

**FOR
AGENDA**

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December 23, 2009

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Yemen—Staff Report for the 2009 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2009 Article IV consultation with the Republic of Yemen (SM/09/296, 12/23/09), which is tentatively scheduled for discussion on **Friday, January 8, 2010**. 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. Schneider (ext. 35662) and Ms. Ostojic (ext. 37551) in MCD.

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. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF YEMEN

Staff Report for the 2009 Article IV Consultation—Informational Annex

Prepared by Middle East and Central Asia Department
(In consultation with other departments)

December 22, 2009

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ANNEX I. REPUBLIC OF YEMEN: FUND RELATIONS
(As of November 30, 2009)

I. **Membership Status:** Joined May 22, 1990 and has Article VIII status.

II. General Resources Account:	SDR Million	Percent Quota
Quota	243.50	100.00
Fund holdings of currency	243.49	99.99
Reserve position	0.01	0.01
Holdings exchange rate		

III. SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	232.25	100.00
Holdings	200.13	86.17

IV. Outstanding Purchases and Loans:	SDR Million	Percent Quota
PRGF arrangements	33.50	13.76

V. **Latest Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	10/29/97	10/28/01	72.90	46.50
ESAF/PRGF	10/29/97	10/28/01	264.75	238.75
Stand-By	3/20/96	6/19/97	132.38	132.38

VI. **Projected Payments to Fund:**^{1 2}

	Forthcoming				
	2009	2010	2011	2012	2013
Principal		17.75	15.75		
Charges/Interest	<u>0.10</u>	<u>0.22</u>	<u>0.14</u>	<u>0.09</u>	<u>0.09</u>
Total	0.10	17.97	15.89	0.09	0.09

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

² This schedule presents all currently scheduled payments to the IMF, including repayment expectations and repayment obligations. The IMF Executive Board can extend repayment expectations (within predetermined limits) upon request by the debtor country if its external payments position is not strong enough to meet the expectations without undue hardship or risk.

VII. Safeguards Assessment:

Under the Fund's safeguards assessment policy, the Central Bank of Yemen (CBY) was subject to the transitional procedures with respect to the EFF arrangement which expired on October 28, 2001. The assessment, which was completed on May 23, 2001, concluded that CBY's external audit mechanism was not fully adequate at the time, and recommendations were made to address the shortcomings. The CBY will be subject to a safeguards assessment if a program materializes.

VIII. Exchange Arrangements:

The currency of Yemen is the Yemeni rial. The Yemeni authorities maintain that the current exchange rate system is a free float. However, staff are of the view that the exchange rate system is a de-facto crawling peg, in which the rate of crawl has recently slowed to resemble a conventional peg. Accordingly, under the IMF's classification, Yemen is currently considered an other managed arrangement.

Yemen has accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Articles of Agreement and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. In accordance with UN Security Council Resolutions, Yemen has taken measures to block the accounts of certain individuals and organizations and has notified the Fund of these measures in accordance with Decision 144.

IX. Article IV Consultation:

The latest Article IV consultation was concluded on February 23, 2009. Yemen is on the standard 12-month consultation cycle.

X. FSAP Participation:

FSAP (with the World Bank), October–November 2000.

XI. Technical Assistance:

a. IMF:

- FAD—Pension Reform, August 2001
- FAD—Reform of the Budgetary Process, April 2002
- FAD—Public expenditure management expert installation, September 2002
- FAD—Tax policy, tax administration and customs reform, October–November 2002
- FAD—Public Expenditure Management Advisor, August 2003–January 2004
- FAD—Public Expenditure Management, March–April 2004
- FAD—Support to LTO, April 2005
- FAD—GST Implementation, April 2005
- FAD—Support to LTO and GST Implementation, November 2005
- FAD—Reforming Tax Administration and implementing GST, June 2006
- FAD—Treasury Function and Related PFM Reforms, July 2007

FAD—Participation in World Bank Review Mission, June 2009
 FAD—METAC revenue administration advisor and short-term expert, June–July 2009

LEG—AML/CFT Diagnostic, May 2006
 LEG—AML/CFT Legal drafting, November 2006

MAE—Foreign reserves management, February–March 2001
 MAE—Technical Assistance and Training Coordination and Expenditure Resource Mobilization, March 2005
 MAE—ST Regional Expert Assignment, June–July 2005
 MAE—ST Regional Expert Assignment, August 2005
 MAE—Support for the regulatory framework of the Central Bank of Yemen, September–October 2005
 MFD—Liquidity Management, March–April 2005
 MFD—Regional Advisor, September 2005
 MFD—Payment Systems and Monetary Operations, October 2005
 MFD—Support for the Central Bank of Yemen credit Registry, November–December 2005
 MCM—METAC-Technical Assistance on Banking Supervision, May 2006
 MCM—Banking supervision, June–July 2006
 MCM—Credit Registry, July 2006
 MCM—METAC—Banking Supervision, December 2006
 MCM—METAC—Needs Assessment Visit, March–April 2007
 MCM—Payment systems, January–February 2008
 MCM—Developing the Government Sukuk Market, July 2009
 MCM—METAC—Banking Supervision, November 2009

OTM—TCAP Review, March 2004
 OTM—Yemen—TCAP, March–April 2004
 OTM—METAC—Needs Assessment Mission, February 2005

STA—Balance of payments statistics, January 2003
 STA—Government Finance Statistics, January 2004
 STA—National Accounts Statistics, January 2004
 STA—National Accounts Statistics, May–June 2004
 STA—Balance of payments statistics, September 2005
 STA—Multisector Statistics Mission, August–September 2007
 STA—Balance of Payments–January 2009
 STA—Consumer Price Index/Producer Price Index Mission, June–July 2009
 STA—Balance of Payments–July 2009
 STA—National Accounts Statistics, July 2009

b. UNDP/IMF/DFID Program:

FAD—LTE on budget management, March 1998–June 2001, and
September 2002–January 2004

MAE—LTE on bank supervision, May 1997–May 2001

MED—LTE on debt management, July 1997–March 2001

STA—LTE on balance of payments statistics, February 1998–February 2000

FAD—Peripatetic experts on customs reform, July 1999–July 2001

STA—Peripatetic expert on national accounts, September 2001–August 2002

MAE—Peripatetic expert on foreign reserves management since April 2002

c. IMF/World Bank Program:

MAE—FSAP, October–November 2000

FAD—AFMIS Inspection Mission, September–October 2004

XII. **Resident Representative:**

None.

ANNEX II. REPUBLIC OF YEMEN: WORLD BANK RELATIONS

A. Partnership in Yemen's Development Strategy

1. Relations between the World Bank and the Government of Yemen are close and continue to cover knowledge and lending services in sectors critical to development and poverty reduction. The Bank's Board of Directors discussed the 2010–13 Country Assistance Strategy (CAS) for Yemen in May 2009. This CAS was prepared after extensive consultations with central and local government officials, civil society, private sector and other donors. .
2. The new CAS program was designed in close cooperation between IDA and IFC, as one of the pilots under the recent initiative by the joint IDA–IFC secretariat. This is translating into an effort to optimize the integration and complementarity of activities by both institutions, through the joint design of the results framework. In addition, several “target strategic themes” (i.e. financial sector, business environment, energy, mining, and health) have been identified where mechanisms have been put in place to ensure a close cooperation during implementation of the proposed CAS program.
3. Under the CAS, assistance is organized around four strategic objectives, which are closely aligned with the DPPR focal areas and are inter-related:
 - Help accelerate and diversify economic growth (macroeconomic stability; private sector development; infrastructure; support to non-oil drivers of growth);
 - Help enhance governance (transparency; public finance management; civil service);
 - Help foster human and social development (cross sectoral issues such as gender, youth, and qat; education and health; community development and social protection); and
 - Help manage natural resource scarcity and natural risks (water resources; natural disasters and climate change).
4. During the CAS period, IDA intends to provide about \$120 million annually in credits to Yemen through a selective program of lending operations complemented by a strategic program of analytical and learning services. Given the relatively limited amount of IDA resources available to Yemen, the Bank's larger contribution comes from its catalytic role in leveraging donors' resources, providing technical assistance to the Government and working with other donors to mainstream new implementation approaches that can enhance sectoral performance.

B. Status of the World Bank Portfolio

5. **IDA.** As of November 30, 2009, IDA had approved 141 projects for Yemen, valued at about US\$2.7 billion (excluding cancellations), of which about US\$2.3 billion have been disbursed. The current portfolio has 20 active projects with a total net commitment of about US\$968.9 million, of which US\$478.1 million are undisbursed. The sectoral composition (by value) of the current portfolio is as follows: 32 percent for infrastructure and urban, 10 percent for agriculture, 11 percent for education, 11 percent for health/social protection, and 10 percent for public sector governance, 10 percent for energy & transport and 15 percent for water sector. Over the last two years, portfolio performance has remained stable—disbursement ratio has so far reached 24 percent and is expected to rise to about 26 percent by the end of FY10. Out of 20 projects in the portfolio, five projects are rated problematic (rated either unsatisfactory or

moderately unsatisfactory) for issues on procurement and financial management. Recent actions taken are expected to address the issues affecting that project.

6. **IFC.** Yemen became a member of IFC in 1970. Since then, the Corporation has invested more than \$189 million of its own funds, and arranged about \$55 million in syndications, in the country. During fiscal year 2009, IFC committed almost \$850,000 in a trade finance line to Saba Islamic Bank, the first bank in Yemen to join IFC's Global Trade Finance program.

IFC Advisory Services has focused on projects with a high development impact to mobilize the private sector, create job opportunities, and decrease the high poverty rate in Yemen. IFC has partnered with the government in many of its projects in Yemen, helping increase the governments' efficiency and creating a better environment for private investment. IFC's strategy to reduce the constraints to private sector growth in Yemen includes:

- Developing access to finance
- Increasing the availability of management training
- Facilitating infrastructure investment
- Creating an enabling investment climate
- Providing industry-specific assistance

To support these efforts, the United Kingdom's Department for International Development (DFID) launched with IFC a three-year program to support Yemen's efforts to improve its overall business environment. DFID gave \$14 million in funding to the program that will be implemented by IFC, the Yemeni government, and FIAS. The funds will be used to continue the reform initiatives already begun by IFC and the government of Yemen.

7. **MIGA.** Relation with the Multilateral Investment Guarantee Agency (MIGA): Currently, MIGA does not have any activities in Yemen. However, the ministry of planning and international cooperation has recently requested assistance to review its institutional framework for investment promotion. In response, FIAS/MIGA is planning a rapid diagnostic assessment of the overall investment promotion institutional arrangements in Yemen with a view to offering recommendations for the rationalization of roles, mandates and functions in this important strategic area of activity.

ANNEX III. REPUBLIC OF YEMEN: STATISTICAL ISSUES

1. Data remain adequate to conduct surveillance. However, data weaknesses persist (including delays in reporting), and in some cases are getting worse. A broad effort is in place to address shortcomings in most data with technical assistance from the Fund and other donors. In particular, national accounts data should be a priority for reform and improvement.
2. The Republic of Yemen has participated in the General Data Dissemination System (GDDS) since April 26, 2001. While some progress has been made, considerable scope remains to improve the collection and dissemination of economic statistics, in line with Yemen's commitments under the GDDS.
3. The most reliable and timely data are those on the **monetary sector** produced by the Central Bank of Yemen (CBY). The CBY disseminates data on total official reserve assets and monetary statistics with a lag of one month. To strengthen monetary statistics further, a multisector mission in August 2000 recommended that: (a) repurchase agreements be treated as collateralized loans; (b) all nonstandard loans be reclassified as claims on the relevant sector; (c) counterparty for several monetary accounts be more accurately identified; and (d) a number of monetary accounts be disaggregated so as to present position on a single financial instrument. In June 2003, the authorities began reporting to STA a more disaggregated set of data that allowed for improved sectoral and instrument classification. Publication of the revised monetary statistics for December 1999 and onward, based on the more detailed data reporting, began in the August 2003 issue of *IFS*. In March 2007, with the availability of more detailed data, the definition of broad money was broadened to include the deposits of the pension funds, starting with data for December 1999. CBY does not yet report monetary data to STA using Standardized Report Forms (SRFs).
4. Although important progress has been achieved in terms of coverage, classification, and compilation methods of **national accounts** in accordance with the *System of National Accounts 1993 (1993 SNA)*, significant work remains to be done to improve quality of the data and the compilation methods. Based on the technical assistance provided by STA and METAC in real sector statistics from September 2001 to November 2006, the Central Statistics Office (CSO) has compiled national accounts statistics for the years 1999–2005. The assistance from United Nations Economic and Social Commission for West Asia (ESCWA) during 2007, 2008 and 2009, has resulted in a new National Accounts series, which the CSO has adopted and published on their website (June 2009). However, the up STA mission noticed a number of weaknesses. A follow up mission to help CSO address these weaknesses is planned for January 2010.
5. Regarding **price statistics**, some improvements have been made in the compilation of the consumer price index and the production of foreign trade price indices. METAC is currently assisting the CSO in developing a producer price index (PPI), however there has been no agreement on a specific action plan in this area. With the assistance of STA, the CSO has constructed a CPI that is consistent with international standards, with weights derived from the 1998 Households Budget Survey (HBS). The CPI has a broad geographic coverage and a sufficient number of consumption items, although some deficiencies remain in data collection practices. STA real sector missions have recommended further improving

the sources of data in general, expanding the price statistics to cover different areas, and enhancing training and internal coordination within the CSO. Staff of CSO are currently working on updating the weights of the CPI basket to reflect the results of the 2005 HBS, and are considering reducing the number of commodities in the basket from the current coverage of 900 goods in the basket. To address problems in the field, the CSO has introduced a new framework to ensure consistency in data collection according to the following criteria: timing, good specifications, and location.

6. **Fiscal** data reliability and timeliness remain weak—particularly for detailed revenue, expenditure and financing items—despite substantial technical assistance from several international agencies to improve source data, the accounting and budgeting frameworks and information systems, and compilation methods. There are also discrepancies between reported budget data and below-the-line financing data obtained from the CBY's monetary statistics and balance of payments data. Fiscal data are published in the quarterly *Bulletin of Government Finance Statistics (GFS Bulletin)* on the Ministry of Finance website (www.mof.gov.ye), which provides annual, quarterly, and monthly data with significant lags and irregularity. The authorities have not reported data for publication in the *Government Finance Statistics Yearbook* from 2000 onwards; the latest data are estimates for 1999. No sub-annual data are reported for publication in *International Financial Statistics*. The GFS mission that visited Sana'a in January 2004 found that, while data coverage and detail had improved, there were still numerous departures from international standards in classification and coverage. The mission encouraged the authorities to include additional information on financing and debt in the *GFS Bulletin*. The mission also recommended that the authorities expand their data dissemination by communicating the *GFS Bulletin*, or the relevant data, to the IMF Statistics Department for re-dissemination and for renewing the dialogue and remote technical assistance for developing their GFS. The August-September 2007 Multisector Statistics mission found that many of the previously identified weakness data compilation and timeliness remained. The concepts and definitions used to compile GFS are in transition from GFS 1986 to GFSM 2001, and the authorities' *GFS Bulletin* reports fiscal data using a mixture of both.

7. The CBY is responsible for compiling and disseminating **balance of payments** statistics, and more recently, the international investment position (IIP) statistics based on the IMF's *Balance of Payments Manual, fifth edition*. Compilation tasks are performed on a rather ad hoc basis, mostly relying on survey-based questionnaires with a response rate that is generally poor. The quality of the questionnaires themselves is also weak due to the limited expertise and experience in developing such material. Further compounding the weak quality of the statistics are inadequacies in documented sources and methods, and the limited financial and material resources dedicated to balance of payments compilation. The CBY publishes quarterly external debt statistics within one quarter of the reference period for the banking sector, general government, and monetary authority. Successive STA balance of payments statistics missions (2002, 2003, and 2005) have sought to facilitate implementation of the action plan recommended by the IMF's resident advisor on balance of payments statistics (1998–2000), with only limited success. Coverage of the oil and gas industry transactions remains weak. Data questionnaires on FDI and selected items in services have either been discontinued or not followed up. The shortage of qualified staff dedicated to the compilation as well as weak coordination between the CBY and other government agencies

(such as the customs authority, the CSO, and the ministry of oil and mining resources) are partly responsible for the slow progress. STA missions have consistently called for better coordination between the CBY and other government agencies for timely and effective data collection and compilation, improved staffing and training, and the reinstitution of discontinued surveys. A balance of payments mission in September 2005 found that the CBY had made some progress on increasing manpower and equipment in the balance of payments division, as well as training through the AMF. The mission also focused on the present method of estimating inward worker's remittances. Yemen has submitted quarterly balance of payments data to STA until end-2006, although the latest data published in the *IFS* and *Balance of Payments Statistics Yearbook (BOPSY)* relate to end-2005. Quarterly IIP data has also been supplied to STA for 2003 and 2004.

Table of Common Indicators Required for Surveillance

	Date of Latest Observation	Date Received	Frequency of Data 6/	Frequency of Reporting 6/	Frequency of Publication 6/
Exchange rates	Nov. 2009	Nov. 25, 2009	D	D	D
International reserve assets and reserve liabilities of the monetary authorities 1/	Oct. 2009	Nov. 5, 2009	M	M	A
Reserve/base money	Sep. 2009	Nov. 5, 2009	M	M	M
Broad money	Sep. 2009	Nov. 5, 2009	M	M	M
Central bank balance sheet	Sep. 2009	Nov. 5, 2009	M	M	M
Consolidated balance sheet of the banking system	Sep. 2009	Nov. 5, 2009	M	M	M
Interest rates 2/	Sep. 2009	Nov. 5, 2009	M	M	M
Consumer price index	Oct. 2009	Dec. 2, 2009	M	M	M
Revenue, expenditure, balance and composition of financing 3/—general government 4/	June 2009	Oct. 25, 2009	M	I	Q
Revenue, expenditure, balance and composition of financing 3/—central government	June 2009	Oct. 25, 2009	M	I	Q
Stocks of central government and central government-guaranteed debt 5/	June 2009	Oct. 25, 2009	M	M	M
External current account balance	Dec. 2008	Nov. 2009	A	A	A
Exports and imports of goods and services	Dec. 2008	Oct. 25, 2009	A	A	A
GDP/GNP	2007	Nov. 2008	A	A	A
Gross external debt	2008	Nov. 2009	Q	Q	Q
International Investment Position	2006	Oct. 2007	Q	A	A

1/ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

5/ Including currency and maturity composition.

6/ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).