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MASTER FILES

ROOM C-120

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EBD/86/8

January 15, 1986

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

There is attached for the information of the Executive Directors a paper on a recent change in the exchange arrangements of the Yemen Arab Republic.

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 A. Shakour Shaalan and J.T. Boorman

January 14, 1986

In the attached communication dated January 8, 1986, the Governor of the Central Bank of the Yemen Arab Republic has informed the Fund that, with effect from January 7, 1986, the midpoint exchange rate of the Yemen rial against the U.S. dollar in the official market was changed from YRls 6.485 = US\$1 to YRls 7.24 = US\$1. This adjustment represents a 10.4 percent depreciation of the rial against the U.S. dollar, to which it is pegged. Reflecting continued pressure on the external payments position, the differential between the official exchange rate and the exchange rate in the free market had widened to 23 percent during the month immediately preceding the January 7 devaluation.

The measure constitutes a continuation of the flexible approach to exchange rate policy which has been pursued since early 1984. ^{1/} The staff is therefore of the view that the latest exchange rate action is in the right direction, and that it should facilitate the removal of the restriction on external payments. As noted in the Executive Board decision and the Managing Director's summing up at the conclusion of the 1985 Article IV consultation with the Yemen Arab Republic, the Fund encourages the authorities to unify the two exchange rates soon and to maintain the policy of exchange rate flexibility.

Attachment

^{1/} In 1984, the exchange rate was depreciated by 8.5 percent on February 15, 7.8 percent on May 20, 5.75 percent on August 15, and 2.05 percent on November 4. On February 11, 1985 the exchange rate was depreciated by 9.6 percent (see EBD/84/65, 3/2/84; EBD/84/159, 5/30/84; EBD/84/226, 8/24/84; EBD/84/300, 11/20/84; and EBD/85/55, 2/22/85, respectively).

ATTACHMENT

INTERFUND,
WASHINGTON, D.C.

THIS IS TO ADVISE THAT THE GOVERNMENT OF YEMEN ARAB REPUBLIC HAS CHANGED THE REPRESENTATIVE RATE OF THE YEMENI RIAL TO 7.24 YEMENI RIALS PER U.S. DOLLAR WITH A BUYING RATE OF YEMENI RIALS 7.23 PER U.S. DOLLAR AND A SELLING RATE OF YEMENI RIALS 7.25 PER U.S. DOLLAR FOR TT'S. CHEQUES AND BANK NOTES EFFECTIVE FROM JANUARY 7, 1986. THESE RATES WILL BE APPLIED BY THE CENTRAL BANK OF YEMEN FOR ITS DEALINGS IN FOREIGN CURRENCY.

REGARDS

MOHAMED A. AL-GUNAID
GOVERNOR

Received in the Cable Room January 8, 1986