

**FOR
AGENDA**

SM/03/391
Supplement 1

December 18, 2003

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Yemen—Staff Report for the 2003 Article IV Consultation—
Draft Background Section for Public Information Notice**

Attached for consideration by the Executive Directors is the draft background section of the public information notice for the staff report for the 2003 Article IV consultation with the Republic of Yemen, which is now tentatively scheduled for discussion on **Monday, December 22, 2003**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Republic of Yemen indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Ben Ltaifa, MCD (ext. 34045).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Arab Monetary Fund and the Islamic Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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Public Information Notice (PIN) No.
FOR IMMEDIATE RELEASE

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with the Republic of Yemen

On December 22, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Yemen.¹

Background

Yemen embarked in the mid-1990s on a strong economic stabilization and adjustment program that established macroeconomic stability and set the stage for a second tier of reforms needed to boost economic growth and reduce poverty. More recently, however, the pace of reform slowed down due in part to the regional tensions and the parliamentary elections of April 2003. Economic performance in 2002 and into 2003 reflected these developments.

Real GDP growth in 2002 was slower than projected in the Poverty Reduction Strategy paper (PRSP), and in 2003 non-oil GDP and overall GDP are expected to grow at 4.1 percent and 3.8 percent—both slightly lower than in 2002. Large public spending in 2002–03 contributed to demand pressures and to the pick up in inflation (reaching about 12 percent in September 2003). Despite strong oil exports, the external current account position worsened compared with the high surplus of 2000, but still, the international reserve position remained strong in 2002 (about 15 months of imports) and is expected to strengthen further in 2003.

The overall budget position worsened over the last two years from the large surplus in 2000. The growth in expenditures outpaced that of non-oil revenue, leading to growing primary non-oil

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

budget deficits (from 17.6 percent in 2000 to 23.3 percent of GDP in 2003). The supplementary budget for 2003 allowed 60 percent additional spending on fuel subsidy, and the remainder on development expenditures, defense and security, and wages.

Monetary policy has, to some extent, accommodated the fiscal expansion. At end-September, broad money growth was at 21 percent and is expected to remain at about 18 percent by year-end. The Central Bank of Yemen's (CBY) ability to sterilize excess liquidity was restrained by the limited availability of government securities, while it has kept the benchmark minimum deposit rate unchanged at 13 percent since July 2000. Credit to the private sector increased by 14.3 percent in 2002, and is expected to surge to over 20 percent by end-2003. The rial depreciated slightly vis-à-vis the dollar in the first eight months of 2003, and there is no indication that Yemen's competitiveness is being undermined or that the exchange rate is misaligned.

On the structural front, progress has been slow, as only few reforms were undertaken in 2002 and the first half of 2003. In addition to a delay in the reform of the GST and the tax administration, the reform of the budget process is behind schedule, and so is the reform of the civil service. Progress is being made in modernizing the customs administration procedures with the introduction of computerization in three ports of entry, but there has been no movement on restructuring customs. While the CBY is now in a better position to maintain and use its external debt database, more progress is needed in improving reserve management.

The implementation of the PRSP has been so far limited mostly to establishing the administrative framework. Work on a first progress report is planned for the first quarter of 2004.

Executive Board Assessment

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Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

**The Republic of Yemen: Basic Economic and Financial
Indicators, 1999–2003**

(Quota – SDR 243.50 million)
Population: 18.1 million (2001)
Per capita GDP: US\$527 (2001)

	1999	2000	2001	2002	Proj. 2003
(Change in Percent)					
National income and prices					
Real GDP	3.5	4.4	4.6	3.9	3.8
Real non-oil GDP	8.0	3.5	5.2	4.6	4.1
Core consumer price index (annual average) 1/	2.7	10.0	10.7	6.8	12.1
(In millions of U.S. dollars)					
External Sector					
Exports, f.o.b.	2,464.4	3,804.7	3,302.3	3,584.5	4,053.3
<i>Of which: crude oil</i>	2,131.2	3,422.7	2,895.1	3,134.2	3,561.0
Imports, f.o.b.	2,440.0	2,635.4	2,771.3	3,082.6	3,452.5
Current account balance (In percent of GDP)	2.7	13.2	5.3	3.9	0.5
Overall balance (deficit -)	369.4	1,368.4	761.3	503.3	270.4
(In percent of GDP)					
Financial Variables					
Overall fiscal position (deficit -)	-0.2	8.0	2.6	-1.2	-1.2
Primary non-oil fiscal balance, commitment basis (deficit -)	-14.5	-17.6	-20.5	-21.5	-23.3
(12-month change in percent)					
Broad money	13.8	25.1	18.7	18.0	17.9
Credit to private sector	15.2	21.3	25.8	14.3	21.7
Benchmark deposit interest rate (percent per annum)	18.0	13.0	13.0	13.0	13.0

Sources: Yemeni authorities and Fund staff estimates and projections.

1/ Core CPI is defined as CPI excluding qat.