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EBD/85/55

February 22, 1985

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

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

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. Quirk, ext. 8520.

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 S. Kanesa-Thanan

February 21, 1985

In the attached communication dated February 12, 1985, the Governor of the Central Bank of the Yemen Arab Republic has informed the Fund that, with effect from February 11, 1985, the midpoint exchange rate of the Yemen rial against the U.S. dollar was changed from YRls 5.86 = US\$1 to YRls 6.4850 = US\$1. This adjustment represents a 9.6 percent depreciation of the rial against the U.S. dollar, to which it is pegged.

The balance of payments of the Yemen Arab Republic deteriorated sharply in 1980-83 due in part to a nominal effective appreciation of the exchange rate of the rial of 41 percent. In 1984, in an effort to offset this trend the rial was depreciated against the U.S. dollar on four separate occasions 1/ and the nominal effective exchange rate is estimated to have depreciated by 14 percent. Consequently, since end-1980 the nominal effective appreciation has been reduced to about 27 percent.

In concluding the 1984 Article IV consultation in November 1984, the Yemen Arab Republic authorities were commended for the recent flexible approach to exchange rate policy. The present measure constitutes a continuation of that policy, and will facilitate the early review of the restrictive measures adopted in 1983 that the authorities have undertaken. The staff is therefore of the view that the latest exchange rate action, as described above, is in the right direction and that it should be supported by appropriate demand management policies. As noted in the staff report for the 1984 Article IV consultation, 2/ the staff welcomes the recent policy of closely monitoring the free market exchange rate.

Attachment

1/ The exchange rate was depreciated by 6.2 percent on February 15, 7.8 percent on May 20, 5.75 percent on August 15 and by 2.05 percent on November 4 (see EBD/84/65, 3/2/84; EBD/84/159, 5/30/84; EBD/84/226, 8/24/84; and EBD/84/300, 11/20/84, respectively).

2/ SM/84/228, 10/18/84.

TO: INTERNATIONAL MONETARY FUND, WASHINGTON D.C.
FROM: CENTRAL BANK OF YEMEN SANAA
ATTENTION: MR. A.S. SHALAAAN
DIRECTOR, MIDDLE EASTERN DEPARTMENT

THIS IS TO ADVISE THAT THE GOVERNMENT OF YEMEN ARAB REPUBLIC
HAS CHANGED THE REPRESENTATIVE RATE OF THE YEMENI RIAL TO 6.4850 YEMENI
RIALS PER U.S. DOLLAR WITH A BUYING RATE OF YEMENI RIALS 6.47 PER U.S.
DOLLAR AND A SELLING RATE OF YEMENI RIALS 6.50 PER U.S. DOLLAR FOR ITS
CHEQUES AND BANK NOTES EFFECTIVE FROM FEBRUARY 11, 1985.

COMMERCIAL BANKS ARE ALLOWED TO DEVIATE UP TO ONE PERCENT
FROM THE CENTRAL BANK'S RATES FOR THEIR DEALINGS.

BEST REGARDS

ALI ALI AL-NUSEIF
ACTING GOVERNOR AND GENERAL MANAGER

Received in Cable Room: February 12, 1985