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February 27, 1990

To: Members of the Executive Board
From: The Secretary
Subject: Yemen Arab Republic - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on a recent change in the exchange rate of the Yemen rial.

Mr. Huh (ext. 8525) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

YEMEN ARAB REPUBLIC

Exchange Arrangements

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

(In consultation with the Legal Department)

Approved by S.H. Hitti and S. Kanesa-Thasan

February 27, 1990

In the attached communication dated February 19, 1990, the Central Bank of Yemen has notified the Fund of an 18.7 percent depreciation of the Yemen rial, with the middle rate moving from YRls 9.76 = US\$1 to YRls 12.01 = US\$1. The last adjustment of the exchange rate of the Yemen rial was made on February 1, 1988 when the official exchange rate and the commercial exchange rate were unified at YRls 9.76 = US\$1; prior to the unification, the official exchange rate was YRls 8.99 = US\$1 and the commercial bank exchange rate was YRls 9.90 = US\$1.

In addition to the exchange rate adjustment, the commercial banks have been authorized to purchase foreign currencies domestically or from banks and money changers abroad on behalf of the Central Bank of Yemen at the official buying rate (YRls 12 = US\$1). They are also allowed to hold 10 percent of such purchases to effect import payments and are required to transfer the remainder to the Central Bank of Yemen weekly at the official selling rate (YRls 12.02 = US\$1).

On the occasion of the 1989 Article IV consultation (May 1989) the staff noted that the external value of the Yemen rial should be adjusted to compensate for its recent real effective appreciation (SM/89/65; 4/10/89), and Directors stressed the importance of maintaining a pragmatic exchange rate policy (SUR/89/29; 5/22/89). The staff will assess the impact of these changes and of other policies on the occasion of the 1990 Article IV consultation discussions with the Yemen Arab Republic scheduled for late May/early June.

Attachment

TO: CHAIRMAN OF YEMEN BANKING ASSOCIATION
(MR. TAHER RAJAB)
ALL BANKS IN YEMEN
ALL CBY BRANCHES
INTERNATIONAL MONETARY FUND
(MR. SHAALAN AND MR. FINAISH)

FROM: CENTRAL BANK OF YEMEN (SANA'A)

THE COUNCIL OF MINISTERS HELD A SPECIAL MEETING LAST NIGHT
AND ADOPTED THE FOLLOWING DECISIONS:

1. AS AN ENCOURAGEMENT AND INCENTIVE FOR YEMENI IMMIGRANTS
IT IS DECIDED TO UNIFY THE RATE OF EXCHANGE OF THE YEMENI RIAL
FOR ALL TRANSACTIONS AND DEALINGS AS FOLLOWS:

BUYING RATE 1 USD = 12 RIAL
SELLING RATE 1 USD = 12.02 RIAL
2. FREE FOREIGN CURRENCY ACCOUNTS WITH COMMERCIAL BANKS IN YEMEN
CAN BE MAINTAINED BY IMMIGRANTS, CITIZENS AND FOREIGNERS AT
INTERNATIONAL RATE OF INTEREST BUT NOT ALLOWED TO BE USED FOR
IMPORTS AND IS EXEMPTED FROM RESERVE REQUIREMENT.
3. INTEREST RATES OF YEMENI RIAL LENDING AND DEPOSITING WITH
COMMERCIAL BANKS AND CBY DEPOSIT RATES ARE TO BE INCREASED BY
2 PERCENT ACROSS THE BOARD.
4. THE CENTRAL BANK HEREBY AUTHORIZES COMMERCIAL BANKS IN YEMEN TO
BUY FOREIGN CURRENCIES DOMESTICALLY OR FROM BANKS AND MONEY
EXCHANGERS ABROAD ON BEHALF OF CBY AT THE EXCHANGE RATE FIXED
IN ONE ABOVE.
5. COMMERCIAL BANKS CAN KEEP TEN PERCENT OF THE FOREIGN CURRENCIES
THEY BUY IN SETTLEMENT OF UNPAID LC/S AND THE REMAINING NINETY
PERCENT MUST BE SOLD AND TRANSFERRED ON THURSDAYS OF EACH WEEK
TO CBY AT SELLING RATE (12.02) RIALS TO THE U.S. DOLLAR.
6. ALL FIVE ITEMS ABOVE ARE HEREBY DECLARED BY CBY AS EFFECTIVE
AND OPERATIONAL FROM NINE O'CLOCK OF THIS MORNING 19TH FEBRUARY
1990.

Received: February 19, 1990.