261.1)	(-256.6)	(-199.4)	(-67.7)	(-78.0)
Current account	247.7	276.4	-138.1	-329.0	-691.2	-664.3	-164.6	-166.4
Nonmonetary capital	49.4	75.6	116.0	157.8	494.7	230.0	11.0	115.7
Drawings on loans	53.7	81.4	113.7	124.2	466.5	262.1	50.4	106.6
Repayments of loans	-4.3	-5.8	-9.8	-7.4	-15.2	-57.5	-46.1	-1.6
Investments (net) 9/	--	--	12.1	41.0	43.4	25.4	6.7	10.8
Commercial banks (net)	109.1	-62.1	32.8	-119.4	-72.3	1.0	24.2	-13.7
Capital account	158.5	13.5	148.8	38.4	422.4	231.0	35.2	102.0
Net errors and omissions 10/	40.8	73.3	149.7	142.9	121.7	102.0	-103.1	34.7
Overall balance	447.0	363.2	160.4	-147.7	-147.1	-331.3	-232.5	-29.6
Reserve movements (increase in assets-)	-447.0	-363.2	-160.4	147.7	147.1	331.3	232.5	29.6
Changes in net foreign assets of Central Bank	-442.3	-385.2	-202.6	121.2	179.5	369.1	271.6	29.6
Valuation adjustments	-4.7	22.0	42.2	26.5	-32.4	-37.8	-39.1	--

Source Central Bank of Yemen

1/ Converted at US\$1 = YR1s 4.5

2/ Includes re-exports until 1978/79

3/ Import figures before 1979/80 were estimated by assuming that 3 per cent and 12 per cent of total c i f import payments were insurance and freight costs, respectively, and these amounts were added to private service payments. Government import figures include some government service payments

4/ Adjusted to reflect disbursement of commodity loan of US\$207.4 million from the U S S R

5/ Consists mainly of investment income from official reserves and local expenditures of foreign aid agencies

6/ Some government service payments are included in government imports

7/ Includes cash grants and counterpart of commodity grants

8/ Consists mainly of workers' remittances

9/ Includes both government and private investments

10/ Includes short-term nonmonetary capital flows

2. Merchandise trade

a. Exports

The Y.A.R.'s exports are negligible relative to its imports (US\$11 million versus US\$1,748 million in 1981, respectively). ^{1/} The stagnation of export receipts in recent years has been mainly due to a decline in the traditional exports of cotton and coffee. Production of these crops has been adversely affected by agricultural labor shortages and rising rural wages. The composition of exports has shifted toward more remunerative agricultural products such as vegetables and fruits, and toward simple manufactures such as biscuits and plastic pipes (Appendix Table 40). As regards the direction of exports, the Y.A.R.'s principal export markets are Saudi Arabia and the People's Democratic Republic of Yemen.

b. Imports ^{2/}

According to balance of payments data, imports in dollar terms declined by 9 per cent in 1981 after having risen by 47 per cent per annum in the preceding four and one-half years. This turnaround partially reflected the appreciation of the dollar, which rose against the SDR by 9 per cent from 1980 to 1981, and was also affected by the abnormally high level of government imports in 1980 (due to the receipt of a large commodity loan from the U.S.S.R.) and by the increasing volume of imports

^{1/} Exports are believed to be understated in the balance of payments as a result of the growing border trade and the financing of exports outside the banking system.

^{2/} This subsection makes use of both balance of payments and customs data on imports. The balance of payments data are compiled by the Central Bank of Yemen on the basis of letters of credit settled through the banking system, and differ from actual imports as a result of the differences in timing between payments for imports and their arrival in the Y.A.R. These data also understate imports to the extent that they are financed outside the banking system. With the development of the transportation system and the growing border trade, a sizable volume of imports is now shipped overland, and a substantial part of these imports is financed by merchants and money changers and by returning workers who are remitting their earnings in the form of goods. Smuggling is also on the rise. To partially correct for these factors, recorded private imports over land routes are adjusted upward by 10 per cent, with the counterpart added to private transfer receipts.

Since 1979/80 import data have been reported on an f.o.b. basis. In order to convert the earlier data from c.i.f. to f.o.b., freight and insurance payments were estimated to be equal to 12 per cent and 3 per cent, respectively, of private imports c.i.f., and these amounts were added to private service payments. Government import data were left intact because most payments for freight and insurance on government imports were already recorded in the services account. However, data on government imports financed by official project and commodity loans include some service payments for which no separate estimates are available

transported over land routes (a substantial portion of which is not caught in the balance of payments). Excluding the import counterpart of the U.S.S.R. commodity loan in 1980, government imports have grown steadily in recent years and in 1981 accounted for 21 per cent of total imports, compared with 11 per cent in 1976/77. Private imports, on the other hand, decreased from 89 per cent to 79 per cent of the total over the same period. In addition to the factors mentioned above, the 1 per cent fall in the dollar value of private imports in 1981 was due to inventory adjustments on the part of importers in response to the slowdown in domestic economic activity. In the first quarter of 1982, in contrast, private imports were up by 12 per cent compared with the corresponding period of 1981, while government imports were over three and one-half times their earlier level. Total imports were 47 per cent higher than in the same period of the preceding year, and were running at an annual rate of US\$2,034 million, compared with US\$1,748 million in 1981.

As regards the commodity composition of imports, customs data indicate that machinery and equipment, foodstuffs, and basic manufactures have been the most important categories of imports (Appendix Table 41). The substantial food imports are attributable to the poor performance of the domestic agricultural sector in recent years in the face of rapid growth of population and disposable income. The machinery and equipment and basic manufactured goods imports, on the other hand, have been concentrated in capital and intermediate goods such as iron and steel, cement, and transport and other machinery and equipment. Most of these imports have been inputs into the development effort including the strong expansion in housing construction. The Y.A.R. must import all of its energy requirements in the form of refined petroleum products (Section I, subsection 4). These imports are considerably understated in the customs data, which nonetheless show them to be the fastest growing category of imports. At present, imports of petroleum products are reported to be about US\$350 million per annum, equivalent to 17 per cent of total imports at the rate recorded in the first quarter of 1982.

The customs data on the geographical distribution of imports (Appendix Table 42) show that the share of the Arab League countries in the Y.A.R.'s total imports dropped from 30 per cent in 1978/79 to 24 per cent in 1980, mainly reflecting a decline in Saudi Arabia's share from 24 per cent to 19 per cent ^{1/}. In contrast, the share of Asian countries (principally Japan and the People's Republic of China) rose from 26 per cent to 32 per cent over the same period. The third major source of imports has been the European Economic Community (EEC) countries. The EEC's share was 30 per cent in 1980, with France, the Federal Republic of Germany, the United Kingdom, Italy, and the Netherlands each supplying 5 per cent or more of total imports.

^{1/} It should be noted that the share of Saudi Arabia in the Y.A.R.'s imports is overstated to the extent that imports transshipped through that country are recorded as originating there.

3. Services and transfers

a. Services

The services account of the balance of payments has shown continuous relatively small deficits in recent years as both receipts and payments have risen rapidly. Following movements in the Y.A.R.'s official reserves, government service receipts, which are primarily the interest earnings thereon, increased through 1979/80 and have declined sharply since then. This decline has been offset by a rise in private service receipts, however, mostly as a result of growth in Yemenia Airways earnings, tourism receipts, and private investment income. Private service payments have closely tracked private imports, expanding vigorously through 1980 and then leveling off, while government service payments have been comparatively modest except in a few years. 1/

b Transfers

The transfers account has recorded steady and sizable surpluses in recent years as the leveling off and subsequent decline of private receipts has been offset by broadly similar movements in private payments and by variations in government receipts. Private transfer receipts are predominantly remittance inflows from Yemenis working abroad. The unfavorable trend in inward remittances in the last few years partly reflects a tapering off in the number of expatriate workers. Employment opportunities for unskilled labor in neighboring countries, especially Saudi Arabia, have fallen off as construction firms have switched to more capital-intensive techniques, and there has also been increased competition for jobs from workers of other nationalities. The result has been a narrowing of wage differentials between the labor-importing countries and the Y.A.R. and a reduced incentive to emigrate. The number of Yemenis working abroad was also affected by the tightening of emigration regulations by the Government in 1980. Beyond these developments, however, two institutional changes have taken place which may have led to increased underrecording of workers' remittances in the balance of payments. 2/ First, with the improved transportation network, emigrant workers are now remitting more of their earnings in the form of goods rather than cash, because of the lower prices in some neighboring countries; a part of these goods is smuggled into the Y A R , but even when border formalities are complied with, the imports and associated remittances are not caught in the balance of payments which is based on bank records. Secondly, the expanding border trade has created a market for foreign exchange outside the banking

1/ Inasmuch as some service payments are included in government imports, government service payments are understated. However, the extent of this understatement is not known.

2/ These factors are some of the same as those leading to the understatement of private imports in the balance of payments (see footnote 2, p. 37).

system. Rather than sell the foreign exchange acquired from emigrant workers to commercial banks, money changers sell it directly to merchants or use it themselves to finance imports. Since this volume of remittances bypasses the banks, neither it nor the associated imports are captured in the balance of payments.

As regards private transfer payments, these are primarily outward remittances by foreign workers employed in the Y.A.R. Remittance outflows grew rapidly through 1978/79 as additional expatriate workers were required to meet labor shortages, especially in the skilled and professional categories. More recently, with the winding down of the construction boom and the return home of many Yemeni workers who had been employed abroad, the demand for foreign labor has moderated and the volume of outward remittances has decreased.

Government transfer receipts consist mainly of cash grants provided by neighboring countries, principally Saudi Arabia. In most years these grants have amounted to about US\$100 million. In 1978/79, however, the Government received about three times that amount to finance defense-related import requirements, and additional large grants were also received in 1981 and in the first quarter of 1982. Government transfer receipts also include the estimated value of commodities donated by foreign official sources.

4. Nonmonetary capital

The nonmonetary capital account of the balance of payments includes only official loan disbursements, repayments of the same, and foreign direct investment. Estimates of direct investment have been reported separately since 1978/79 but were included in private transfer receipts before then. Estimates of private long- and short-term capital flows are not available, and these items comprise part of the aggregate of net errors and omissions.

Drawings on official loans increased steadily from US\$54 million in 1976/77 to US\$262 million in 1981 (excluding a US\$207 million commodity loan received from the U.S.S.R. in 1980). Repayments have remained comparatively low, although in 1981 they jumped to US\$58 million, equivalent to 22 per cent of drawings. Most of the disbursements have been against project loans, although cash and commodity loans accounted for 42 per cent of the total in 1981 (Appendix Table 43). The largest lenders to the Y.A.R. during 1981 were the U.S.S.R., Saudi Arabia, and Iraq.

5. External debt

External public debt outstanding as of the end of 1981 amounted to US\$1,700 million, of which US\$1,101 million was disbursed (Appendix Table 44). Outstanding debt owed to multilateral and regional organizations totaled US\$392 million, of which the International Development Association and the Arab Fund for Economic and Social Development provided 58 per cent and 34 per cent, respectively. Outstanding debt from bilateral sources was US\$1,308 million, with the U.S.S.R., Saudi Arabia, Iraq, and

the People's Republic of China supplying 33 per cent, 24 per cent, 15 per cent, and 9 per cent, respectively. Other important bilateral lenders have been Kuwait, Abu Dhabi, and Japan. All of the Y.A.R.'s external public debt is on concessional terms. There is no available information on external private debt, but the amount is believed to be negligible.

Until recently, the Y.A.R.'s external debt servicing requirements were very low, equivalent to less than 1 per cent of current account receipts (Appendix Table 45). However, both interest and principal repayments rose sharply in 1981, and the debt service ratio reached 5 per cent (which, although substantially higher than in earlier years, is still modest compared with most developing countries). Over the next five years, servicing requirements on existing debt are projected to increase by about 10 per cent per annum.

6. International reserves

Reflecting developments in the overall balance of payments, the Y.A.R.'s official reserves rose to a peak of US\$1,613 million in March 1979 before declining by over half to US\$804 million in November 1981 (Table 15 and Chart 2). ^{1/} Reserves increased somewhat after November 1981, as some external grants were received, but by June 1982 they were back down to US\$775 million, equivalent to four and one-half months of imports at the rate recorded in the first quarter of 1982. At the end of March 1982, 44 per cent of reserves were held as balances with banks abroad (excluding those with the Central Bank of Egypt) and 50 per cent as foreign securities. The Central Bank's foreign liabilities are very small.

VI. Exchange and Trade System

1. Exchange system

Although the Central Bank Law provided for the determination of a par value for the Yemen rial, none had been established. The free market rate for the rial fluctuated until the end of 1971 when it was stabilized at YRls 5 = US\$1. The Central Bank maintained this rate until February 25, 1973 when it was changed to YRls 4.5 = US\$1, which has been maintained since then. Under Article IV, Section 2(a), the Y.A.R. authorities have informed the Fund that the Yemen rial is pegged to the U.S. dollar, the intervention currency, at YRls 4.5 per US\$1. This exchange rate is applied by the Central Bank to value its foreign exchange assets and liabilities

^{1/} Actually, these data refer to the gross foreign assets of the Central Bank. Some of these assets, e.g., the balances with the Central Bank of Egypt, are not really readily available for balance of payments financing.

Table 15. Yemen Arab Republic: Foreign Assets of the Central Bank, 1976-82

(In millions of U.S. dollars) 1/

End of Month	1976		1977		1978		1979		1980		1981		1982	
	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	March	Dec.	March	Dec.
SDRs	2.6		2.6		2.7		8.8		9.8		15.4		13.2	
Reserve position in Fund	2.9		5.2		6.7		8.2		9.7		12.4		14.0	
Gold, silver, and foreign currency	0.2		0.8		0.5		1.5		2.8		1.6		1.0	
Foreign exchange held abroad	419.7		835.2		1,047.7		1,009.8		792.7		680.6		554.0	
Foreign securities	47.7		76.3		244.7		469.1		558.4		662.4		643.3	
Balances with Central Bank of Egypt	46.1		42.0		45.4		53.4		54.8		57.8		58.9	
Total	519.3		962.1		1,347.7		1,550.9		1,428.2		1,430.2		1,284.4	
Import cover (in months) 2/	18		18		20		15		11		11		8	
											7		7	
													6	
													3/	

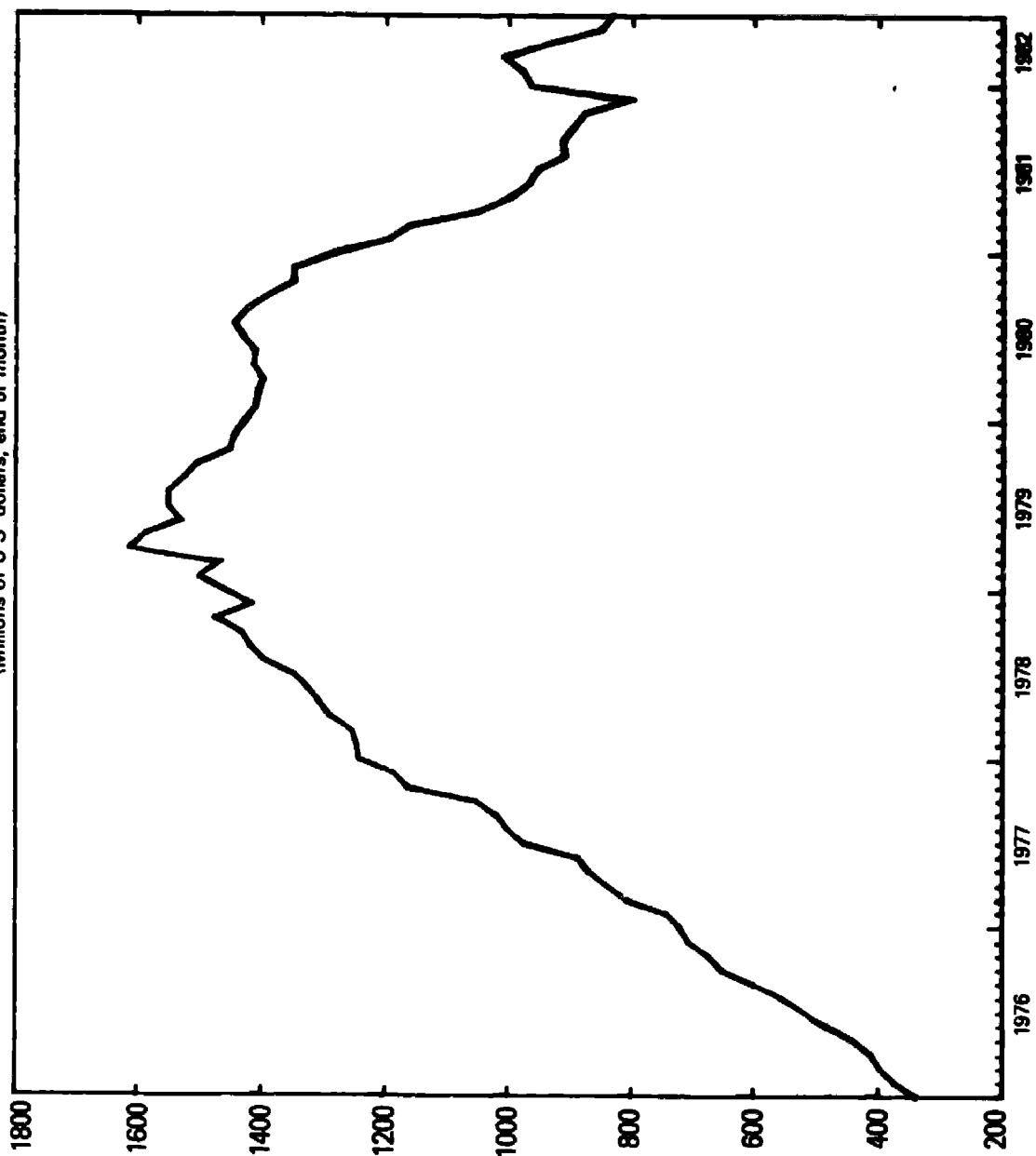
Source: Central Bank of Yemen.

1/ Converted at US\$1 = YRls 4.5.

2/ Total assets relative to current year's imports.

3/ Based on annualized first quarter imports.

CHART 2
YEMEN ARAB REPUBLIC
TOTAL RESERVES (INCLUDING GOLD), 1976-82
(Millions of U S dollars, end of month)



Source: International Monetary Fund International Financial Statistics

With the Fund, under Rule 0-2, the Y.A.R. has established a representative rate of YRls 4.5625 = US\$1, which is the average of the Central Bank's buying and selling rates for spot telegraphic transfers in U.S. dollars of YRls 4.550 and YRls 4.575, respectively, per US\$1. A slightly different spread, which arises from commercial transactions costs, is applied to transactions in banknotes and travelers checks, but the spread of both buying and selling rates from the official rate of YRls 4.5 = US\$1 does not exceed 2.2 per cent. Buying and selling rates for certain other currencies ^{1/} are fixed daily by the Central Bank on the basis of their rates against the U.S. dollar in markets abroad. Commercial banks are permitted to quote buying or selling rates up to 1 per cent below or above the Central Bank's rates, as long as the spread between the buying and selling rates for spot telegraphic transfers does not exceed 1 per cent at any time.

The exchange rate used for customs valuation purposes was changed from YRls 5.5 = US\$1 to YRls 5 = US\$1 in January 1981. Relative to the official rate of YRls 4.5 = US\$1, this change meant that the implicit tax on imports was reduced from 22 per cent to 11 per cent.

The exchange rates of the Yemen rial for currencies other than the U.S. dollar have fluctuated considerably in recent years as a result of movements in the exchange rates of the U.S. dollar for these currencies (Chart 3). The Yemen rial appreciated against the SDR by 3.2 per cent in 1980 and by 8.7 per cent in 1981.

There are no taxes or subsidies on purchases or sales of foreign exchange. Following a sharp decline in its reserves, in February 1981 the Central Bank instituted a requirement whereby, in order to buy foreign exchange from it, commercial banks must show a genuine need by submitting detailed statements to the Bank.

2. Import and export regimes

The import and export regimes were streamlined under a Law on the Regulation of Imports and Exports in 1975. Trade control authority is vested with the Minister of Economy and Industry who is authorized to prohibit, suspend, or limit imports or exports of certain commodities on specific economic and social grounds and, in consultation with the Prime Minister, to apply exchange restrictions. At present all imports require a license granted by the Ministry of Economy and Industry with the exception of food and cement imports, which are licensed by the Ministry of Commerce and Supply, but the requirement is for statistical purposes only and licenses are freely issued. However, all imports originating in Israel as well as certain imports of used machinery for resale are prohibited. Imports of petroleum products are reserved for the

^{1/} These include the deutsche mark, French franc, Italian lira, Japanese yen, Jordan dinar, Kuwaiti dinar, Lebanese pound, Netherlands guilder, pound sterling, Saudi Arabian riyal, Swedish krona, Swiss franc, and U.A.E. dirham.

YOMRC. In addition to a license, the importation of certain commodities requires the permission of certain government agencies. Importers in possession of a valid import license may obtain the necessary foreign exchange from commercial banks without restriction.

Since April 2, 1978 a uniform margin deposit of 20 per cent has been prescribed against letters of credit opened for imports. In addition to applicable customs duty, imports are subject to a defense tax of 5 per cent and a statistical tax of 2 per cent. Since April 1981 imports transported over land routes without a license have been subject to a 7 per cent surcharge and an advance payment of profits tax equal to 3 per cent of their value.

For statistical purposes, all exports must be registered on forms issued by commercial banks, but export licenses are not required. Exporters do not have to surrender their foreign exchange proceeds, which may be retained in foreign currency accounts with domestic banks. All exports are subject to a defense tax of 5 per cent, but a decision was taken in May 1981 to abolish all export duties, except for the 12 per cent duty on exports of gold.

Residents are free to purchase, hold, and sell gold in any form in the Y.A.R. and to import or export gold in any form without an import, export, or exchange license.

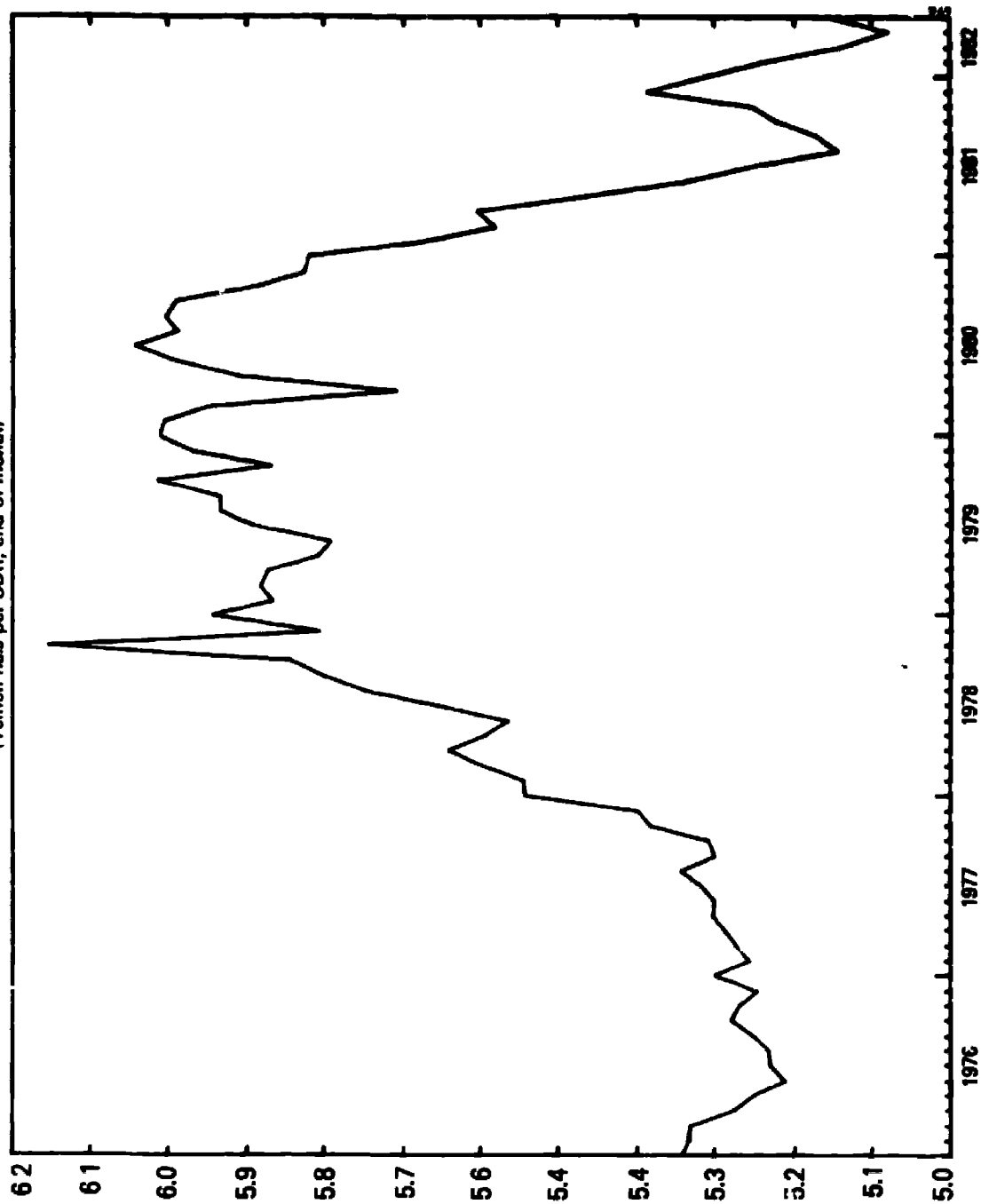
3. Invisibles

Transactions in invisibles are supervised by the Central Bank for statistical purposes only, and payments for current invisibles may be made freely. Proceeds from invisible exports need not be surrendered and may be retained in foreign currency accounts with domestic banks. Travelers may freely bring in and take out any amount in either domestic or foreign banknotes.

4. Capital

No restrictions are imposed on inward or outward capital transfers, but they are subject to the provisions of a Law on the Promotion and Organization of Investment which became effective in August 1975 and is administered by the Ministry of Economy and Industry. For approved and registered projects, this law guarantees freedom of investment, equal treatment to foreigners and nationals, the transfer abroad of net profits attributable to foreign capital, and the repatriation of registered capital on liquidation in the currency invested. In practice, investors are free to transfer abroad any portion of their share of net profits after taxes and other provisions and to repatriate their capital.

CHART 3
YEMEN ARAB REPUBLIC
SDR EXCHANGE RATE, 1976-82
(Yemen rials per SDR, end of month)



Source: International Monetary Fund, International Financial Statistics.

Nationalization and confiscation are prohibited except in cases of urgent public necessity and then only with compensation and permission to transfer foreign capital abroad. Direct investments are authorized by the Minister of Economy and Industry upon determination that the project is economically viable and socially acceptable; a reasonable timetable for completion and other conditions may be specified. Certain tax and import duty exemptions and concessions are granted for a period of five years to approved projects that meet specific economic criteria. ^{1/} Private capital transactions unrelated to direct investments may also be made without restriction. The registration of direct foreign investments and the authentication of intended profit and capital repatriation are undertaken by the Ministry of Economy and Industry in cooperation with the Central Bank. External public debt transactions are conducted through the Central Bank, which also maintains accounts of outstanding amounts and service payments due.

5. Bilateral agreements

The Y.A.R. maintains bilateral trade agreements with a number of countries on matters of trade and economic cooperation and assistance. None of these agreements contains bilateral payments arrangements or provisions for specific trade commitments.

A bilateral payments agreement with Egypt, which was concluded in 1963, has been inoperative for a number of years. In 1973 negotiations were begun between Egypt and the Y.A.R. to resolve certain matters relating to the settlement of the balance of a blocked account held by the Central Bank of Yemen with the Central Bank of Egypt. The bilateral payments agreement is expected to be formally terminated when these negotiations are concluded.

^{1/} For details, see Yemen Arab Republic - Recent Economic Developments, SM/76/5 (1/15/76), p. 6.

Table 16. Yemen Arab Republic: Gross Domestic Product by Economic Activity, 1976/77-1981

(In millions of Yemen rials)

	1976/77	1977/78	1978/79	1979/80	Prov. 1981
<u>(At current prices)</u>					
Agriculture, forestry, and fishing	2,313	2,409	3,049	3,458	3,690
Mining and quarrying	53	100	133	149	156
Manufacturing	301	381	504	655	770
Electricity and water	17	23	38	66	89
Construction	477	796	1,045	1,002	1,140
Housing and business services	260	350	465	578	552
Wholesale and retail trade	1,185	1,448	1,686	2,060	2,124
Transportation and communication	215	308	370	431	483
Financial services	293	512	707	874	1,013
Other private services <u>1/</u>	143	180	226	273	298
Government services	567	858	1,202	1,505	1,906
Less accounted for banking services	-266	-449	-645	-802	-889
Custom duties	929	1,304	1,386	1,670	1,617
Gross domestic product	<u>6,487</u>	<u>8,220</u>	<u>10,166</u>	<u>11,919</u>	<u>12,949</u>
<u>(At constant 1975/76 prices)</u>					
Agriculture, forestry, and fishing	1,850	1,653	1,926	2,008	2,177
Mining and quarrying	42	64	74	78	75
Manufacturing	274	309	361	416	460
Electricity and water	17	22	28	37	46
Construction	373	511	581	480	481
Housing and business services	193	221	226	241	272
Wholesale and retail trade	944	987	963	1,063	1,032
Transportation and communication	160	200	208	211	220
Financial services	227	338	380	421	452
Other private services <u>1/</u>	129	143	155	165	172
Government services	451	585	672	760	885
Less accounted for banking services	-211	-305	-360	-405	-422
Custom duties	737	887	774	843	785
Gross domestic product	<u>5,186</u>	<u>5,615</u>	<u>5,988</u>	<u>6,318</u>	<u>6,635</u>

Source Central Planning Organization.

1/ Consists of services of restaurants and hotels, and social and personal services including those of nonprofit organizations and households.

Table 17. Yemen Arab Republic: Domestic Factor Income, National Disposable Income, Gross National Product, and Gross Domestic Product, 1976/77-1981

(In millions of Yemen rials at current prices)

	1976/77	1977/78	1978/79	1979/80	Prov. 1981
Compensation of employees from domestic activities	1,284	1,938	2,620	3,094	3,652
Operating surplus	4,051	4,617	5,708	6,567	6,924
Domestic factor income	<u>5,335</u>	<u>6,555</u>	<u>8,328</u>	<u>9,661</u>	<u>10,576</u>
Compensation of employees from rest of world (net) 1/	771	975	1,217	1,423	1,472
Property and entrepreneurial income from rest of world	223	357	526	737	453
Indirect taxes less subsidies	1,019	1,471	1,593	1,967	2,050
National income at market prices	<u>7,348</u>	<u>9,358</u>	<u>11,664</u>	<u>13,788</u>	<u>14,551</u>
Other current transfers from rest of world (net) 2/	3,490	4,382	3,936	4,022	3,591
National disposable income at market prices	<u>10,838</u>	<u>13,740</u>	<u>15,600</u>	<u>17,810</u>	<u>18,142</u>
Capital consumption allowance	133	194	245	291	323
Gross national product 3/	<u>10,971</u>	<u>13,934</u>	<u>15,845</u>	<u>18,101</u>	<u>18,465</u>
Less net income from rest of world 4/	-4,484	-5,714	-5,679	-6,182	-5,516
Gross domestic product	<u>6,487</u>	<u>8,220</u>	<u>10,166</u>	<u>11,919</u>	<u>12,949</u>
Memorandum item. Gross national product 5/	7,481	9,552	11,909	14,079	14,874

Source: Central Planning Organization.

1/ Includes transfers by Yemenis working abroad for less than one year.

2/ Includes transfers by non-Yemenis and Yemenis working abroad for more than one year.

3/ Composition adjusted to include other current transfers from rest of world, this item is also referred to as gross national disposable income.

4/ Includes compensation of employees, property and entrepreneurial income, and other current transfers from rest of world.

5/ Unadjusted for other current transfers from rest of world.

Table 18. Yemen Arab Republic: Expenditure on Gross Domestic Product, 1976/77-1981

(In millions of Yemen rials)

	1976/77	1977/78	1978/79	1979/80	Prov. 1981
<u>(At current prices)</u>					
Government final consumption expenditure	861	1,242	1,786	2,190	2,970
Private final consumption expenditure	7,462	7,652	10,205	12,154	12,707
Gross government fixed investment	468	1,547	2,225	2,227	2,870
Gross private fixed investment	1,028	1,613	2,220	2,655	2,730
Change in inventories	-105	407	30	355	178
Exports of goods and services	279	242	474	803	1,130
Less: imports of goods and services	-3,506	-4,483	-6,774	-8,465	-9,636
Gross domestic product	<u>6,487</u>	<u>8,220</u>	<u>10,166</u>	<u>11,919</u>	<u>12,949</u>
<u>(At constant 1975/76 prices)</u>					
Government final consumption expenditure	685	846	1,007	1,106	1,393
Private final consumption expenditure	5,917	5,182	5,805	6,209	6,287
Gross government fixed investment	381	1,070	1,321	1,197	1,461
Gross private fixed investment	843	1,120	1,346	1,483	1,392
Change in inventories	-77	282	28	191	91
Exports of goods and services	222	165	265	406	530
Less: imports of goods and services	-2,785	-3,050	-3,784	-4,275	-4,521
Gross domestic product	<u>5,186</u>	<u>5,615</u>	<u>5,988</u>	<u>6,318</u>	<u>6,634</u>

Source: Central Planning Organization.

Table 19. Yemen Arab Republic: Capital
Transactions, 1976/77-1981

(In millions of Yemen rials at current prices)

	1976/77	1977/78	1978/79	1979/80	<u>Prov. 1981</u>
Savings	2,515	4,846	3,609	3,466	2,465
Capital consumption allowance	133	194	245	291	323
Capital transfers from rest of world (net)	54	200	453	169	7
Finance of gross accumulation	<u>2,702</u>	<u>5,240</u>	<u>4,307</u>	<u>3,926</u>	<u>2,795</u>
Change in inventories	-105	407	30	355	178
Gross fixed investment	1,496	3,160	4,445	4,882	5,600
Net lending to rest of world	1,311	1,673	-168	-1,311	-2,983

Source: Central Planning Organization.

**Table 20. Yemen Arab Republic: Number of Livestock
and Poultry, 1976-81**

(In thousands)

	Cattle	Sheep and Goats	Camels	Commercial Chickens	Local Chickens
1976	800	3,460	60	--	2,494
1977	840	3,598	63	--	2,546
1978	840	3,598	63	500	2,600
1979	861	3,670	60	1,150	2,642
1980	883	3,751	57	1,300	2,800
1981	906	3,834	57	2,000	3,000

Source Ministry of Agriculture.

Table 21. Yemen Arab Republic: Output of Major Industrial Products, 1978-81

	1978	1979	1980	Prov. 1981
Extractive industries				
Salt (thousand tons)	58	73	154	64
Quarried stone (thousand cubic meters)	19	78	76	57
Gypsum (thousand tons)	—	—	—	3.8
Food, beverage, and tobacco industries				
Biscuits and confectionaries (thousand tons)	15	19	20	22
Ghee and edible oils (thousand tons)	4.6	6.3	13.3	14.4
Soft drinks (thousand boxes)	4,817	10,503	12,410	12,325
Mineral water (thousand cubic meters)	—	14	27	34
Vinto drink (thousand cartons)	—	—	23	62
Ice (thousand tons)	...	11	11	13
Milk and iced products (thousand cubic meters)	—	0.6	2.1	4.6
Ice cream (thousand cartons)	—	349	365	338
Cigarettes (thousand cartons)	10	12	17	24
Spinning, weaving, and leather industries				
Spinning and weaving (thousand square yards)	2,094	4,747	5,140	3,428
Readymade clothes (hundred dozens)	—	—	—	248
Tanning (thousand skins)	306	393	299	...
Wood industries				
Industrial limbs (pieces)	95	64	277	600
Metallic industries				
Household utensils (tons)	585	703	708	1,634
Barrels (thousands)	17	42	113	102
Tins (thousands)	...	431	459	207
Doors and windows (thousand square meters)	—	6	6	5
Metallic scrubbers (tons)	26	30	29	72
Nonmetallic industries				
Cement (thousand tons)	66	68	81	85
Red bricks (thousands)	...	...	4,800	150
Cement bricks (thousands)	—	—	1,290	1,916
Tiles (thousands)	...	...	...	4,479
Cement blocks, tiles, etc. (thousand cubic meters)	...	12	22	31
Chemical industries				
Plastic footwear (thousand dozens)	30	185	339	299
Sponges (thousand tons)	1.5	1.9	1.7	1.8
Household utensils (thousand dozens)	89	797	157	53
Buckets (hundred dozens)	32	248	319	907
Water tubes (thousand meters)	1,440	640	960	1,125
Plastic sheets (thousand kilograms)	300	145	151	305
Beverage boxes (thousands)	300	316	277	20
Plastic tubes (thousand tons)	1.3	2.4	3.2	3.3
Polyethylene bags (tons)	—	171	213	224
Cardboard (thousand tons)	0.9	1.0	1.0	...
Paint (thousand cubic meters)	1.4	1.8	2.2	2.7
Soap and detergents (thousand tons)	—	—	0.9	2.0
Perfumes (thousand ounces)	360	438	563	314
Oxygen gas (thousand cylinders)	—	1.0	4.4	4.7
Carbon dioxide (tons)	180	735	755	491
Other industries				
Fountain pens (thousands)	4,000	2,400	1,000	...
Paper tissues (tons)	—	74	72	...

Source: Central Planning Organization.

Table 22 Yemen Arab Republic: Energy Sector--Costs and Prices
of Petroleum Products Sold by the Yemen Oil and
Mineral Resources Corporation, 1981

(In Yemen rials per liter)

	Motor Gasoline	Aviation Fuel	Aviation Gasoline	Fuel Oil	Diesel Oil	Kerosene
C.i.f. import cost	1.392	1.507	2.014 1/	0.948	1.593	1.566
Basic costs 2/	0.156	0.169	0.226	0.106	0.178	0.175
Local transport cost 3/	0.209	0.226	0.302	--	0.239	0.235
Import duties 4/	0.065	0.091	--	0.027	0.033	0.028
Excise tax	0.250	0.050	0.200	0.050	0.075	0.075
Surcharge or undercharge (-)	0.025	0.135	0.025	0.085	-0.280	-0.100
Total cost	2.097	2.178	0.753	1.216	1.838	1.979
Domestic sales price	2.600	2.360	2.960 1/	1.670	1.500	2.060
Operating surplus or loss (-)	0.503	0.182	2.207	0.454	-0.338	0.081

Source: Yemen Oil and Mineral Resources Corporation.

1/ Figure for 1980.

2/ Computed as 11.2 per cent of import cost c.i.f. and consisting of bank charges (1 per cent), evaporation loss (0.2 per cent), agents' commissions (4 per cent), and administrative costs (6 per cent).

3/ Estimated at 15 per cent of import cost c.i.f.

4/ Includes defense and statistical taxes.

**Table 23. Yemen Arab Republic: Energy Sector--Domestic
Sales Prices, 1976-82**

(In Yemen rials per liter)

	1976	1977	1978	1979 <u>1/</u>	1980	1981	1982 <u>2/</u>
Motor gasoline	0.93	1.10	1.11	1.50 <u>3/</u>	2.30	2.60	2.60
Kerosene	0.62	0.62	0.72	0.93 <u>4/</u>	1.50	2.06	2.06
Aviation fuel	0.90	1.00	1.20	1.17 <u>5/</u>	1.98	2.36	2.41
Diesel oil	0.48	0.70	0.50	0.63	1.70 <u>6/</u>	1.50	1.50
Fuel oil	0.56	0.63	0.63	0.73 <u>7/</u>	1.23	1.67	1.67
Aviation gasoline	1.23	1.34	1.38	2.32	2.96	...	...

Source: Yemen Oil and Mineral Resources Corporation.

1/ As of July 1979 unless otherwise indicated.

2/ As of April 1982.

3/ Price changed to YRls 2.00 in October 1979.

4/ Price changed to YRls 1.14 in October 1979.

5/ Price changed to YRls 1.37 in October 1979.

6/ Price at January 1980 was YRls 0.90.

7/ Price changed to YRls 0.78 in October 1979.

**Table 24. Yemen Arab Republic: Gross Fixed Capital Formation
by Sector, 1976/77-1981**

(In millions of Yemen rials at constant 1975/76 prices)

	1976/77	1977/78	1978/79	1979/80	<u>Prov. 1981</u>
Agriculture	66	164	225	180	230
Industry	211	330	42	444	709
Building and construction	42	134	144	176	197
Transportation and communication	200	555	714	821	664
Housing	587	675	733	663	664
Other sectors	118	331	422	397	389
Total	<u>1,224</u>	<u>2,190</u>	<u>2,667</u>	<u>2,681</u>	<u>2,854</u>

Source: Central Planning Organization.

Table 25. Yemen Arab Republic: Expenditures on Gross Domestic Product During the First and Second Five-Year Plans, 1976/77-1980/81 and 1982-86

(In per cent of GDP)

	First Five-Year Plan (1976/77-1980/81)			Second Five-Year Plan (1982-86)	
	Actual 1975/76	Planned 1980/81	Actual 1980/81	Actual 1981	Planned 1986
Final consumption expenditure	113.1	97.5	117.0	121.0	109.7
Private	99.3	83.2	98.4	98.1	86.3
Government	13.8	14.3	18.6	22.9	23.4
Gross capital formation	20.4	73.5	43.5	44.6	33.9
Gross fixed capital formation	17.2	72.2	42.7	43.2	32.2
Change in stocks	3.2	1.3	0.8	1.4	1.7
Resource balance	-33.5	-71.0	-60.5	-65.6	-43.6
Exports of goods and services	4.3	10.1	5.9	8.8	12.1
Imports of goods and services	-37.8	-81.1	-66.4	-74.4	-55.7
Total expenditure on gross domestic product	100.0	100.0	100.0	100.0	100.0
Memorandum item:					
Savings from gross domestic product	-13.1	2.5	-17.0	-21.0	-9.7

Source: Central Planning Organization, Second Five-Year Plan (draft), March 1982.

Table 26 Yemen Arab Republic Budgetary Classification of Government Expenditures, 1976/77-1982

	Actuals					Budget 1982
	1976/77	1977/78	1978/79	1979/80	July-Dec. 1980	1981 1/
(In millions of Yemen rials)						
Current expenditures	841.0	1,250.4	1,847.2	2,531.4	1,506.1	3,253.4
Salaries, wages, and benefits	267.4	494.3	701.1	1,009.0	547.9	1,301.2
Materials and services	112.6	161.4	265.7	336.9	171.4	408.4
Current transfers	57.4	74.5	112.0	245.9	173.9	218.2
Unclassified 2/	403.6	520.2	768.4	939.6	612.9	1,325.6
Capital expenditures 3/ 4/	434.7	916.2	2,083.2	1,981.7	1,146.7	3,027.3
Direct expenditures	274.4	613.7	1,632.1	1,420.5	732.0	2,224.4
Capital transfers 4/	160.3	302.5	451.1	561.2	414.7	802.9
Total budgeted expenditures	1,275.7	2,166.6	3,930.9	4,513.1	2,652.8	6,280.7
(In per cent)						
Annual growth rates of						
Current expenditures	36.4	48.7	47.7	37.0	19.0	17.5
Capital expenditures	136.1	110.8	127.4	-4.9	15.7	32.0
Total budgeted expenditures	59.3	69.3	81.4	14.8	17.6	18.4
38.0						
31.6						
34.9						

Source Ministry of Finance

1/ Provisional (April 27, 1982).

2/ Mainly defense expenditures.

3/ Excludes externally financed expenditures

4/ Includes external loan repayments.

REPUBLIC OF YEMEN ARAB REPUBLIC. FINANCIAL STATISTICS OF
Government Current Expenditures, 1976/77-1982

(In millions of Yemen rials)

	Actuals				1981 1/	Budget 1982
	1976/77	1977/78	1978/79	1979/80	1980	
General public services	235.3	368.6	523.8	758.8	900.2	1,253.8
General administration	141.8	217.5	319.3	478.0	610.4	755.5
Public order and safety	93.5	151.1	204.5	280.8	289.8	498.3
Defense	430.5	545.5	794.1	1,027.9	1,233.4	1,803.9
Education	63.3	147.2	287.7	400.0	462.4	879.2
Health	29.6	52.8	77.4	98.4	112.6	193.3
Community and social services	17.6	25.3	40.1	87.2	69.4	133.4
Recreational and related activities	7.1	13.9	19.7	24.0	25.0	44.1
Broadcasting, press, and information	5.5	6.5	9.3	46.7	44.3	89.3
Religion	4.4	4.9	11.1	16.5	10.1	—
Economic services	54.7	95.6	107.1	136.9	148.3	206.9
Agriculture	4.0	8.5	10.4	16.7	14.7	29.2
Mining	0.7	0.8	—	—	—	—
Electricity and water	—	—	—	—	0.4	2.0
Construction	33.2	53.6	61.6	75.1	87.6	98.6
Transportation and communication	14.9	28.1	28.5	34.9	38.0	59.3
Commerce	1.9	4.6	6.6	10.2	8.0	17.8
Interest on public debt	10.6	15.4	17.0	22.1	27.0	20.0
Total	841.0	1,250.4	1,847.2	2,531.3	2,953.3	4,490.5

Source: Ministry of Finance.

1/ Provisional (April 27, 1982).

Tab'e 28. Yemen Arab Republic: Functional Classification of Government
Capital Expenditures, 1976/77-1982

(In millions of Yemen rials)

	Actuals						Budget 1982
	1976/77	1977/78	1978/79	1979/80	1980	1981 1/	
General public services	93.6	150.0	212.5	181.8	187.4	238.5	469.3
General administration	77.6	114.3	152.1	112.7	135.9	172.7	381.6
Public order and safety	16.0	35.7	60.4	69.1	51.5	65.8	87.7
Defense	58.4	110.2	911.0	479.9	311.9	683.4	600.0
Education	32.7	72.8	140.0	168.8	210.6	315.7	541.4
Health	7.9	33.2	57.9	81.7	94.0	121.4	273.7
Community and social services	12.3	30.8	58.6	67.0	34.8	8.1	30.5
Recreational and related activities	4.9	17.7	31.6	36.4	26.9	4.3	9.4
Broadcasting, press, and information	2.2	3.1	5.9	9.7	7.9	3.8	21.1
Religion	5.2	10.0	21.1	20.9	--	--	--
Economic services	69.5	216.7	252.1	441.4	646.7	649.3	780.6
Agriculture	15.1	33.5	32.7	45.0	61.7	88.7	110.0
Mining	0.2	5.5	--	--	--	--	--
Electricity and water	--	--	--	--	--	0.2	3.3
Construction	37.2	136.9	142.9	180.5	277.0	309.2	550.7
Transportation and communication	15.5	32.7	62.7	209.8	300.2	246.0	110.0
Commerce	1.5	8.1	13.8	6.1	7.8	5.2	6.0
Capital transfers 2/	140.9	276.4	404.0	513.0	515.9	641.8	1,026.8
Unclassified	--	--	--	--	--	208.0	--
Budgeted capital expenditures	415.3	890.1	2,036.1	1,933.6	2,001.3	2,866.2	3,722.3
Capital expenditures financed by external loans 3/	188.1	276.9	581.6	558.8	1,918.4	940.9	1,215.0
Total	603.4	1,167.0	2,617.7	2,492.4	3,919.7	3,807.1	4,937.3

Source. Ministry of Finance.

1/ Provisional (April 27, 1982).

2/ Capital transfers as recorded in the Y.A.R. budget documents include external loan repayments which are excluded here. Capital transfers have in some years included transfers to public sector enterprises or current purposes.

3/ Counterpart of project and commodity loans, which is not included in the budget documents.

Table 29 Yemen Arab Republic Monetary Survey, 1976-82
(In millions of Yemen rials)

End of Month	1976		1977		1978		1979		1980		1981		1982
			June				June	Dec.	June	Dec.	March	Dec.	March
Foreign assets (net)	2,606.8	4,106.0		6,118.9	6,802.9	6,586.5	6,874.6	6,264.0	5,107.8	4,267.9	5,107.8	4,267.9	4,696.6
Assets	2,804.2	4,554.9		6,570.6	7,277.8	6,973.9	7,297.1	6,518.6	5,914.7	5,112.1	5,914.7	5,112.1	5,303.7
Liabilities	-197.4	-448.9		-451.7	-394.9	-387.4	-422.5	-254.6	-806.9	-344.2	-806.9	-344.2	-607.1
Domestic credit	159.3	535.4		565.0	1,590.2	3,043.6	4,028.4	4,955.9	5,880.2	7,272.8	5,880.2	7,272.8	7,972.4
Claims on Government (net)	-406.7	-938.8		-989.9	-609.2	753.5	1,198.7	2,016.6	2,943.9	4,039.2	2,943.9	4,039.2	4,765.7
Claims on nongovernment sector	566.0	1,474.2		1,554.9	2,199.4	2,290.1	2,829.7	2,939.3	2,936.8	3,233.6	2,936.8	3,233.6	3,266.7
Public and mixed enterprises	(102.5)	(78.0)		(240.9)	(-29.1)	(590.1)	(744.7)	(915.0)	(883.7)	(1,179.5)	(883.7)	(1,179.5)	(1,057.4)
Private sector	(463.5)	(1,396.2)		(1,314.0)	(1,770.3)	(1,700.0)	(2,085.0)	(2,024.3)	(2,053.1)	(2,054.1)	(2,053.1)	(2,054.1)	(2,209.3)
Assets = Liabilities	2,766.1	4,641.4		6,683.9	8,473.1	7,630.1	10,903.0	11,219.9	10,908.5	12,040.7	10,908.5	12,040.7	12,669.0
Domestic liquidity	2,509.1	4,370.5		6,205.2	7,583.1	8,297.6	8,822.7	9,179.7	9,187.9	9,905.2	9,187.9	9,905.2	10,406.4
Money	2,028.4	3,516.1		5,081.0	6,273.4	7,023.3	7,350.4	7,564.3	7,558.5	7,867.7	7,558.5	7,867.7	8,306.5
Currency outside banks	(1,680.5)	(3,021.0)		(4,480.9)	(5,564.0)	(6,299.0)	(6,704.5)	(6,894.5)	(6,852.8)	(7,043.5)	(6,852.8)	(7,043.5)	(7,419.1)
Demand deposits	(347.9)	(495.1)		(600.1)	(709.4)	(724.3)	(645.9)	(669.8)	(705.7)	(824.2)	(705.7)	(824.2)	(887.4)
Quasi-money 1/	480.7	854.4		1,124.2	1,309.7	1,274.3	1,472.3	1,615.4	1,629.4	2,037.5	1,629.4	2,037.5	2,099.9
Other items (net)	257.1	270.9		478.7	889.9	1,332.5	2,080.6	2,040.0	1,800.6	2,135.5	1,800.6	2,135.5	2,262.6
Exchange valuation account	91.7	70.2		169.3	359.3	464.3	478.3	318.2	142.2	148.1	142.2	148.1	148.1
Capital, reserves, and SDR allocation	148.8	211.4		312.8	446.4	455.6	601.1	606.7	694.9	772.5	694.9	772.5	824.3
Income	--	--		--	--	339.2	--	--	148.4	--	148.4	--	158.5
Other (net)	16.6	-10.7		-3.4	84.4	73.4	1,001.2	1,115.1	815.1	1,214.9	815.1	1,214.9	1,131.7

Source Central Bank of Yemen

1/ Includes public enterprises' deposits with Central Bank, all of which are either time or foreign currency deposits.

(In millions of Yemen rials)

End of Month	1976		1977		1978		1979		1980		1981		1982	
	June		June		June		June	Dec.	June	Dec.	March	Dec.	March	
Foreign assets 1/	2,336.8		4,329.5		6,064.5		6,978.9	6,427.0	6,435.9	5,779.6	4,738.5	4,350.7	4,273.6	
Gold, silver, and foreign currency	1.1		3.7		2.1		6.6	12.6	7.1	4.4	2.7	3.5	15.8	
Foreign exchange held abroad	1,888.8		3,759.4		4,714.7		4,544.3	3,567.2	3,062.8	2,493.2	1,938.6	1,955.5	1,863.8	
Foreign securities	214.8		343.4		1,101.2		2,111.1	2,512.7	2,980.8	2,894.8	2,423.4	2,212.1	2,132.2	
Balances with Central Bank of Egypt	207.4		188.8		204.2		240.5	246.4	260.2	265.0	246.9	212.1	197.3	
SDR holdings	11.6		11.6		12.0		39.4	44.3	69.3	59.3	67.0	67.5	64.5	
IMF reserve position (IMF record)	13.1		23.6		30.3		37.0	43.8	55.7	62.9	59.9	—	—	
Claims on Government	144.4		149.5		222.0		308.5	1,258.0	2,040.4	2,727.4	2,51.9	5,124.7	5,476.4	
Treasury bills	135.0		155.0		135.0		135.0	135.0	135.0	135.0	135.0	135.0	135.0	
Advances	4.9		10.0		82.5		169.0	1,118.5	1,900.9	2,587.9	1,512.4	4,985.2	5,336.9	
Currency issued by Treasury	4.5		4.5		4.5		4.5	4.5	4.5	4.5	4.5	4.5	4.5	
Claims on public enterprises	27.8		4.0		140.0		308.3	463.8	556.7	627.3	605.3	882.9	723.8	
Other assets	108.1		240.5		309.6		399.8	653.1	417.3	438.0	498.3	275.3	516.0	
Claims on commercial banks	45.7		89.4		62.7		69.8	78.0	76.5	73.2	123.4	37.9	39.2	
Fixed and other assets	62.4		151.1		246.9		330.0	575.1	340.8	364.9	374.9	237.4	476.8	
Assets = Liabilities	2,617.1		4,723.5		6,736.1		7,995.5	8,806.9	9,450.4	9,572.3	9,494.0	10,633.6	10,989.8	
Foreign liabilities 1/	—		2.4		4.1		6.9	8.8	9.3	8.9	14.9	71.5	127.5	
Reserve money	1,868.0		3,429.9		5,106.4		6,196.3	6,898.5	7,226.2	7,431.5	7,484.4	8,182.7	8,568.8	
Currency outside banks	1,680.5		3,021.0		4,480.9		5,564.0	6,299.0	6,704.5	6,894.5	6,852.8	7,043.5	7,419.1	
Currency with banks	32.6		50.8		73.1		109.0	79.3	97.8	78.7	79.9	136.7	107.3	
Bankers' deposits	154.9		232.3		385.0		485.4	500.7	391.8	440.1	531.8	934.9	965.1	
Deposits of public enterprises	—		125.8		167.4		37.8	19.5	32.1	18.2	19.9	67.6	77.3	
Government deposits 2/	551.7		1,041.7		1,164.7		906.7	488.2	818.7	694.4	706.6	1,068.0	757.7	
Other liabilities	197.4		249.5		460.9		891.6	1,411.4	1,396.3	1,437.5	1,288.1	1,311.4	1,535.8	
SDR allocation	11.6		11.6		11.6		18.1	20.6	28.8	27.7	35.5	32.3	30.8	
Exchange valuation account 3/	91.7		70.2		169.3		359.1	464.3	478.3	318.2	142.2	148.1	148.1	
Capital and reserves	33.9		33.9		33.9		33.9	33.9	33.9	33.9	106.9	123.9	123.9	
Income 4/	(31.5)		(120.0)		(260.0)		(300.0)	339.2	(425.0)	(200.0)	148.4	(400.0)	158.5	
Other liabilities 5/	60.2		133.8		246.1		480.3	553.4	855.3	1,057.7	853.1	1,007.1	1,074.5	

Source: Central Bank of Yemen.

1/ Valued at US\$1 = YR1s 4.5.

2/ Includes counterparty to IMF reserve position (from IMF records) and, for fiscal year ends, Government's share of Central Bank income.

3/ The valuation differential is kept in a blocked account

4/ The Government's share of Central Bank income is added to government deposits at the end of each fiscal year; for these dates amount is shown in parentheses and not included in other liabilities

5/ Composed mainly of government import deposits and provisions against decline in value of foreign investments due to price and exchange rate fluctuations.

(In millions of Yemen rials)

End of Month	1976	1977	1978	1979		1980		1981		1982
				June	Dec.	June	Dec.	March	Dec.	March
Foreign assets 1/										
Foreign currency	467.4	225.4	506.1	298.9	546.9	861.2	739.0	1,116.2	761.4	1,030.1
Balances with banks abroad	5.3	6.4	8.7	10.0	15.8	14.1	10.5	14.4	14.1	33.9
Claims on nonresidents	442.0	194.0	472.3	272.1	485.3	781.8	687.7	1,145.3	731.3	935.7
Foreign investments	18.5	23.3	21.9	13.0	41.8	61.0	35.8	11.5	16.0	60.5
	1.6	1.6	3.2	3.8	4.0	4.3	5.0	5.0	--	--
Reserves										
Currency	144.1	272.6	448.6	587.1	591.0	484.2	494.6	578.8	1,039.8	1,015.9
Deposits with Central Bank	52.7	50.9	73.1	109.0	79.3	97.8	78.7	79.9	136.7	107.3
	111.4	221.7	375.5	478.1	511.7	386.4	415.9	498.9	903.1	908.6
Claims on Government	12.4	0.1	0.1	--	--	--	3.6	3.6	--	--
Claims on nongovernment sector										
Public and mixed enterprises 2/	538.2	1,470.2	1,414.9	1,891.1	1,821.3	2,273.0	2,312.0	2,331.5	2,350.7	2,542.9
Private sector	74.7	74.0	100.9	120.8	121.3	188.0	287.7	278.4	296.6	333.6
	463.5	1,396.2	1,314.0	1,770.3	1,700.0	2,085.0	2,043.3	2,053.1	2,054.1	2,209.3
Other assets										
Interbranch accounts (net)	189.1	325.6	396.9	543.6	626.2	376.2	780.8	466.2	637.3	509.5
Other assets	80.7	119.9	116.8	131.9	38.8	-163.5	140.1	35.8	-36.3	212.8
	108.4	205.7	280.1	411.7	587.4	539.7	640.7	430.4	673.6	296.7
Assets = Liabilities	1,351.2	2,293.9	2,766.6	3,320.7	3,585.4	3,994.7	4,330.0	4,556.3	4,789.2	5,098.4
Foreign liabilities 1/										
Deposits of foreign banks	197.4	446.5	447.6	388.0	378.6	413.2	245.7	792.0	272.7	479.6
Nonresidents' deposits	50.7	67.9	88.8	119.3	144.1	108.6	48.0	583.3	27.2	239.8
Borrowing from foreign banks	111.7	321.9	261.2	126.7	157.2	226.9	145.2	177.4	243.3	237.6
	35.0	56.6	97.6	142.1	72.3	77.7	52.5	31.3	2.2	2.2
Demand deposits	347.9	495.1	600.1	709.4	724.3	645.9	669.8	705.7	824.2	887.4
Quasi-monetary deposits										
Time deposits	480.7	728.6	956.8	1,271.9	1,254.8	1,440.2	1,597.2	1,609.5	1,969.9	2,022.6
Savings deposits	211.0	286.8	425.2	653.5	588.8	692.4	852.5	892.4	1,151.3	1,122.4
Earmarked deposits	46.9	74.0	116.9	151.2	156.7	178.4	213.2	218.5	302.2	341.7
Foreign currency deposits	162.0	306.6	320.8	398.4	423.7	513.1	436.9	418.5	411.7	433.1
	60.8	61.2	93.9	68.8	85.6	56.3	94.6	80.1	104.7	125.4
Government deposits	11.8	46.7	47.3	17.0	16.3	23.0	20.0	5.0	17.5	13.0
Other liabilities										
Credit from Central Bank	313.4	577.0	714.8	934.4	1,211.4	1,472.4	1,797.2	1,444.1	1,704.9	1,695.8
Capital and reserves	40.6	99.7	54.4	60.0	76.9	62.2	63.6	64.3	27.9	23.4
Other liabilities	103.3	165.9	267.3	394.2	401.1	538.4	545.1	550.5	616.3	669.6
	169.6	311.4	393.1	480.2	733.4	871.8	1,188.5	829.6	1,060.7	1,002.8

Source. Central Bank of Yemen.

1/ Valued at US\$1 = YR1s 4.5

2/ Includes share subscriptions.

Table 32 Yemen Arab Republic Determinants of Changes in Reserve Money, 1976/77-1982

	1976/77	1977/78	1978/79	1979/80	1980	1981	January-March 1981	1982
(In millions of Yemen rials)								
Changes in								
Reserve money	1,561.9	1,676.5	1,089.9	1,029.9	533.0	751.2	52.9	386.1
Foreign assets (net) 1/	2,011.8	1,634.2	721.6	-664.4	-501.4	-1,321.4	-871.1	-133.1
Claims on Government (net)	-484.9	-50.5	350.5	1,813.9	1,263.2	2,023.7	912.3	662.0
Claims on commercial banks	43.7	-26.7	7.1	6.7	-4.8	-35.3	50.2	1.1
Claims on public enterprises	-23.8	136.0	168.3	248.4	158.5	255.6	-22.0	-159.1
Other assets (net)	15.1	-16.5	-157.6	-374.9	-382.4	-171.5	-16.6	15.0
(In per cent per annum)								
Growth rates of.								
Reserve money	84	49	21	17	8	10	3	19
Money	73	44	23	17	8	4	--	22
Domestic liquidity	74	42	22	16	11	8	--	20

Source: Central Bank of Yemen.

1/ Adjusted to remove the effect of changes in the valuation of the Central Bank's foreign assets and liabilities resulting from exchange rate fluctuations.

Table 33. Yemen Arab Republic: Distribution of Commercial Banks' Claims on Nongovernment Sector, 1976-82

(In millions of Yemen rials)

End of Month	1976	1977		1978		1979		1980		1981		1982
		June		June		June		June		March		March
Participation in capital of mixed enterprises	9.1	14.7	27.0	41.8	42.4	53.1	58.5	56.9	98.7	98.4		
Credit to public enterprises	65.6	59.3	73.9	79.0	78.9	134.9	229.2	221.5	197.9	235.2		
To finance:												
Exports	30.3	16.6	22.5	16.0	5.3	6.5	5.3	5.0	—	5.2		
Cotton	(30.3)	(14.3)	(13.3)	(7.3)	(3.4)	(4.6)	(3.3)	(5.0)	(—)	(5.2)		
Other	(—)	(2.3)	(9.2)	(8.7)	(1.9)	(1.9)	(2.0)	(—)	(—)	(—)		
Imports	34.8	24.1	23.8	57.6	63.4	66.1	97.1	76.9	33.3	62.7		
Other	0.5	18.6	27.6	5.4	10.2	62.3	126.8	139.6	164.6	167.3		
Credit to private sector	463.5	1,306.2	1,314.0	1,770.3	1,700.0	2,085.0	2,024.3	2,053.1	2,054.1	2,209.3		
Advances	463.2	1,378.7	1,289.9	1,676.9	1,619.8	1,990.0	1,932.4	1,961.5	1,972.7	2,091.4		
To finance:												
Imports	(318.8)	(1,021.3)	(948.1)	(1,102.1)	(957.5)	(1,164.4)	(980.4)	(1,067.5)	(1,128.0)	(1,201.8)		
Exports	(3.4)	(3.5)	(3.1)	(2.6)	(14.1)	(1.3)	(1.8)	(1.5)	(1.8)	(1.5)		
Trade in local manufactures	(5.9)	(19.1)	(47.7)	(141.3)	(195.7)	(161.8)	(259.0)	(244.2)	(154.3)	(173.0)		
Industrial enterprises	(—)	(15.4)	(61.9)	(97.1)	(88.3)	(139.7)	(219.3)	(126.9)	(156.1)	(166.7)		
Other business enterprises	(74.9)	(191.2)	(106.9)	(168.9)	(133.7)	(229.8)	(142.7)	(148.5)	(179.4)	(226.7)		
Private and professional activities	(60.2)	(128.2)	(122.2)	(164.9)	(230.5)	(293.0)	(329.2)	(372.9)	(353.1)	(321.7)		
Medium- and long-term loans	0.6	17.5	24.1	93.4	80.2	94.9	91.9	91.6	81.4	117.9		
Total	538.2	1,470.2	1,414.9	1,891.1	1,821.3	2,273.0	2,312.0	2,331.5	2,350.7	2,542.9		

Source: Central Bank of Yemen.

Table 34. Yemen Arab Republic: Interest Rate Structure
for Deposits and Loans in Yemen Rials, 1978-81

(In per cent per annum)

Effective Date	1980				1981	
	1978 April	Feb.	April	July	Nov.	May Dec. 17
Central Bank						
Treasury bills	3	3	3	3	3	3
Advances to Government	4	8	8	8	8 2/	8 2/
Discount rate for commercial banks	...	12.5	14.5	11	14	14
Commercial banks						
Maximum lending rate 3/	10	13.5	15.5	12	15	15
Minimum deposit rates						
Time deposits						
3 months	6.5	8.5	10.5	7	10	9.5
6 months	7	9.5	11.5	8	11	10
9 months	7.5	10.5	12.5	9	12	11
12 months or longer	8	11.5	13.5	10	13	12
Savings deposits	6	8.5	10.5	7	10	10
Specialized banks						
Lending rates						
Short-term	7	10.5	12.5	9	11	11
Medium- and long-term	6	9.5	11.5	8	10	10

Source: Central Bank of Yemen.

1/ As of May 1, 1982, these rates remained unchanged.

2/ The rate for general advances is 8 per cent; for investment projects the rate is 4.5 per cent.

3/ Excluding some cotton and manufacturing credit for which lower rates have been applicable.

Table 35. Yemen Arab Republic: Balance Sheet of
Agricultural Credit Bank, 1979-81

(In millions of Yemen rials)

End of Month	1979	1980		1981
	June	June	Dec.	Dec.
Cash and current accounts	23.1	15.6	7.7	22.7
Loans	106.6	171.0	100.3	182.5
Investments	4.8	12.0	13.8	24.0
Ongoing projects	1.7	--	0.1	0.3
Inventories	12.3	7.8	9.3	23.2
Fixed assets less depreciation	2.2	8.4	10.3	11.2
Other assets	22.9	11.6	70.6	20.1
Assets = Liabilities	173.6	226.4	212.1	284.0
Credit from Central Bank	22.3	51.0	)	3.9
Credit from Government	7.6	11.6	) 106.5	104.6
Credit from foreign sources	37.2	59.4	)	39.9
Capital subscribed by Government	92.5	96.2	100.0	110.0
Retained earnings and reserves	-2.2	-1.2	--	--
Other liabilities	16.2	9.4	5.6	25.6

Source: Central Bank of Yemen.

**Table 36. Yemen Arab Republic: Balance Sheet of
National Cooperative Development Bank, 1980-81**

(In millions of Yemen rials)

End o. Month	<u>1980</u> <u>Dec.</u>	<u>1981</u> <u>Dec.</u>
Cash and current accounts	6.6	65.8
Term deposits	115.3	--
Loans	3.3	1.3
Investments	--	56.5
Ongoing projects	--	0.7
Inventories	--	5.2
Fixed assets less depreciation	1.5	4.8
Other assets	5.9	--
Assets = Liabilities	<u>132.6</u>	<u>134.3</u>
Liabilities		
Deposits of development associations and cooperatives	71.4	60.8
Capital subscribed by Government	30.0	30.0
Capital subscribed by private sector <u>1/</u>	17.0	30.0
Retained earnings and reserves	4.1	9.4
Other liabilities	10.1	4.1

Source: Central Bank of Yemen.

1/ Subscribed by Confederation of Yemeni Development Associations.

**Table 37. Yemen Arab Republic: Balance Sheet of
Industrial Bank of Yemen, 1979-81**

(In millions of Yemen rials)

End of Month	1979	1980		1981
	June	June	Dec.	Dec.
Cash and current accounts	4.6	7.1	2.2	4.1
Term deposits	48.0	40.5	36.6	24.0
Due on principal and interest	--	13.6	20.9	26.5
Loans	24.4	28.4	29.8	41.3
Investments	2.4	3.3	5.6	6.4
Fixed assets less depreciation	1.7	1.6	2.0	3.5
Other assets	1.2	2.1	2.1	2.3
Assets = Liabilities	<u>82.3</u>	<u>96.6</u>	<u>99.2</u>	<u>108.1</u>
Credit from Central Bank	--	--	--	1.5
Credit from foreign sources	--	0.9	1.1	1.8
Capital subscribed by Government	60.0	70.0	70.0	70.0
Capital subscribed by private sector	17.9	18.3	18.6	18.6
Retained earnings and reserves	2.6	4.8	7.4	11.0
Other liabilities	1.8	2.6	2.1	5.2

Source: Central Bank of Yemen.

Table 38. Balance Sheet of Housing Credit Bank, 1979-81

(In millions of Yemen rials)

End of Month	1979	1980		1981
	June	June	Dec.	Dec.
Cash and current accounts	1.2	2.9	2.4	11.2
Term deposits	15.7	16.8	18.7	43.6
Loans	24.2	38.4	40.2	45.6
Investments	6.1	6.8	6.8	7.2
Ongoing projects	--	1.5	12.6	0.4
Inventories	--	--	--	0.1
Fixed assets less depreciation	0.4	0.4	1.5	0.8
Other assets	0.4	3.1	0.8	6.8
Assets = Liabilities	48.0	69.9	83.0	115.7
Capital subscribed by Government	45.0	63.8	72.9	93.9
Capital subscribed by private sector	1.9	2.2	2.3	2.4
Retained earnings and reserves	0.7	3.0	4.5	10.7
Other liabilities	0.4	0.9	3.3	8.7

Source: Central Bank of Yemen.

Table 39. Yemen Arab Republic: Balance of Payments, 1976/77-1982

(In millions of Yemen rials)

	1976/77	1977/78	1978/79	1979/80	1980	1981	January-March 1981 1982	
Trade balance	-2,786	-1,573	-5,613	-6,926	-8,562	-7,821	-1,542	-2,284
Exports, f.o.b. 1/	84	32	13	32	58	47	17	4
Imports, f.o.b. 2/	-2,869	-3,605	-5,626	-6,957	-8,619	-7,868	-1,558	-2,288
Government	(-326)	(-605)	(-1,207)	(-1,387)	(-2,324)	(-1,638)	(-218)	(-783)
Private	(-2,543)	(-3,000)	(-4,419)	(-5,571)	(-6,296)	(-6,229)	(-1,341)	(-1,505)
Services (net)	-252	-311	-161	-1	-94	-232	-127	-244
Receipts	422	590	998	1,526	1,554	1,607	273	266
Government 4/	(174)	(317)	(512)	(725)	(613)	(502)	(125)	(77)
Private	(248)	(272)	(486)	(801)	(941)	(1,105)	(148)	(190)
Payments	-674	-900	-1,158	-1,527	-1,648	-1,838	-400	-510
Government 5/	(-102)	(-207)	(-251)	(-118)	(-134)	(-359)	(-72)	(-161)
Private	(-572)	(-693)	(-907)	(-1,409)	(-1,514)	(-1,479)	(-328)	(-350)
Unrequited transfers (net)	4,152	5,127	5,153	5,446	5,545	5,063	928	1,779
Receipts	4,679	6,358	6,998	6,621	6,700	5,960	1,233	2,131
Government 6/	(470)	(452)	(1,403)	(503)	(666)	(1,516)	(141)	(958)
Private 7/	(4,209)	(5,905)	(5,595)	(6,118)	(6,034)	(4,444)	(1,092)	(1,174)
Payments	-527	-1,230	-1,845	-1,175	-1,155	-897	-305	-352
Government	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(-1)
Private 7/	(-527)	(-1,230)	(-1,845)	(-1,175)	(-1,155)	(-897)	(-305)	(-351)
Current account	1,115	1,244	-621	-1,481	-3,110	-2,989	-741	-749
Nonmonetary capital	222	340	522	710	2,226	1,035	50	521
Drawings on loans	242	366	512	559	2,099	1,179	227	480
Repayments of loans	-19	-26	-44	-33	-68	-259	-207	-7
Investments (net) 8/	--	--	54	185	195	114	30	49
Commercial banks (net)	491	-279	148	-517	-325	5	109	-62
Capital account	713	61	670	173	1,901	1,040	158	459
Net errors and omissions 9/	184	330	674	643	548	459	-464	156
Overall balance	2,012	1,634	722	-665	-662	-1,491	-1,046	-133
Reserve movements (increase in assets-)	-2,012	-1,634	-722	665	662	1,491	1,046	133
Changes in net foreign assets of Central Bank	-1,990	-1,733	-912	545	808	1,661	1,222	133
Valuation adjustments	-21	99	190	119	-146	-170	-176	--

Source: Central Bank of Yemen.

1/ Includes re-exports until 1978/79.

2/ Import figures before 1979/80 were estimated by assuming that 3 per cent and 12 per cent of total c.i.f. import payments were insurance and freight costs, respectively, and these amounts were added to private service payments. Government import figures include some government service payments.

3/ Adjusted to reflect disbursement of commodity loan of YRLs 933 million from the U.S.S.R.

4/ Consists mainly of investment income from official reserves and local expenditures of foreign aid agencies.

5/ Some government service payments are included in government imports.

6/ Includes cash grants and counterpart of commodity grants.

7/ Consists mainly of workers' remittances.

8/ Includes both government and private investments.

9/ Includes short-term nonmonetary capital flows.

Table 40. Yemen Arab Republic: Commodity Composition
of Exports, 1976/77-1981

(In millions of Yemen rials)

	1976/77	1977/78	1978/79	1979/80	1980	1981
Payments basis	83.9	31.8	13.2	32.1	57.6	47.4
Cotton and cottonseed	56.6	20.6	9.0	1.0	1.0	12.1
Other	27.3	11.2	4.2	31.1	56.6	35.3
Customs basis	50.5	33.4	28.5	93.4	48.8	
Cotton	25.0	--	--	--	--	
Cotton manufactures	0.6	0.5	0.5	6.0	0.1	
Coffee	10.2	0.9	2.2	4.4	0.9	
Hides and skins	6.1	5.2	4.7	6.3	6.2	
Pastry, biscuits, etc.	3.2	4.1	8.5	12.7	18.8	
Other <u>1/</u>	5.4	22.7	12.6	64.0	22.8	

Sources: Central Bank of Yemen and Central Planning Organization.

1/ May include some re-exports.

Table 41. Yemen Arab Republic: Imports by Commodity Group, 1976/77-1980 1/

(In millions of Yemen rials)

	1976/77	1977/78	1978/79	1979/80	1980
Food and live animals	868.4	981.6	1,304.8	1,894.6	2,212.6
Live animals	13.8	17.3	24.4	40.8	60.6
Meat and meat products	30.5	123.3	177.4	222.7	208.1
Dairy products	69.5	123.0	196.0	341.7	474.0
Fish and fish products	16.7	13.4	25.4	30.7	36.4
Cereals and flour, etc.	296.7	234.8	220.2	400.4	393.8
Fruits and vegetables	180.4	220.8	307.4	504.0	538.5
Sugar and sweets	166.6	132.3	245.4	235.3	363.0
Coffee, tea, and spices	29.9	77.9	55.8	73.2	59.7
Other	64.4	18.6	52.9	45.7	76.7
Beverages and tobacco	49.0	85.6	110.5	114.6	103.6
Beverages	3.2	10.0	20.7	65.8	7.0
Tobacco	45.8	75.6	89.8	48.8	96.6
Raw materials	12.7	19.8	15.9	35.3	43.2
Mineral fuels and lubricants 2/	58.9	108.0	139.6	369.5	609.2
Animal and vegetable oils and fats	11.2	23.4	32.2	42.5	65.9
Chemicals	155.3	223.1	302.0	473.6	532.2
Medicines	46.1	75.8	103.1	172.9	180.0
Cleaning materials and cosmetics	42.5	77.4	59.2	81.1	86.7
Fertilizer	3.5	17.3	25.1	20.9	7.9
Tanning and dyeing materials	10.2	24.5	26.4	42.4	34.8
Plastic materials	20.4	12.7	26.0	95.7	82.2
Other	22.6	15.4	61.8	60.6	60.5
Manufactures, classified by material	668.2	975.2	1,270.3	1,780.5	2,140.1
Leather products	1.4	2.0	3.2	4.4	2.6
Rubber products	30.4	31.9	105.4	109.3	133.4
Wood and wood products	154.6	202.4	287.5	307.3	400.4
Paper products	25.3	21.8	41.8	27.8	58.3
Textiles	171.4	208.9	153.7	242.3	269.3
Nonmetallic mineral products (mainly cement)	89.9	138.9	177.4	430.9	417.5
Iron and steel	94.3	138.3	191.0	315.4	521.1
Nonferrous metals	14.5	41.9	49.7	44.1	28.0
Metal manufactures	82.2	189.2	260.5	298.9	309.4
Machinery and equipment	965.7	1,155.4	1,581.4	2,474.5	2,348.0
Nonelectrical machinery	324.1	459.0	771.0	874.5	819.0
Electrical machinery and equipment	114.1	142.3	250.1	566.8	532.4
Transport equipment	527.5	554.2	560.3	1,033.2	996.6
Miscellaneous manufactures	243.0	339.7	313.3	465.9	456.8
Sanitary and lighting fixtures	24.6	27.3	15.2	17.5	16.9
Furniture	10.9	31.7	49.5	65.5	74.6
Clothing	94.1	118.9	76.5	123.6	109.9
Footwear	31.6	61.7	64.5	64.0	71.3
Other	81.9	100.2	107.6	195.3	184.1
Goods not classified elsewhere	2.9	24.3	20.3	54.3	42.7
Total	3,035.3	3,941.1	5,090.3	7,705.3	8,454.3

Source: Central Planning Organization.

1/ Based on customs returns; data partly reflect increased coverage over time.

2/ For calculation of customs duties, mineral fuels and lubricants are valued at 1973 prices. In this table import values of these items have been adjusted to reflect price changes since 1973. Nonetheless, these data considerably understate actual import payments for mineral fuels and lubricants.

Table 42. Yemen Arab Republic: Sources of Imports, 1976/77-1980 1/

	Value					Share				
	1976/77	1977/78	1978/79	1979/80	1980	1976/77	1977/78	1978/79	1979/80	1980
	(In millions of Yemen rials)					(In per cent of total)				
Arab League	705.5	1,110.6	1,502.8	1,945.7	2,035.7	23.2	28.2	29.6	25.3	24.1
United Arab Emirates	6.4	29.4	30.8	59.2	58.5	0.2	0.7	0.6	0.8	0.7
Saudi Arabia	374.3	628.1	1,238.4	1,535.9	1,632.6	12.3	15.9	24.4	19.9	19.3
Somalia	3.8	11.3	26.5	22.3	52.0	0.1	0.3	0.5	0.3	0.6
Kuwait	13.6	27.9	45.0	109.2	87.2	0.4	0.7	0.9	1.4	1.0
Djibouti	129.3	112.9	53.8	58.3	40.5	4.3	2.9	1.1	0.8	0.5
Other	178.1	300.9	108.3	160.8	164.9	5.9	7.6	2.1	2.1	2.0
Africa 2/	69.6	51.6	36.1	28.6	40.6	2.3	1.3	0.7	0.4	0.5
Asia	1,077.2	1,177.6	1,331.5	2,282.4	2,691.8	35.5	29.9	26.2	29.6	31.8
China, People's Republic of	134.5	133.0	182.0	417.9	408.7	4.4	3.4	3.6	5.4	4.8
Hong Kong	53.8	88.3	81.3	87.3	90.5	1.8	2.2	1.6	1.1	1.1
India	178.2	184.5	171.4	229.5	231.9	5.9	4.7	3.4	3.0	2.7
Japan	410.0	499.2	509.8	862.1	1,074.9	13.5	12.7	10.0	11.2	12.7
Singapore	143.6	168.4	220.9	291.2	329.5	4.7	4.3	4.3	3.8	3.9
Philippines	--	2.5	4.6	81.9	103.7	--	0.1	0.1	1.1	1.2
Taiwan	32.8	31.2	69.2	97.7	129.5	1.1	0.8	1.4	1.3	1.5
South Korea	67.7	8.7	75.4	152.2	246.2	2.2	0.2	1.5	2.0	2.9
Other	56.6	62.0	16.9	62.6	76.9	1.9	1.6	0.3	0.8	0.9
EA	88.4	86.0	112.7	134.8	167.6	2.9	2.2	2.2	1.7	2.0
U.S.S.R.	41.8	39.9	36.4	62.6	63.0	1.4	1.0	0.7	0.8	0.7
Other	46.6	46.1	76.3	72.2	104.7	1.5	1.2	1.5	0.9	1.2
Europe	737.6	1,042.4	1,642.8	2,446.0	2,560.5	24.3	26.5	32.3	31.7	30.3
France	117.0	224.5	456.4	645.1	667.2	3.9	5.7	9.0	8.4	7.9
Germany, Federal Republic of	177.3	223.9	242.9	467.5	496.1	5.8	5.7	4.8	6.1	5.9
Italy	121.9	205.3	299.1	410.4	425.6	4.0	5.2	5.9	5.3	5.0
Netherlands	109.5	152.0	204.2	331.4	403.7	3.6	3.9	4.0	4.3	4.8
United Kingdom	169.6	194.7	377.7	489.6	443.2	5.6	4.9	7.4	6.4	5.2
Belgium	21.9	22.7	37.3	65.0	82.6	0.7	0.6	0.7	0.8	1.0
Other	20.5	19.3	25.0	37.0	42.2	0.7	0.5	0.5	0.5	0.5
Western Europe	111.3	156.6	238.7	314.0	382.1	3.7	4.0	4.7	4.1	4.5
Austria	14.1	7.6	40.2	49.1	46.5	0.5	0.2	0.8	0.6	0.6
Greece	24.1	40.0	96.3	138.6	206.7	0.8	1.0	1.9	1.8	2.4
Other	73.1	109.0	102.2	126.3	128.9	2.4	2.8	2.0	1.6	1.5
Eastern Hemisphere 3/	85.6	67.3	151.2	152.9	279.5	2.8	1.7	3.0	2.0	3.3
Oceania 4/	160.1	158.9	49.5	161.1	191.0	5.3	4.0	1.0	2.1	2.3
Unclassified	0.2	87.9	14.9	239.9	105.6	--	2.2	0.3	3.1	1.2
Total	3,035.3	3,938.8	5,080.4	7,705.3	8,454.3	100.0	100.0	100.0	100.0	100.0

Source: Central Planning Organization

- / Based on customs returns
 1/ Excludes Arab League countries
 2/ Almost entirely the United States
 3/ Almost entirely Australia

Table 43. Yemen Arab Republic: External Public Loan Drawings
by Creditor and Project, 1976/77-1981 1/

(In millions of Yemen rials)

	1976/77	1977/78	1978/79	1979/80	July- Dec. 1980	1981
International Development Association	92.6	83.6	74.5	67.1	96.1	73.8
Taiz-Turba Road Maintenance	12.2	1.5	0.3	6.4	--	--
Tihama Agricultural Development	17.2	23.3	20.9	1.3	0.2	--
Education I	23.0	13.3	13.9	0.8	0.3	1.8
Sana'a Water Supply	3.6	3.3	5.7	2.2	0.1	--
Industrial Estate	3.4	0.7	0.8	1.0	0.3	1.3
Southern Uplands Development	2.6	11.4	5.3	8.8	3.9	10.1
Taiz-Mocha Road Junction	23.4	2.2	2.1	1.2	--	--
Hodeidah Water Supply	5.9	6.2	7.3	7.9	3.8	4.8
Education II	1.3	10.2	6.0	12.1	1.4	1.0
Livestock Development	--	7.0	3.4	4.4	1.7	3.3
Grain Storage	--	4.0	6.1	1.9	1.7	2.7
Sana'a Water Supply II	--	0.5	1.8	13.8	7.2	8.2
Hodeidah Port Improvement	--	--	0.9	2.1	10.1	7.9
Power Distribution	--	--	--	2.3	4.6	14.4
Roads III	--	--	--	0.9	14.5	9.9
Second Tihama Development	--	--	--	--	6.2	5.5
Third Tihama Development	--	--	--	--	0.1	0.8
Fisheries Development	--	--	--	--	--	1.9
Arab Fund for Economic and Social Development	24.7	45.5	46.2	56.6	40.4	127.0
Oil subsidies (cash loans)	5.0	--	--	--	--	--
Sana'a Electricity	15.3	11.1	1.6	3.3	--	1.7
Hodeidah Water Supply	4.4	2.3	9.4	8.9	3.7	16.3
Taiz-Aden Road	--	28.2	20.0	12.6	--	1.3
Electricity Project II	--	2.0	2.7	22.5	30.5	53.8
Sana'a Water Supply	--	1.9	12.5	9.3	6.2	24.8
Electricity Project III	--	--	--	--	--	29.1
OPEC Special Fund	--	--	5.0	--	2.3	13.2
Cash loan	--	--	5.0	--	--	--
Third Highway Project	--	--	--	--	2.3	3.9
Damar-Taiz Power Transmission	--	--	--	--	--	9.3
Islamic Development Bank	--	--	1.4	--	--	--
Internal Fund for Agricultural Development	--	--	--	--	--	0.7
Third Tihama Development	--	--	--	--	--	--
Abu Dhabi Fund	2.8	17.4	5.4	19.0	25.5	24.0
Southern Uplands Development	2.8	17.4	5.3	8.8	3.9	12.8
Sana'a Water Supply	--	--	0.1	6.4	--	--
Wadi Siham Development	--	--	--	3.8	--	--
Taiz Water and Sewerage	--	--	--	--	21.6	8.8
Damar-Taiz Power Transmission	--	--	--	--	--	2.4
Iraq	0.6	31.7	36.2	33.9	180.2	238.6
Commodity loan	0.6	0.4	--	--	--	--
Development loan	--	31.3	--	--	--	--
Hodeidah Airport	--	--	24.7	33.9	--	--
Cash and commodity loan	--	--	11.5	--	--	--
Cash loan	--	--	--	--	180.9	--
Cash loan	--	--	--	--	--	13.6
Cash loan	--	--	--	--	--	225.0
Kuwait	--	--	--	--	--	--
Salif Salt (mine and port)	4.1	3.0	--	0.6	--	--
Kuwait Fund	24.4	25.3	20.3	30.5	10.8	22.4
Taiz-Turba Road Maintenance	2.0	0.3	--	--	--	--
Tihama Agricultural Development	10.6	8.8	15.4	17.3	0.1	0.8
Taiz-Mocha Road Junction	11.8	1.9	1.2	0.1	--	--
Livestock Development	--	13.8	3.4	7.1	1.7	4.3
Wadi Siham Development	--	0.5	--	3.9	0.5	0.5
Ports Improvement	--	--	0.3	6.5	8.0	10.8
Central Planning	--	--	--	1.6	0.5	0.7
Wadi Rima	--	--	--	--	--	5.3

Table 43 (concluded). Yemen Arab Republic External Public Loan Drawings
by Creditor and Project, 1976/77-1981 1/

(In millions of Yemen rials)

	1976/77	1977/78	1978/79	1979/80	July- Dec. 1980	1981
Saudi Arabia	34.1	74.3	195.9	174.4	178.2	266.3
Damar-Al Beida Road	34.1	52.5	55.3	25.3	11.7	--
Sana'a Electricity	--	21.1	1.6	0.3	--	--
Electricity Project	--	0.7	1.4	16.5	38.4	27.8
Gaizan-Modeidah Road	--	--	78.5	75.8	46.0	72.7
Saadah-Zahran Road	--	--	50.3	56.5	38.8	50.6
Grain Storage	--	--	8.8	--	31.8	3.4
Taiz Water and Sewerage	--	--	--	--	11.5	19.0
Grain Storage II	--	--	--	--	--	42.1
Power Distribution II	--	--	--	--	--	50.7
Algeria						
Technical cooperation	1.1	--	--	--	--	--
China, People's Republic of	7.6	7.2	20.7	98.6	--	22.2
Development	7.6	5.9	18.0	29.7	--	--
Development	--	1.3	--	6.9	--	15.4
Sana'a-Saadah Road	--	--	2.7	--	--	--
Technical and economic cooperation	--	--	--	62.0	--	6.8
U S S R	5.2	44.2	40.8	20.5	14.1	300.4
Development	1.7	13.2	38.3	14.2	14.1	44.2
Commodity loans	3.5	31.0	2.5	6.3	--	2.3
Special equipment	--	--	--	--	--	253.9
Germany, Federal Republic of 2/	44.5	12.7	16.7			
Sana'a Airport	0.2	1.1	4.2			
Sana'a-Taiz Road	5.0	0.4	--			
Printing Press and Grain Storage	0.5	--	0.4			
Sana'a-Taiz Road Repairing	38.3	11.2	12.1			
Sana'a-Taiz Road Maintenance	0.5	--	--			
United States						
Taiz Water Supply	--	3.8	2.0	0.3	--	--
Netherlands	--	12.6	14.5	21.2	25.8	10.9
Development	--	9.6	10.4	7.3	4.6	--
Livestock Development	--	3.0	4.1	--	3.2	7.9
Development	--	--	--	0.2	--	--
Steam Stations	--	--	--	13.7	18.0	3.0
Japan	--	1.3	1.0	0.1	34.7	55.7
Rural Water Supply	--	1.3	1.0	0.1	34.7	12.4
Ras Katenib Power Station	--	--	--	--	--	43.3
France	--	3.9	30.9	30.1	36.0	24.3
Telecommunications	--	3.9	17.3	22.2	26.4	17.8
Telecommunications	--	--	13.6	7.9	9.6	6.5
Total	241.7	366.5	511.5	558.9	604.8	1,179.5

Source Central Bank of Yemen

1/ Includes only loans with an original or extended maturity of over one year

2/ In 1979 all outstanding loans from the Federal Republic of Germany were converted into

Table 44. Yemen Arab Republic: Summary of External Public Debt
by Creditor, 1981

(In millions of U.S. dollars) 1/

	Amount Disbursed During 1981	Amount Outstanding at End-1981		
		Disbursed	Undisbursed	Total
Multilateral/regional	47.5	209.0	183.0	392.0
International Development Association	16.2	115.8	111.5	227.3
Arab Fund for Economic and Social Development	28.2	87.1	46.1	133.2
OPEC Special Fund	2.9	5.7	9.3	15.0
Islamic Development Bank	--	0.2	5.9	6.1
International Fund for Agricultural Development	0.2	0.2	10.2	10.4
Bilateral	214.5	891.9	416.2	1,308.1
U.S S R.	66.7	362.7	62.5	425.2
Saudi Arabia	59.1	200.3	112.2	312.5
Iraq	53.0	119.1	70.7	189.8
China, People's Republic of	5.0	81.4	39.2	120.6
Kuwait	5.0	46.1	43.7	89.8
Abu Dhabi	5.3	20.3	23.9	44.2
Japan	12.4	20.1	35.1	55.2
Netherlands	2.4	16.6	5.0	21.6
France	5.4	19.8	--	19.8
Other	0.2	5.5	23.9	29.4
Total	262.0	1,100.9	599.2	1,700.1

Source Central Bank of Yemen

1/ Converted at US\$1 = YR1s 4.5

Table 45. Yemen Arab Republic: External Debt Service, 1976/77-1986

	Principal	Interest	Total Debt Service	Current Account Receipts	Debt Service Ratio
	(In millions of U.S. dollars)			1/	3/ (In per cent)
				2/	
Actuals					
1976/77	4.3	2.1	6.4	1,047.8	0.6
1977/78	5.8	2.6	8.4	1,450.4	0.6
1978/79	9.8	3.8	13.6	1,467.9	0.9
1979/80	7.4	4.4	11.8	1,705.8	0.7
July-Dec. 1980	10.8	3.9	14.7	779.6	1.9
1981	57.5	10.6	68.1	1,355.2	5.0
Scheduled					
1982	44.6	18.0	62.6		
1983	53.6	21.0	74.6		
1984	68.0	21.5	89.5		
1985	72.1	21.9	94.0		
1986	88.1	20.3	108.4		

Source Central Bank of Yemen

1/ Receipts from merchandise exports, services, and private unrequited transfers.

2/ Converted at US\$1 = YRls 4.5.

3/ Debt service payments as a proportion of current account receipts.

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