

**FOR
AGENDA**

EBS/14/88
Supplement 4

August 27, 2014

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Yemen—Staff Report for the 2014 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility—Supplementary Information**

The attached supplement to the staff report for the 2014 Article IV Consultation with the Republic of Yemen and its request for a three-year arrangement under the Extended Credit Facility (EBS/14/88, 7/7/14), has been prepared on the basis of additional information and is tentatively scheduled for discussion on **Tuesday, September 2, 2014**. The Secretary's Department has been notified by the authorities of the Republic of Yemen that their explicit consent is required prior to the publication of Board documents on the Republic of Yemen. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities indicating that 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. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Sakr (ext. 38525) and Mr. Ben Ltaifa (ext. 34045) 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.

Att: (1)

Other Distribution:
Department Heads



REPUBLIC OF YEMEN

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—SUPPLEMENTARY INFORMATION

August 27, 2014

Approved By:
Daniela Gressani
and **Bob Traa**

Prepared by MCD

1. Staff wishes to highlight developments since the staff report (EBS/14/88) was circulated to the Executive Board on July 7, 2014. This information does not alter the thrust of the staff appraisal.
2. The Executive Board meeting on Yemen was postponed from July 18, 2014 to allow time for the authorities to implement key prior actions. Regarding prior action 1, as described in the staff report, the authorities allowed the private sector to import or buy diesel for their own use at international prices as a first step to reduce the subsidy bill. Accordingly, the private sector began buying part of the diesel for its own use at international prices from the Aden Refinery. A formal decision to this effect was taken and implemented in June, although some unsubsidized private sector purchases took place as early as May. Consequently, staff considers that the objective of prior action 1 has been achieved, although the decision was approved by the Prime Minister, not the Council of Ministers. Moreover, On July 30, 2014, the authorities raised domestic retail prices for gasoline, diesel, and kerosene to levels higher than the MEFP had envisaged for October and sufficient to eliminate subsidies on these products – which make up the bulk of fiscal subsidies – at current international prices. The price per liter of gasoline was raised from Yrls 125 to Yrls 200, diesel from Yrls 100 to Yrls 195, and kerosene from Yrls 100 to Yrls 200, exceeding the planned increases to Yrls 175, 150, and 150, respectively, indicated in the MEFP. Accordingly, the fiscal burden of subsidies that prior action 1 sought to address has been further alleviated by retail price increases.

3. On August 3, 2014, the Council of Ministers approved a plan to enforce the use of a biometric identification system throughout the general civil service, including the military and police, and the making of all wage payments through bank accounts and post offices. Accordingly, prior actions 2 and 3 have been implemented.
4. Prior actions 4, 5, and 6 have also been met (as described in Table 1 of this supplement).
5. The fiscal outlook has improved relative to the assessment in the staff report in light of subsidy removal for the above fuel products, as well as higher-than-programmed grants from Saudi Arabia. The authorities have confirmed that the savings from subsidies reform, as well as the grants, will be used in line with the MEFP, mostly to increase capital expenditure and social transfers.

Table 1. Republic of Yemen: Status of Prior Actions

Prior Action	Objective	Status
1. Council of Ministers to approve a decision allowing the private sector to import part of its diesel usage (in the range of 35,000-50,000 tons per month) at international prices by end-June 2014.	Improve fiscal sustainability and ease fuel shortages	Private sector started as early as May to buy part of the diesel for its own use at international prices from the Aden Refinery. A formal decision to this effect was taken and implemented in June on the basis of an agreement reached in a joint meeting of representatives of the government and the private sector and approved by the prime minister. Diesel subsidies eliminated on July 30, 2014.
2. Council of Ministers to approve a decision requiring completion of the full implementation of the biometric identification system throughout the general civil service including the military and police by end 2014.	Reduce ghost workers and double-dippers	Met, August 3, 2014
3. Council of Ministers to adopt an action plan to move progressively from cash payments for wages and salaries to payments using bank accounts and postal offices within two years (1 st year: for civil servants and Ministry of Interior; 2 nd year: for Ministry of Defense).	Eliminate ghost workers and contain the wage bill	Met, August 3, 2014
4. CBY and MOF to sign a Memorandum of Understanding for reducing the MOF central government debt to the	Enhance fiscal	Met, July 7, 2014

central bank in line with legal limits over the coming seven years, by a minimum of 15 percent annually starting in 2017.	discipline	
5. CBY and MOF to sign a Memorandum of Understanding on the use of Fund resources, which specifies responsibilities for timely servicing financial obligations to the Fund and for maintenance of a specific government account at the CBY to receive the Fund financing.	Safeguard Fund resources	Met, July 7, 2014
6. CBY to publish on its website the full set of audited financial statements, including the audit opinion for the financial year 2013. Adopt a Board resolution to publish CBY annual statements within four months of the end of the financial year for all subsequent years.	Promote transparency and good governance of the central bank	Met, June 17, 2014