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INFORMATION

November 9, 1981

To: Members of the Executive Board

From: The Secretary

Subject: People's Democratic Republic of Yemen - Staff Report for the
1981 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1981 Article IV consultation with the People's Democratic Republic of Yemen. A draft decision appears on page 11.

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

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Department Heads

INTERNATIONAL MONETARY FUND

PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN

Staff Report for the 1981 Article IV Consultation

Prepared by the Staff Representatives for the
1981 Article IV Consultation with the P.D.R. of Yemen

Approved by Said H. Hitti and Subimal Mookerjee

November 6, 1981

I. Introduction

The 1981 Article IV consultation discussions with the P.D.R. of Yemen were held in Aden during the period September 17-23, 1981. The Yemeni representatives were led by the Acting 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 Ministers of Finance, Trade, and Public Works. The staff team consisted of Messrs. G.T. Abed (Head - MED), Y. Boutros-Ghali (MED), D.B. Noursi (MED), S. Thayanithy (MED), M.A. Wattleworth (FAD), and Miss E.L. Whitely (Secretary - MED). The Executive Board considered the staff report on the 1980 consultation discussions (SM/80/193) on October 10, 1980. 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 among the least developed countries with a very weak resource base and a per capita income GDP of about US\$300. When the country gained its independence in 1967, British budgetary support was terminated and in that year the Suez Canal was closed, depriving Aden of substantial revenue from the use of its port facilities by ships using the canal. These circumstances necessitated austere financial policies and major structural changes in the economy. As a result of the attendant dislocations, growth stagnated until the mid-1970s. Economic recovery began in the latter part of the 1970s when positive growth rates were accompanied by balance of payments surpluses. Economic activity rebounded as a result of large investments, while the improvement in the balance of payments was associated with an increase in foreign aid and workers' remittances.

A basic objective of development policies in the P.D.R. of Yemen, which are carried out within the framework of a centrally planned economy, has been to achieve a structural transformation of the predominantly service-based economy of the pre-independence era to one based on commodity

production. The development effort was initially concentrated on infrastructure; however, a modern fishing industry has also been established and substantial investments have been made in the agricultural sector. Moreover, the reopening of the Suez Canal in 1975 and the economic boom in the neighboring countries has led to a revival of activity in the Port of Aden and to the emergence of rising inflows of workers' remittances to finance higher levels of imports for investment as well as consumption. During the three years ended 1979, the average annual growth rate of GDP at constant factor cost was about 8 per cent. However, a slackening in the rate of growth became apparent in 1979 mainly due to a slowdown in development expenditures caused, in part, by physical bottlenecks and, more importantly, by an increasing scarcity of labor.

In the three years ended in 1979, budget receipts grew strongly in part because of the buoyancy of the tax system; nevertheless, the overall government deficit in relation to GDP remained at the comparatively high level of about 32 per cent. ^{1/} Foreign resources continued to finance the bulk of the budget deficit, and the domestic bank-financed deficit fluctuated at about 10 per cent of GDP. In 1979 overall receipts remained unchanged which combined with the reduction in development spending to cause a marginal decline in the ratio of the overall deficit to GDP. Development outlays, which had risen rapidly in 1976-77, increased only slightly in 1978 and declined by about 13 per cent in 1979 due in part to the emergence of bottlenecks and to the government decision to consolidate the development effort and postpone the initiation of the Second Five-Year Plan until 1981.

In the three-year period 1976-79, domestic liquidity (money plus quasi-money) rose at an average annual rate of 31 per cent mainly due to the impact of the external surpluses but also because of bank financing of budget deficits. In the same period, strict enforcement of price controls limited the movements in the recorded annual cost of living index to increases ranging between 5 per cent and 6 per cent.

Despite a sharp increase in payments for petroleum imports, the balance of payments continued to be in surplus mainly due to increasing inflows from foreign aid and workers' remittances. Following a deficit of SDR 11 million in 1976, surpluses were recorded in each of the subsequent three years; these ranged from a peak of SDR 72 million in 1978 to SDR 53 million in 1979. In view of the depletion of foreign exchange reserves in the post-independence decade, these surpluses permitted an accumulation of reserves equivalent to about five months of imports at the end of 1980.

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;

^{1/} Available GDP data suffer from statistical deficiencies and are generally thought to understate the actual level.

the program may be adjusted during 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 interest rates and allowed returning workers to import merchandise, duty free, up to YD 200 per person. 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 and pricing policies

General indicators on production in the various sectors suggest marginal overall growth in 1980. Agricultural production suffered from adverse weather conditions and in some areas from labor shortages. There was a decline in industrial production associated with power, labor, and transport bottlenecks. On the other hand, some recovery was reported in fishing, due in part to favorable weather conditions, while performance of the service sectors continued to improve under the impact of rising imports and stepped-up government spending. Prospects for 1981 appear more favorable and overall growth in real terms is expected to range between 5 per cent and 6 per cent. The main contributors to this growth are the agricultural, industrial, and services sectors reflecting better weather conditions, coupled with the partial completion of irrigation projects, the easing of supply constraints, and continued growth in trade and services.

Until recently, the performance of the agricultural sector continued to depend heavily on seasonal rains which have been scarce in the past few years. Moreover, agricultural output was affected by low profitability and distribution problems, higher input prices coupled with low producer prices, and more recently by regional labor shortages. Measures taken to expand output and improve the efficiency of this sector included a wider application of wage incentive schemes in production, a step-up in the completion of irrigation projects, more intensive use of machinery in preplanting and harvesting operations, rationalizing the supply and pricing of agricultural inputs, and continued relaxation of price controls on vegetables and fruits to enable the passing through of cost increases. For the longer run, efforts are being directed at increasing the area under cotton cultivation, expanding the production of fruits and vegetables, and making further use of more capital-intensive techniques to improve the marketing of crops. In addition, agricultural pricing policies would continue to be reviewed with the object of improving production incentives. With respect to fisheries, intensive research was being applied to identify and solve the biological problems that have reduced the catch destined for exports. The management of the public fishing sector has been improved and wages are now partly linked to actual production. Moreover, fishermen are now allowed to sell part of their catch in the open market at more attractive prices. These price

and marketing policy changes have increased the output of fishing cooperatives and provided ample supplies for the domestic market. Further price increases are planned for 1982 to reflect recent cost increases. However, the full exploitation of the fisheries sector continues to be hampered by limited storage capacity and internal distribution systems.

The major industrial concerns (oil refinery, textile, power generation, and food processing) have been faced with technical problems related to their old technology, shortages of skilled labor, delays in the flow of inputs, and power supply bottlenecks. Moreover, the sector as a whole has been adversely affected by rigid price controls. Industrial pricing policy, however, has been under review and increases in the prices of a few commodities were approved in 1981 while others were being considered. An incentive scheme to link wages to productivity of labor has also been applied to several industrial concerns. The authorities are studying the feasibility of modernizing the refinery, which has been operating at about 40 per cent of capacity, and of improving its product mix. A new power generating plant is expected to be completed in 1982. To help solve the transport bottlenecks, the Port of Aden is being modernized and additional facilities are being constructed in Mukallah, in the Hadramout Governorate. Moreover, the road system is being expanded.

The P.D.R. of Yemen depends on petroleum imports for its energy needs. Geological surveys in the country indicate some potential hydrocarbon deposits. Oil and gas exploration activities are under way with the assistance of foreign firms, but so far no commercial discoveries have been made. Imports of petroleum, which account for 90 per cent of total energy consumption, have been increasing at an average annual rate of 3 per cent (in real terms) in recent years and are expected to rise at a faster pace in 1981, reflecting increased demand for power generation and for transportation. Prices of petroleum products have been adjusted frequently to reflect the higher international prices. The most recent adjustment took place in 1980 and entailed an increase of 120 per cent in the price of motor gasoline and 50 per cent in the price of gas oil. Smaller price increases were also effected in the case of other petroleum products. Nevertheless, kerosene, fuel oil, and gas oil continued to be priced somewhat below international levels. The authorities are in the process of reviewing these prices with a view to reducing the remaining gap. Electricity rates, which had not been changed since 1974, were raised in 1980 and further increases are being considered for implementation in 1982. Furthermore, the authorities established in 1980 a "National Committee for Energy" to devise effective energy conservation measures.

Since 1979 the authorities have adopted a flexible approach toward allowing output prices to reflect more adequately increases in production costs. As a result, the rate of increase in the cost of living index for Aden accelerated from 6 per cent in 1978 to 10 per cent in 1979 and 11 per cent in 1980. A large share of the overall increase was accounted for by rises in food (fish, meat, vegetables, and fruit) and fuel prices.

Stable prices continued to be applied to the seven basic commodities subject to subsidization by the Price Stabilization Fund, and as a result the gross cost of subsidy operations rose from YD 6 million in 1979 to YD 9 million in 1980 and are expected to rise much further in 1981. However, the authorities continued to draw on the profits realized from the sale of other commodities and on the accumulated surpluses of earlier years to finance these losses so that there was no recourse by the fund either to direct budgetary support or to bank borrowing. This situation was also expected to prevail in 1981.

2. Development planning

In 1980 the Government intensified its development efforts in order to ease some of the physical constraints and speed up the completion of ongoing projects prior to the launching of the new Development Plan. Capital spending by the Government rose by 37 per cent to YD 69 million with emphasis on industry, transport, agriculture, and fisheries. As in the past, most of the financing for these expenditures originated from foreign project loans and grants.

The Second Five-Year Development Plan (1981-85) aims at satisfying the basic needs of the population, developing the production base of the economy with more emphasis on the commodity producing sectors, exploitation of mineral resources, and improving education and health standards. As in the past, these aims are to be achieved mainly through the public and cooperative sectors. The Plan allocates 26 per cent of total investments to physical infrastructure, and a similar share to industry while agriculture and fisheries are allocated 17 per cent. Major industrial projects proposed in the Plan include the expansion of electric power, where generating capacity will be doubled, a cement plant to meet domestic demand, and the modernization of existing manufacturing capacity. Investment in agriculture will be concentrated in irrigation and land reclamation projects, and in fisheries these investments will be in shore facilities, boats, and other fishing equipment.

The quantitative targets of the new Plan represent a substantial increase over the previous Plan. Total investments during the five-year period are expected to amount to YD 508 million in 1980 prices, equivalent in real terms to about twice the actual level of spending during the preceding five-year period. A higher ratio of investment (22 per cent) was allocated for fiscal year 1981 in order to expedite the completion of ongoing projects. It is expected that real annual growth rates of GNP during the Plan period will average 10.3 per cent compared with an annual average of 8 per cent for the preceding five-year period. About 70 per cent of the financing of the Plan (YD 355 million) is expected to originate from foreign sources, mainly in the form of grants and concessionary loans, of which an amount of YD 312 million has already been committed from multilateral aid agencies and friendly countries. Domestic savings are expected to finance 24 per cent of planned investments and bank borrowing 6 per cent. Although an increase in the debt service ratio is anticipated during the Plan period, the overall debt burden

would remain comparatively small. The authorities recognize that the attainment of the new Plan's investment targets requires the amelioration of bottlenecks in the construction and transportation sectors and with regard to skilled labor. Accordingly, facilities in the Port of Aden are being expanded, and increased dependence is being placed on foreign construction firms that could supply their own national labor; moreover, some increase in labor productivity is envisaged as a result of the wider application of incentive schemes. Reform of the educational system was also continuing; it is being restructured to meet the needs of the Plan for skilled labor with greater emphasis on vocational and technical education.

3. Financial policies

The fiscal position of the government sector improved markedly in 1980, and the ratio of the overall budget deficit to GDP declined by about five percentage points to 28 per cent. There was a substantial rise in expenditure, reflecting a steady growth in current spending and a stepped-up development effort; however, a rapid surge in revenue took place and led to the improved fiscal performance. In 1981 the budget shows a leveling off of total receipts and continued growth in total expenditure; as a result the deficit is expected to widen substantially.

The increase in revenue in 1980 resulted from several factors. Import duties which were increased in 1979 had their full impact in 1980; the surge in imports caused a sharp gain in collection of duties, and there was a concerted effort to improve tax administration and collect tax arrears. Moreover, transfers from public sector enterprises were unusually high, reflecting larger profits by the banking sector on deposits abroad and increased earnings from several other public sector enterprises. The rise in total expenditures in 1980 was associated with increases in both current and capital spending. The increase in current spending (26 per cent) reflected the rise in disbursements on public administration and on education and health. Expenditures on security were also increased. The sharp rise in capital spending (37 per cent) reflected a higher ratio of project implementation due to the easing of some bottlenecks in the second half of the year coupled with improved availability of financing. A large part of the deficit (54 per cent) was financed from external sources in the form of concessionary loans, while about a third was covered from the domestic banking system.

Based on preliminary data for the first half of the year, actual receipts in 1981 are estimated to amount to YD 124 million while actual expenditures are expected to be YD 203 million. As a result, the overall budgetary deficit is likely to be in the neighborhood of YD 79 million, equivalent to 35 per cent of projected GDP. The authorities stated that the worsening of the fiscal position was brought about by a combination of factors, which included a temporary acceleration in the pace of the development effort, higher current expenditures caused by the recent floods, and a slowdown in the growth of revenue from the unusually high

level achieved in the preceding year. They indicated that the factors that had led to improved revenue performance in 1980 were not expected to recur in 1981. As for expenditures, the expected actuals for 1981 were based on an implementation ratio of 80 per cent for development outlays, and therefore any shortfall in such spending would cause a corresponding decline in the deficit. As in the past, the bulk of the deficit was expected to be financed from external sources with recourse to the domestic banking system to be limited to about 11 per cent of GDP.

Paced by the rise in public sector recourse to the banking system and to a lesser extent by a smaller increase in net foreign assets, the rate of growth of domestic liquidity increased marginally to 32 per cent in 1980. Claims on the Government rose by 16 per cent compared with 27 per cent in 1979; however, claims on the public sector enterprises increased sharply--by 60 per cent compared with 5 per cent in the previous year, because of the need to finance higher levels of imports of fuel and other consumer goods as well as part of the investment spending of these organizations. In the first half of 1981, domestic liquidity rose by only 1 per cent compared with 15 per cent for the same period of the previous year. This sharp deceleration was associated with the contractionary impact of a balance of payments deficit, which nearly offset the expansionary effect of an increase in net domestic assets.

The authorities indicated that for 1981 as a whole the rate of growth of domestic liquidity was expected to decelerate to 11 per cent, reflecting an increase in net domestic assets estimated at YD 46 million (22 per cent), coupled with a reduction in net foreign assets of YD 14 million (18 per cent). Claims on the Government are estimated to rise by YD 24 million (19 per cent) while claims on public sector enterprises are estimated to increase by YD 20 million (20 per cent), a rate that is well below that recorded in 1980.

4. Balance of payments policies

The balance of payments recorded a small surplus of YD 21.4 million in 1980, despite larger payments for imports especially of petroleum products. Receipts from exports of goods and services and, more importantly, from workers' remittances contributed to this favorable outcome. Imports rose by 56 per cent and were led by a 115 per cent rise in the value of petroleum products due to higher prices. Imports of consumer goods and capital equipment also surged, reflecting government policy to step up the development effort and make available adequate supplies of consumer goods.

Projections for 1981, based on preliminary results for the first half of the year, indicate a re-emergence of an overall balance of payments deficit. The main factors contributing to this turnaround are a decline in domestic exports, due to a lower level of fish catch and a reduced cotton output, coupled with a 10 per cent rise in imports of goods and services. Remittances from Yemenis working abroad and receipts from loans are expected to continue to grow at a fast pace.

The authorities indicated that although the balance of payments deficit was YD 18.5 million during the first half of 1981, they hoped that the overall deficit for the year as a whole would be limited to an amount ranging between YD 10 million and YD 15 million. With respect to 1982, the authorities expect a further worsening of the balance of payments position due mainly to a continued rise of imports of capital goods, while foreign receipts and grants were expected to rise at a slower pace. To help reduce the pressure on foreign exchange reserves, the authorities have drawn in 1981 an amount of SDR 23.4 million from the Arab Monetary Fund and expect to draw a further SDR 11.7 million in 1982. At the end of June 1981, the external reserves amounted to SDR 167 million and were equivalent to almost four months of imports at the 1980 level. There has been no change in the reserves management policy but the authorities intend to maintain an adequate level of foreign exchange reserves. The management of the emerging balance of payments deficit, the authorities stated, might necessitate serious consideration of the curtailment of demand.

The trade-weighted effective exchange rates for the Yemeni dinar remained within a narrow range through 1980 but has appreciated with the U.S. dollar since then. The authorities stated that they were maintaining the current exchange arrangement because it had met the needs of the country, but this arrangement would continue to be under review. Several measures were adopted in 1981 to liberalize the exchange and trade system and the authorities intend to continue their review with a view to further simplification. Non-nationals employed in the public sector were permitted to remit their entire savings on departure at the end of the contract period; formerly they were allowed to remit only up to YD 500 at the time of departure and the remainder at the rate of YD 100 per month. Non-nationals doing business in the P.D.R. of Yemen were permitted to transfer abroad YD 50 per month for family maintenance compared to YD 20 per month previously. Moreover, cars imported with own exchange are permitted to be re-exported in cases where the importer cannot pay the import duty without undertaking to surrender export proceeds. Previously, such undertakings for surrender were required.

IV. Staff Appraisal

Economic management in the P.D.R. of Yemen has been generally satisfactory in recent years. Despite a severely constrained resource base, the authorities succeeded in mobilizing both domestic and external resources for a determined development effort aimed at meeting the basic needs of the population while seeking to build a modern infrastructure and a more secure productive base. The P.D.R. of Yemen has mobilized considerable external resources in the form of private remittances and official aid transfers, the latter at highly concessionary terms. In addition, in the five years ended 1980, domestic tax revenues rose by about 250 per cent and their ratio to GDP doubled to nearly 35 per cent. The improved availability of resources made possible a rapid expansion in the investment program which absorbed an average of 35 per cent of GDP during this period, and the ratio is expected to go even higher in the near term.

Spurred by these development efforts, the growth of GDP averaged about 8 per cent per year in the five years ended 1980. In addition, the economic base was strengthened, some degree of economic diversification was achieved, and a substantial stock of national savings was accumulated in the form of external reserves. Although the growth of output slackened in 1980 in part as a result of the emergence of supply bottlenecks, the prospects are good for a recovery in 1981 and 1982. The authorities are alert to the problems that have emerged recently and have formulated policies, in the context of the Second Five-Year Plan, to strengthen the economic base further. Investments are being increasingly directed to the productive sectors so as to expand domestic supplies and exports, production incentives are being expanded to improve the efficiency of public sector enterprises, and efforts are being intensified to mobilize domestic resources through the budget and the banking system. Finally, the authorities intend to continue seeking external resources on highly concessionary terms so as to keep the debt ratios within manageable limits. The staff believes that the authorities will need to maintain a flexible attitude in the course of implementing the Plan so as to ensure that resource constraints do not hamper the achievement of the Plan's objectives of sustained growth and in order not to undermine domestic financial stability.

Financial developments have reflected the twin themes of vigorous resource mobilization and of a determined development drive. However, revenue growth has not kept up with the rise in expenditures and the overall budget deficit remained high in relation to GDP (averaging 30 per cent in the past five years) and shows signs of rising even further in 1981. The bank-financed deficit has fluctuated around an annual average of 10 per cent of GDP since 1977 and is likely to rise somewhat in 1981. The recent developments point to the need for enhanced efforts to maintain the growth of budget receipts and for a careful scrutiny of expenditures. In this connection, it should be noted that the authorities are increasingly allowing price adjustments to reflect more adequately higher costs in industry, agriculture, and energy and that pricing policies in general will be kept under review.

Monetary expansion, which averaged about 27 per cent in the three years ended in 1980, appears to have subsided considerably in the first half of 1981, primarily because of the contractionary impact of the adverse swing in the balance of payments position. However, for the year as a whole, liquidity growth is likely to be in the order of 10-12 per cent. A rate of growth limited to within this range appears to be consistent with a projected real growth of GDP of 5-6 per cent and the moderation of inflationary pressures. Care needs to be exercised, however, to ensure that the expansionary impact of a potentially higher budget deficit in 1981 does not add to underlying inflationary pressures.

The balance of payments position is expected to swing to a small deficit in 1981 and indications are that the overall deficit will widen in 1982. In view of the sizable investments envisaged in the newly launched Five-Year Development Plan, it is important that the authorities keep under review their exchange rate policies in order to facilitate the rapid growth of remittances and exports so as to safeguard the objectives of the development program. Exchange and trade restrictions have been eased somewhat in the recent past.

V. Proposed Decision

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

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 1981 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 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: 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 65.15 million or 106 per cent of quota (of which SDR 5.28 million or 8.6 per cent were under the oil facility).

SDR position: Holdings of SDRs amounted to SDR 2.25 million, or 10.0 per cent of net cumulative allocations of SDR 22.58 million.

Trust Fund loan disbursements: SDR 12.02 million (first period) and SDR 16.32 million (second period).

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

Gold distribution (four sales): 24,819.000 fine ounces.

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

Last Article IV consultation: June 1980; the Staff Report (SM/80/193) was discussed by the Executive Board on October 10, 1980.

The Executive Board's decision concluding the Article IV consultation (Decision No. 6648-(80/150)) was as follows:

1. The Fund takes this decision in concluding the 1980 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

1/ As of September 1981.

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

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 in the near future and hopes that this opportunity will be used to simplify the system.

P.D.R. of Yemen - Basic Data

Area 112,000 square miles
 Population (mid-1978) 1.8 million

	<u>Actuals</u>				<u>Expected</u>
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>Actual</u> <u>1981</u>
<u>(In millions of Yemeni dinars)</u>					
Public finance					
Total receipts	<u>60.3</u>	<u>69.2</u>	<u>69.8</u>	<u>111.0</u>	<u>124.0</u>
Tax revenue	<u>28.4</u>	<u>33.6</u>	<u>43.1</u>	<u>67.9</u>	<u>73.5</u>
Nontax revenue	<u>11.6</u>	<u>20.3</u>	<u>17.2</u>	<u>34.2</u>	<u>21.1</u>
Foreign grants	<u>20.3</u>	<u>15.3</u>	<u>9.5</u>	<u>8.9</u>	<u>29.4</u>
Total expenditures	<u>103.1</u>	<u>119.7</u>	<u>127.1</u>	<u>165.7</u>	<u>203.0</u>
Current expenditures	<u>47.6</u>	<u>61.7</u>	<u>76.7</u>	<u>96.7</u>	<u>117.5</u>
Capital expenditures	<u>55.5</u>	<u>58.0</u>	<u>50.4</u>	<u>69.0</u>	<u>85.5</u>
Overall deficit (-)	<u>-42.8</u>	<u>-50.5</u>	<u>-57.3</u>	<u>-54.7</u>	<u>-79.0</u>
Financing					
Net foreign borrowing	<u>24.2</u>	<u>32.4</u>	<u>21.9</u>	<u>29.8</u>	<u>47.9</u>
Banking system	<u>10.4</u>	<u>14.6</u>	<u>23.1</u>	<u>17.2</u>	<u>24.0</u>
Discrepancy	<u>8.2</u>	<u>3.5</u>	<u>12.3</u>	<u>7.7</u>	<u>8.0</u>
					<u>June</u> <u>1981</u>
Money and credit					
Changes in:					
Domestic liquidity	<u>42.7</u>	<u>27.5</u>	<u>49.5</u>	<u>68.7</u>	<u>2.2</u>
Money	<u>33.7</u>	<u>28.4</u>	<u>41.3</u>	<u>49.7</u>	<u>2.4</u>
Quasi-money	<u>9.0</u>	<u>-0.9</u>	<u>8.2</u>	<u>19.0</u>	<u>-0.2</u>
Net foreign assets	<u>12.5</u>	<u>31.0</u>	<u>20.9</u>	<u>12.8</u>	<u>-18.5</u>
Net domestic assets	<u>30.2</u>	<u>-3.5</u>	<u>28.6</u>	<u>55.9</u>	<u>20.7</u>
Claims on Government (net)	<u>10.4</u>	<u>14.6</u>	<u>23.1</u>	<u>17.2</u>	<u>18.8</u>
Claims on nongovernment sector	<u>18.0</u>	<u>9.4</u>	<u>2.7</u>	<u>36.7</u>	<u>13.2</u>
Other items (net)	<u>1.8</u>	<u>-27.5</u>	<u>2.8</u>	<u>2.0</u>	<u>-11.3</u>

(In per cent)

Domestic liquidity	44	20	29	32
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P.D.R. of Yemen - Basic Data (concluded)

	<u>Actuals</u>				<u>Proj.</u>
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
	<u>(In millions of SDRs)</u>				
Balance of payments					
Goods, services, and private transfers (net)	-112.3	-67.1	-41.8	-168.7	-219.2
Exports	40.2	31.4	30.0	45.8	55.0
Imports	-327.5	-325.9	-333.2	-514.8	-631.1
Services, net	14.6	21.6	18.7	32.5	30.2
Private transfers	160.4	205.8	242.7	267.8	326.7
Official loans and grants	107.6	105.4	67.5	129.4	190.9
Grants	47.6	30.5	18.4	63.6	49.0
Loans, drawings	58.0	66.1	44.6	65.6	154.3
Loans, repayments	-1.2	-0.9	-3.6	-7.1	-12.4
Trust Fund loans	3.2	9.7	8.1	7.3	--
Private capital and errors and omissions (net)	37.6	28.7	23.8	62.3	--
Overall balance (deficit-)	32.9	67.0	49.5	54.1	-28.3
International reserves (end year)					
Gross reserves of Bank of Yemen	85.7	148.2	166.6	196.5	185.0
Net foreign assets of banking system	37.1	114.2	172.3	221.4	167.1
Disbursed external debt outstanding (end of period)	478.0	...