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Statement by Mr. Finaish on the  
Yemen Arab Republic  
Executive Board Meeting 82/102  
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Since the early 1970's, the economy of the Yemen Arab Republic has been expanding at a vigorous pace while also undergoing significant structural transformations. This has been made possible by the determined efforts of the authorities, supported by a high level of workers' remittances and external assistance. Both the public and private sectors have featured prominently in the process of growth and transformation. Furthermore, the benefits of development have not been restricted to urban areas alone, but have been extended also to rural areas.

During 1981, the GDP growth rate at 3.5 per cent was reasonably good by international standards while the inflation rate continued to subside. The overall budgetary deficit was reduced significantly relative to GDP, reflecting continued improvements in domestic revenues, increases in external grants and some slowdown in the rate of the growth of spending. In addition, although the balance of payments position weakened further, it turned out somewhat better than had been foreseen earlier.

The year 1981 also marked the completion of the First Five-Year Plan. The plan strategy emphasized investment in infrastructural facilities as well as in a number of directly productive activities. Generally, the performance of the economy during the plan period was quite good. GDP grew at an annual average rate of about 6 per cent and the level of gross capital formation increased considerably relative to GDP. Certain other aspects of performance under the plan, however, were somewhat less satisfactory: the growth of agricultural output remained slow, the share of consumption in total resource-use remained high, and labor costs increased appreciably.

The Second Five-Year Plan (1982-86) has recently come into effect. The plan, which aims at a GDP growth rate of 7 per cent per annum, emphasizes raising productivity in the commodity producing sectors, and increasing the annual average growth rate in the agricultural and the manufacturing sectors to 4.8 per cent and 14.5 per cent respectively. The plan seeks to achieve a significant reduction in the ratio of consumption to GDP. It envisages a change in the composition of imports away from consumer goods to capital and intermediate goods, together with a substantial reduction in the overall growth rate of imports. Although the Government's share in total gross capital formation is projected to rise compared to the first plan, the private sector, which exceeded its growth and investment targets under the first plan, is to be encouraged to participate more actively in relatively heavy industries.

The realization of the second plan targets would need greater efforts at resource mobilization, both internally and externally, as well as reorientation of several other policies. The experience with rapid economic expansion in recent years has brought into focus several constraining factors which would need to be addressed in order to reach the goals set out in the plan. A major policy area that would need further attention is fiscal policy. The Government financial position has been under strain since 1978/79. This has resulted both from a relatively rapid increase in expenditures and a sluggish growth of revenues. The rate of growth of expenditures has in part been a reflection of the increasing financial requirements of investment in basic facilities and services, especially in the rural areas. The relatively slow growth of revenues is in part attributable to institutional and administrative constraints on tax collection, and, more recently, also to the slowdown in economic activity. The consequent increase in the fiscal deficit has necessitated a greater Government recourse to bank financing.

The authorities have shown awareness of the need to improve fiscal performance. A number of revenue raising measures have already been put into effect. There has been a continued improvement in the efficiency of tax collection. Taxes on incomes and profits grew by about 30 per cent in 1981, partly reflecting collection of arrears. A high level Committee is studying measures to improve the collection of import taxes through more effective control and regulation of over-land imports. Measures are also being considered to increase revenues through raising user charges on water, electricity and certain other public services. As a result of the various measures, revenues are expected to rise to 32 per cent of GDP in 1986, compared to 25 per cent in 1981. The authorities are also aware of the need to contain the growth of expenditures within reasonable limits. Measures to rationalize expenditures together with the measures on the revenue side are expected to contribute appreciably to improving the fiscal position in the coming years. Although the fiscal deficit is projected to increase somewhat in 1982, it is expected to remain well below the high level of 1980. In order to reduce reliance on borrowing from the Central Bank in financing the fiscal deficit, the authorities are considering a scheme of selling bonds to commercial banks. This scheme will also help to absorb the excess reserves of commercial banks.

Monetary developments in recent years have been determined chiefly by the countervailing effects of the weakening of the fiscal position and a widening balance of payments deficit. There has taken place a substantial reduction in the rate of liquidity growth since 1978/79. This has contributed to a considerable decline in the rate of increase of consumer prices. During the second plan period, the authorities intend to maintain the growth of domestic liquidity at a rate consistent with financial stability.

The country's balance of payments came under increasing strain in the latter part of the first plan, reflecting continued growth in import requirements in the face of a levelling off of external receipts. Although the authorities expect the current account deficit to bottom out in 1982, some degree of strain on the balance of payments is likely to continue during the second plan. External assistance at a high level will, therefore, continue to be needed. The widening of the external deficit in recent years has been accompanied by an appreciable drop in the level of reserves. The country's external debt, however, remains relatively small, and the debt servicing ratio in 1981 stood at about 5 per cent of current external receipts. Nevertheless, a special debt control unit has been set up to monitor the external debt situation. It is also noteworthy that notwithstanding the pressures on the external sector, the authorities have continued to follow a liberal trade and exchange system.

In conclusion, the authorities have shown awareness of the need to take necessary measures in the problem areas in order to maintain the growth momentum as well as reasonable financial stability. In the past, they have made an effective use of the available resources, and a sizable infrastructural base has already been laid. In the implementation of the second plan, they intend to follow a flexible and pragmatic approach.