

**FOR  
AGENDA**

SM/82/243

CONTAINS CONFIDENTIAL  
INFORMATION

December 29, 1982

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: People's Democratic Republic of Yemen - Staff Report for the  
1982 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1982 Article IV consultation with the People's Democratic Republic of Yemen. A draft decision appears on page 12.

This subject will be brought to the agenda for discussion on a date to be announced.

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

Staff Report for the 1982 Article IV Consultation

Prepared by the Staff Representatives for the  
1982 Article IV Consultation with the P.D.R. of Yemen

Approved by S. H. Hitti and Subimal Mookerjee

December 28, 1982

I. Introduction

The 1982 Article IV consultation discussions with the P.D.R. of Yemen were held in Aden during the period November 5-12, 1982. The Yemeni representatives were led by the Governor of the Central Bank and the Deputy Minister of Finance and included senior officials from various ministries and public sector institutions. The mission also met with the Minister of Trade and Supply. The staff team consisted of Messrs. G. T. Abed (Head), M. Arif, R. Basanti, and S. Thayanithy (all of MED), and Miss B. J. Muncy (Secretary - MED). The Executive Board considered the Staff Report on the 1981 consultation discussions (SM/81/232) on December 16, 1981. The P.D.R. of Yemen continues to avail itself of the transitional arrangements of Article XIV.

II. Background

The P.D.R. of Yemen is considered among the least developed countries, with a 1981 per capita GNP of less than US\$500. The basic objective of development policies, which were initiated in the early 1970s within the framework of a centrally planned economy, has been to achieve a structural transformation of a predominantly service-based economy to one based on commodity production. The development effort was initially concentrated on infrastructure; in addition, a modern fishing industry was built up, and substantial investments were made in the agricultural sector. During the three years ended in 1979, the real growth rate of GDP averaged about 7 per cent annually. The pace of economic activity slackened in 1980, mainly owing to adverse weather conditions and to a slowdown in investment activity due to a consolidation of development projects in the last year of the Plan. However, the acceleration of development spending under the Second Five-Year Development Plan, 1981-85, and improved weather conditions led to a strong recovery in 1981; this was reflected in relatively high growth rates in agriculture, government services, construction, and transport. Provisional data on nominal GDP, together with available price indicators, show that real GDP rose by about 8 per cent in 1981.

Economic performance in 1982 was dealt a serious setback by the unusually severe floods of the spring rainy season. Although damage was sustained on a relatively wide scale, the worst hit areas were concentrated in the agricultural governorates of Abyan and Lahaj. Damage to agricultural infrastructure and crops was extensive; several diversion weirs and dikes, irrigation canals and wells, numerous highway sections, as well as highway bridges, were destroyed. A substantial portion of the seasonal crops of cotton, cereals, and vegetables and large numbers of livestock were lost. Thousands of houses were destroyed. These losses produced an adverse effect on the balance of payments partly by reducing export proceeds, but mainly by increasing the need for emergency imports. In order to assist the country in meeting its urgent import needs, the Fund approved a purchase, in June 1982, by the P.D.R. of Yemen of SDR 15.375 million, equivalent to 25 per cent of quota. The P.D.R. of Yemen also received some emergency assistance from UN agencies and from certain Arab and European countries. The World Bank (through IDA) also approved in October a loan of US\$7.0 million for road reconstruction in the affected areas (with possible additional financing to be provided by the Arab Fund for Economic and Social Development) and is assisting in reconstruction planning in agriculture.

The basic objectives of the Second Five-Year Plan include satisfying the basic needs of the population as well as development of production capacity in agriculture and industry. The total expenditure target for the five-year period 1981-85 is YD 508 million, representing a near doubling of expenditures of the previous five-year period. The Plan assumes that nearly four fifths of the financing would come from foreign sources, and commitments from donors already cover the bulk of this amount. Actual development expenditures in 1981 were YD 105 million, equivalent to 92 per cent of the original target.

In recent years total budget receipts have risen strongly, in part because of the buoyancy of the tax system. Following an average annual increase of 37 per cent during 1977-80, ordinary revenues increased by 21 per cent in 1981. Although this increase in budget revenues reflected, in part, continued buoyancy of the tax system, some of the increase was attributable to special factors such as administrative improvements in tax collection and recovery of tax arrears. Total government expenditures rose at an average annual rate of 21 per cent during this four-year period. Current expenditures rose by 46 per cent in 1981, largely reflecting increases in outlays on defense and security and to a lesser extent on consumption subsidies. The initiation of the Second Five-Year Development Plan in 1981 gave an impetus to capital expenditures which grew by 50 per cent over 1980. The overall budget deficit as a ratio to GNP (at factor cost) rose to 25 per cent in 1981, from an average of about 22 per cent in the four years ended in 1980.

The rate of expansion of domestic liquidity accelerated from 20 per cent in 1978 to 32 per cent in 1980, mainly on account of the impact of the external surpluses but also because of bank financing of the public

sector deficits. In 1981 domestic liquidity growth slowed down to 12 per cent, chiefly owing to a small decline in net foreign assets of the banking system, while credit to the Government continued to increase. Strict enforcement of price controls limited the recorded movement in the cost of living index to an annual rate of about 6 per cent during 1976-79. This index rose by 10 per cent in 1980, mainly as a result of the impact of adjustments in administered prices, but the rate of increase declined to 4 per cent in 1981.

The balance of payments was in surplus during the period 1977-81, despite sharp increases in payments for petroleum and other imports, largely on the strength of receipts from foreign aid and workers' remittances. More recently, import growth has accelerated as a result of the intensification of the development effort, and the surplus has declined from the peak of US\$91 million in 1978 to US\$22 million in 1981.

The P.D.R. of Yemen continues to maintain comprehensive controls on imports and invisible payments. Exchange allocations for imports are made according to an annual program prepared at the beginning of the year on the basis of estimated requirements and foreign exchange availabilities; the program may be adjusted in the course of the year in light of changing circumstances. Since 1978, to encourage the inflow of remittances, the authorities have permitted the maintenance of convertible foreign exchange accounts in local banks at preferential rates and allowed duty-free imports, within specified limits, for returning workers. The Yemeni dinar has been pegged to the U.S. dollar at the rate of US\$2.89524 = YD 1 since February 1973.

### III. Report on the Discussions

#### 1. Production policies

The growth of GDP for 1982 is projected to decline to about 4-5 per cent in real terms, mainly owing to the damage to agriculture caused by the spring floods. Although there was an expansion in the cultivated area, there was extensive damage to vegetables and other crops on the ground; in addition, portions of the harvested cotton and wheat were washed away by the floods. More importantly, the destruction of irrigation facilities has rendered considerable areas unsuitable for cultivation until these facilities are replaced or rehabilitated. Industrial output is expected to show only a small increase in 1982 as certain agro-based industries have been adversely affected by the lack of raw materials. The construction sector, however, is projected to record a large expansion in output not only due to the underlying increase in investment activity but also because of the reconstruction effort. The services sectors are expected to show similar increases as in 1981.

Policies in the agricultural sector have been directed toward the achievement of self-sufficiency in vegetables and fruits, raising the level of self-sufficiency in cereals, and increasing the output of the

traditional export crop of cotton. While investment under the Development Plan has been directed toward the extension of irrigation and other infra-structural facilities, the authorities have also instituted policies regarding incentives, pricing, and marketing. From 1981 the authorities have expanded the use of performance-related incentive payments in state farming and adjusted producer prices to reflect cost increases. More recently, the authorities have begun phasing out those state farms which had been running at a loss by converting them into cooperatives or private farms.

With respect to fisheries, on the basis of research conducted with foreign assistance, the authorities expect a sharp recovery in 1983 from the depressed levels of 1981-82 caused by changes in the biological cycle. In the meantime, a fisheries commission has been established to regulate fishing activity in the interest of long-term conservation of marine resources and to provide guidance to the industry generally. Domestic fish prices have been raised annually since 1979 to improve incentives to fishermen, and there was a further increase in 1982.

In the industrial sector, the authorities are giving priority to the rehabilitation of existing manufacturing units by solving their technological problems and improving efficiency. New measures were taken in 1981 and 1982 to improve the production and investment incentives in manufacturing. These included facilities for the direct import of inputs by the industrial enterprises, increases in certain product prices, the granting of licenses for small-scale enterprises, and the revision of the wage structure favoring skilled personnel. Import duties on some raw materials and certain other inputs were also reduced. As in the agricultural sector, the system of linking wages to productivity has been in operation, with some success, in the industrial sector since 1980. The Investment Promotion Law of October 1981 introduced several new incentives for investors in addition to the import duty waivers on machinery, building materials, spare parts and raw materials, and the provision of free building land under the 1971 law. The new law was designed to attract foreign investment by offering, inter alia, dividend and capital repatriation incentives and by allowing the transfer of salaries by foreign workers, the transfer abroad in full of profits in the case of essential industrial products, and of profits up to the value of net exports by export-oriented industries (the same facilities apply to Yemenis who would also be eligible to transfer capital and profits to their source).

## 2. Development planning and policies

The budget for 1982 initially provided for capital expenditures at YD 126 million. Following the floods, development expenditure was revised upward to YD 154 million to cover the immediate reconstruction needs, including imports of machinery and equipment. However, in view of the economic as well as practical problems of implementing such a large step-up in development expenditures, the authorities assigned a high priority to the task of reconstruction and shifted resources from ongoing or

imminent projects to the repair and reconstruction program wherever possible. Moreover, it was found advisable to redesign some of the damaged irrigation systems and infrastructural facilities causing some delays in the reconstruction of certain large projects. Based on these considerations and on actual expenditures for the first half of the year, the authorities expect capital expenditures in 1982 to be about YD 113 million.

The Yemeni authorities are also undertaking a review of the Plan for the remainder of the Plan period, and a mid-term review of the Plan by the World Bank is expected to take place in the spring of 1983. The authorities' stated policy is to allocate resources flexibly, on the basis of a well-defined set of priorities, so that total demand would not outstrip available resources. The mission stressed the need for securing noninflationary financing for the development budget, particularly through greater efforts to mobilize domestic resources. The Yemeni authorities expressed their general agreement and indicated their determination to take appropriate measures.

### 3. Financial policies

Revised budget estimates for 1982 indicate a further deterioration in the overall deficit to a projected level of YD 100 million, equivalent to about 29 per cent of GNP. Although some of this deterioration is attributable to the impact of the floods, it also reflects some underlying weakening trend. Revenues are expected to show virtually no improvement while expenditures are projected to increase moderately. Bank financing of the deficit is expected to rise to a record YD 55 million, or 16 per cent of GNP.

The stagnation of revenue in 1982 follows the exceptional increases recorded in 1980-81, and is attributable in large part to the slower rise in incomes as there were no increases in tax rates. On the expenditure side, the major portion of the expected increase would come from the capital budget which is expected to rise by 24 per cent, while current expenditures would increase by about 3 per cent. The Yemeni representatives stated that efforts were being made to economize on current expenditures and that the revised estimate was much lower than that provided for in the original budget. Some savings had already been effected in the consumption subsidy bill by raising the prices of two of the seven subsidized commodities.

The rate of domestic liquidity expansion accelerated in the first eight months of 1982 to 15 per cent, principally under the influence of a 37 per cent increase in credit to Government. This was, in large part, attributable to the emergency expenditures incurred by the Government relating to the flood damage in anticipation of receipts. For the remainder of the year, the authorities did not expect a further increase in bank credit as revenue and grant receipts were expected to be higher in the closing months of the year. Bank credit to the nongovernment sector declined in the first eight months of the year due to the improvement in

the financial position of some corporations and the repayment of some loans. For the year as a whole, credit to the nongovernment sector is projected to rise by about YD 10 million. Taking these into consideration, together with a deficit of YD 12 million forecast for the balance of payments, the expansion in domestic liquidity is projected at 16 per cent for 1982.

#### 4. Balance of payments policies

In the five years ended in 1981, the balance of payments remained in overall surplus, albeit a declining one. Provisional estimates for 1982 indicate that the overall balance of payments would swing to a deficit of US\$36 million (from a surplus of US\$22 million in 1981), mainly owing to an increase in imports caused by the floods but also reflecting other underlying weaknesses. The P.D.R. of Yemen's exports have been small relative to imports and subject to fluctuations in recent years because of the effect of weather and climatic conditions on the two most important components, cotton and fish. The steady growth in imports has been largely sustained by a healthy growth in remittances and substantial inflows of official loans and grants. The year 1982 witnessed a deceleration in the growth of remittances and a reduction in aid receipts, reflecting developments in the neighboring oil producing countries which are the main sources of these inflows.

The impact of the floods on the balance of payments in 1982 was felt to some extent on exports but for the most part in increased imports. Cotton exports would have been adversely affected as part of the ginned cotton from the 1982 crop was washed away by the floods; however, an increase in the value of cotton exports was made possible by the export of stocks available from the previous year's crop. After the floods the import program was augmented by a supplementary allocation of US\$65 million for emergency imports, of which US\$20.3 million was for vegetables, fruits, grains, and other food items, US\$2.9 million for other consumer goods, US\$18.8 million for agricultural machinery and parts, and US\$23.2 million for construction materials and equipment. Although a good part of the imports of food and other consumer goods would have been received by the end of 1982, the major portion of the imports of machinery, equipment, and materials would not be received until early in 1983.

The P.D.R. of Yemen received considerable amounts of foreign aid as flood relief assistance in 1982. These included grants in cash amounting to about US\$12 million from neighboring and certain European countries, as well as grants in kind and technical assistance from bilateral sources and from UN agencies. The P.D.R. of Yemen also utilized a drawing of US\$11 million from the Arab Monetary Fund as the second installment of a loan for balance of payments support. In 1982 the P.D.R. of Yemen concluded debt rescheduling arrangements with its major bilateral creditors, enabling a postponement of a portion of the service payments to the years beyond 1985. As a result debt service payments in 1982 were reduced from US\$30 million to US\$17 million; they would amount to the latter figure during

the years 1983-85. The outstanding external debt in 1982 amounted to 68 per cent of GNP, and debt service payments were equivalent to about 3 per cent of receipts from exports and current invisibles. Allowing for a decline in reserves to finance the projected residual gap of US\$36 million, gross official reserves at the end of 1982 would be equivalent to three months of imports at the 1982 level.

The outlook for 1983 is for a further weakening in the balance of payments. The official projections indicate a marginal increase in export receipts and in certain services. Workers' remittances are projected at about US\$478 million, reflecting a slowdown in the rate of growth. While foreign borrowings associated with the development budget are expected to rise by about US\$35 million, grant receipts are expected to be about the same level as in 1982. The authorities aim at keeping the imports at about US\$883 million, permitting a nominal increase of 8 per cent over the estimated 1982 imports. Based on these projections, the overall deficit is expected to widen to US\$43 million in 1983.

Developments in 1982 and projections for 1983 indicate that the P.D.R. of Yemen may be entering a phase requiring balance of payments financing arising from a steady growth in imports fueled, in part, by the high rates of growth of government spending. The authorities shared the mission's concern about the weakening balance of payments position and stated that the adoption of a more restrained fiscal stance would help achieve a containment of import growth without recourse to exchange or trade restrictions. In this regard, they attach great importance to the measures under review to limit government spending in 1983. The Yemeni authorities also referred to measures already taken to encourage the flow of remittances. Financing facilities for building houses have been improved, and the Government was now providing free land for this purpose. The new investment law was also designed to provide incentives to attract capital from Yemenis abroad. As for exports, every effort was being made to rehabilitate cotton cultivation, to extend acreage, and to improve cultivation methods. With the reorganization of the fisheries sector and the improvement of the incentive system, the authorities expect an upturn in fish exports.

The trade-weighted effective exchange rates for the Yemeni dinar remained within a narrow range through 1980 but have appreciated with the U.S. dollar since then. The authorities consider the existing exchange arrangement as appropriate, but it would continue to be under review. Several steps were taken in 1981 and 1982 to liberalize and to simplify the exchange system (mainly through the Investment Promotion Law, but also through streamlining of administrative procedures), and the authorities affirmed their intention to keep the restrictive system under review with a view toward further simplification.

## 5. The financial program for 1983

Discussions with the Yemeni authorities focused on the recent strains in the P.D.R. of Yemen's financial position, which were compounded by the natural disaster of March-April 1982. In order to proceed with caution, the authorities have formulated an indicative financial program for 1983 to deal with the emerging problems. The objectives of the program are to maintain a satisfactory growth rate for the economy with relative price stability while at the same time containing the balance of payments deficit to a manageable level. The growth rate of GDP is targeted to be about 5-6 per cent, slightly higher than that estimated for 1982 while the overall inflation rate would be about 10 per cent (Table 1). The broad strategy underlying the program is to exert maximum effort to mobilize domestic and foreign resources for the reconstruction program while introducing amendments to the 1983 development budget so as not to place undue pressure on domestic resources. The overall balance of payments deficit is to be limited to YD 15 million (US\$43 million).

As an essential element of the financial program, the authorities aim at containing the expansionary effect of the budget deficit. Toward this end, they will formulate a budget with an overall deficit which, at 29 per cent of GNP, would be no greater than in 1982, and bank financing of the deficit slightly lower than that of 1982 (15 per cent of GNP). Although at the time of the discussions the budget was in its preliminary stages of preparation, targets had been set for the overall magnitudes and the main components of expenditures and revenues. Current expenditures in 1983 would be held to YD 160 million, a level below that originally budgeted for 1982 and about 12 per cent higher than the expected actual for the year. The authorities will take measures to effect economies on subsidies, salaries, and material expenditures. While the expenditure on subsidies would decline owing to an expected fall in world commodity prices, the authorities plan to effect a further reduction by reviewing the domestic prices of the subsidized goods. The Government will also resist any increase in wages and salaries, and a tight rein will be kept on material expenditures. Capital expenditure, in part due to the requirements of post-flood reconstruction, will be increased by 24 per cent. On the revenue side, the authorities are to intensify their efforts to improve tax receipts through selective expansion of the tax base as well as through more vigorous enforcement of existing tax laws. Revenue receipts are projected to increase by 18 per cent, while foreign grants are expected to rise somewhat from the 1982 level. The resulting overall deficit would be YD 120 million, of which domestic bank financing would be YD 60 million. The mission noted that the efforts by the authorities to contain the fiscal deficit at this level represented a step in the right direction. However, the level of the overall deficit remained a cause for concern and greater effort was needed to restore the buoyancy of tax revenues and to limit further the growth of government spending, if the immediate reconstruction program and the medium-term development plan are to proceed within a stable financial environment.

Table 1. P.D.R. of Yemen: The Financial Program, 1983

	<u>Actual</u> 1981	<u>Prel.</u> <u>Estimate</u> 1982	<u>Target</u> 1983
<b>Output and prices</b>			
Growth rate of GDP (in per cent)	8	4-5	5-6
Change in consumer price index (in per cent)	4	16	10
<b>Government finance</b>			
Revenues and grants (in millions of Yemeni dinars)	154	155	180
Total expenditures (in millions of Yemeni dinars)	231	255	300
Overall deficit/GNP (in per cent)	26	29	29
Bank-financed deficit/GNP (in per cent)	8	16	15
<u>(In millions of U.S. dollars)</u>			
<b>Balance of payments</b>			
Current account (deficit-)	-272	-288	-327
Overall balance (deficit-)	22	-36	-43
<u>(In per cent)</u>			
<b>Money and credit</b>			
<b>Growth rates</b>			
Domestic liquidity	12	16	16
Domestic credit	14	27	24
Claims on Government	19	37	29

Source: Bank of Yemen.

The increase in bank credit to the nongovernment sector is to be limited to YD 15 million, mainly in credit to enterprises engaged in development projects and imports. Taking into consideration these increases in credit and a projected balance of payments deficit of YD 15 million, domestic liquidity expansion in 1983 would be about 16 per cent. The authorities consider that such an outcome, taken together with a projected real growth of GDP of 5-6 per cent, is consistent with the moderation of the inflation rate to about 10 per cent.

#### IV. Staff Appraisal

The P.D.R. of Yemen has recorded satisfactory economic progress in recent years despite a severely constrained resource base. Basic infrastructural facilities have been built up and the productive base of the economy has been diversified, while at the same time the basic needs of the population have been provided for.

During the five-year period ended in 1981, the P.D.R. of Yemen's GDP is estimated to have grown at an average annual rate of 7 per cent. Economic developments in 1982 were adversely affected by unusually heavy floods in March-April 1982 which wrought extensive damage to infrastructure and curtailed productive capacity in agriculture and in agro-based industries. As a result, the growth rate is estimated to have fallen to about 4 per cent in 1982. The measures taken by the authorities in the period immediately following the floods were adequate for limiting the disruption to supplies and for restoring agricultural production to the extent possible. As regards the reconstruction effort, the authorities were prudent in their decision to reallocate resources with flexibility and, where necessary, to delay the starting of new projects in order to avoid undue pressures on resources while the reconstruction program is under way.

The success with which the authorities have carried out their development effort is notable. Foreign borrowings on very concessionary terms have financed the major portion of development expenditures. With regard to domestic resources, government revenues rose sharply and during the five years ended 1981, their ratio to GNP doubled to 40 per cent. However, expenditures have been rising even faster and budget deficits have widened. Developments in 1982 point to emerging problems reflected in a deceleration in the growth of domestic revenues compounded by a slowdown in the flow of foreign aid. The authorities however took measures to contain the growth of expenditures in the short run and the staff notes their intention to review the entire budget system and institute new revenue measures in the near future. However, the staff believes that early implementation of these policy actions is necessary if the current deterioration in the fiscal situation is to be reversed.

The balance of payments position is expected to turn into a deficit in 1982 which is projected to widen in 1983. In order to avert a rapid deterioration in reserves, the authorities intend to limit the increase

in imports to reasonable levels, primarily through demand management policies. The staff commends the authorities for their decision not to effect any tightening of the restrictive system.

As envisaged in their letter to the Fund requesting emergency assistance, the authorities have formulated and discussed with the staff an indicative financial program for 1983 designed to deal with the emerging balance of payments problem, which has been aggravated by the impact of the floods. While the program provides a reasonable basis for strengthening the balance of payments, the staff considers that adjustment toward stabilization in 1983 would be promoted by more resolute fiscal measures and notes the intention of the authorities to review their fiscal plans.

**V. Proposed Decision**

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to the exchange measures of the P.D.R. of Yemen subject to Article VIII, sections 2 and 3, and in concluding the 1982 Article XIV consultation with the P.D.R. of Yemen, in the light of the 1982 Article IV consultation with the P.D.R. of Yemen conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. The P.D.R. of Yemen has continued to maintain comprehensive controls on payments and transfers for current international transactions in the context of a centrally planned economy. Some steps to liberalize the system were taken since the last consultation discussions. The Fund notes that the authorities intend to continue reviewing the exchange control system with the objective of simplifying it further.

P.D.R. of Yemen: Relations with the Fund 1/

Date of membership: September 29, 1969.

Status: Article XIV.

Quota: SDR 61.5 million.

Fund holdings of currency: Fund holdings of Yemeni dinars amounted to SDR 77.8 million or 126.5 per cent of quota (of which 25.0 per cent under the credit tranche and 1.5 per cent under the oil facility).

SDR position: The P.D.R. of Yemen has received allocations of SDR 22.6 million; its holdings of SDRs amounted to SDR 1.39 million, equivalent to 6.2 per cent of net cumulative allocations.

Use of Fund resources: The P.D.R. of Yemen made a purchase of SDR 15.375 million under the Fund's tranche policies related to natural disasters.

Trust Fund: The P.D.R. of Yemen received loans amounting to SDR 12.02 million during the first period and SDR 16.32 million during the second period.

Direct distribution of profits from gold sales: US\$4.59 million.

Gold distribution (four sales): The P.D.R. of Yemen has received 24,819 fine ounces of gold.

Exchange system: The Yemeni dinar is pegged to the U.S. dollar at YD 1 = US\$2.89524.

Last Article IV consultation: September 1981; the Staff Report (SM/81/214) was discussed by the Executive Board on December 16, 1981.

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1/ As of the end of November 1982.

P.D.R. of Yemen: Relations with the Fund (concluded)

The Executive Board's decision concluding the Article IV consultation (Decision No. 7014-(81/158)) was as follows:

1. The Fund takes this decision in concluding the 1981 Article XIV consultation with the P.D.R. of Yemen, in the light of the 1980 Article IV consultation with the P.D.R. of Yemen conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. The P.D.R. of Yemen has continued to maintain comprehensive controls on payments and transfers for current international transactions in the context of its centrally planned economy. Some liberalization in the system was introduced since the last consultation discussions. The Fund notes that the authorities intend to continue reviewing the exchange control system with the objective of simplifying it further.

P.D.R. of Yemen - Basic Data

Area 112,000 square miles  
 Population (mid-1982) 2.1 million

	Actuals				Expected
	1978	1979	1980	1981	Actual 1982

(In millions of Yemeni dinars)

<b>Public finance</b>					
Total receipts	<u>67.6</u>	<u>79.5</u>	<u>121.3</u>	<u>153.9</u>	<u>155.0</u>
Tax revenue	33.6	43.1	68.9	87.9	85.0
Nontax revenue	20.3	17.2	34.4	32.2	37.0
Foreign grants	13.2	8.2	10.5	19.4	18.0
Other receipts	0.5	11.0	7.4	14.4	15.0
 Total expenditures	 <u>116.8</u>	 <u>120.0</u>	 <u>155.4</u>	 <u>229.1</u>	 <u>255.2</u>
Current expenditures	61.2	75.3	94.5	138.0	142.2
Capital expenditures	55.6	44.7	60.9	91.1	113.0
 Overall deficit (-)	 <u>-49.2</u>	 <u>-40.5</u>	 <u>-34.1</u>	 <u>-75.2</u>	 <u>-100.2</u>
 <b>Financing</b>					
Foreign borrowing (net)	28.2	18.5	27.3	47.9	45.2
Banking system	14.6	23.1	17.2	23.6	55.0
Discrepancy	6.4	-1.1	-10.4	3.7	--
					 <u>August</u>
					<u>1982</u>
 <b>Money and credit</b>					
Changes in:					
Domestic liquidity	<u>27.5</u>	<u>49.5</u>	<u>68.7</u>	<u>35.2</u>	<u>47.0</u>
Money	28.4	41.3	49.7	24.1	30.3
Quasi-money	-0.9	8.2	19.0	11.1	16.7
 Net foreign assets	 <u>31.0</u>	 <u>20.9</u>	 <u>12.3</u>	 <u>-0.9</u>	 <u>8.7</u>
 Net domestic assets	 <u>-3.5</u>	 <u>28.6</u>	 <u>55.9</u>	 <u>36.1</u>	 <u>38.3</u>
Claims on Government (net)	14.6	23.1	17.2	23.6	56.6
Claims on nongovernment sector	9.4	2 /	36.7	8.5	-3.9
Other items (net)	-27.5	2.8	2.0	4.0	-14.3

(In per cent)

Domestic liquidity	20	29	32	12	15
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P.D.R. of Yemen - Basic Data (concluded)

	<u>Actuals</u>			<u>Prelim.</u>	<u>Prov.</u>
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>Est.</u>
	<u>(In millions of U.S. dollars)</u>				
<b>Balance of payments</b>					
<b>Goods, services, and private transfers (net)</b>	<u>-83.9</u>	<u>-54.1</u>	<u>-212.2</u>	<u>-272.4</u>	<u>-287.8</u>
Exports	<u>39.4</u>	<u>38.8</u>	<u>59.6</u>	<u>48.7</u>	<u>54.4</u>
Imports	<u>-407.9</u>	<u>-430.5</u>	<u>-669.9</u>	<u>-781.7</u>	<u>-816.5</u>
<b>Services (net)</b>	<u>26.9</u>	<u>24.1</u>	<u>49.5</u>	<u>51.2</u>	<u>26.1</u>
Private transfers	<u>257.7</u>	<u>313.6</u>	<u>348.6</u>	<u>409.4</u>	<u>448.2</u>
<b>Official loans and grants</b>	<u>132.0</u>	<u>87.1</u>	<u>168.5</u>	<u>313.9</u>	<u>251.9</u>
Grants	<u>38.2</u>	<u>23.7</u>	<u>82.8</u>	<u>143.9</u>	<u>112.9</u>
Loans, drawings	<u>82.8</u>	<u>57.6</u>	<u>85.4</u>	<u>142.7</u>	<u>139.0</u>
Loans, repayments	<u>-1.2</u>	<u>-4.6</u>	<u>-9.3</u>	<u>-4.3</u>	<u>-10.7</u>
Trust Fund loans	<u>12.2</u>	<u>10.4</u>	<u>9.6</u>	<u>—</u>	<u>-0.3</u>
AMF loans	<u>--</u>	<u>--</u>	<u>--</u>	<u>31.6</u>	<u>11.0</u>
<b>Private capital and errors and omissions (net)</b>	<u>42.6</u>	<u>35.3</u>	<u>105.4</u>	<u>-0.6</u>	<u>--</u>
<b>Overall balance (deficit-)</b>	<u>90.7</u>	<u>68.4</u>	<u>61.7</u>	<u>40.7</u>	<u>-35.9</u>
<b>International reserves (end-year)</b>					
Gross reserves of Bank of Yemen	145.7	185.9	223.4	250.1	238.4 <u>1/</u>
Net foreign assets of banking system	148.7	227.0	282.4	304.4	291.2 <u>1/</u>
<b>Disbursed external debt outstanding (end of period)</b>	...	...	...	611.7	692.6 <u>2/</u>

1/ As of August 31, 1982.

2/ As of June 30, 1982.