

data from commercial banks could help in providing timely data and efforts to improve the data warehouse could usefully be expedited.

22. The development of non-bank financial sector is equally important. Policies should facilitate the development of microfinance institutions to self sustaining levels and appropriate prudential and supervision rules as well as supervisory skills specific to the sector should be developed. This would help enhance competition and modernize the sector to reduce the cost of financing for small enterprises and individual borrowers.

23. Development of secondary market for treasury bills could also help deepen financial markets. There is need to develop the institutional framework and introduce longer term maturity government bonds (which will also eventually provide a basis for corporate bond and equity markets).

24. Efforts to improve the payments system should be expedited. The economy remains dependent on cash payments and the current payments system provides only for checks, which are not used much. With assistance from the World Bank, the CBY has been making efforts to improve the system by providing a legal basis for electronic settlements, and handle payments of civil service salaries and public utility bills more easily. Expansion of ATMs, supplemented by direct depositing of some government salaries, has improved the services. However, the lack of modern electronic communications facilities has been a problem. Improvements in the payment system could help improve efficiencies in the banking system as well as facilitate monetary policy conduct.

25. For monetary policy, the recommendations of the MCM TA Mission should be given consideration. The Fund has in the context of the TA missions recommended replacing the benchmarked minimum deposit rate with active liquidity management. In case of exchange rate pressures, tightening liquidity would be a more efficient instrument to stabilize the exchange rate and would allow for a smoother adjustment of the interest rate.



REPUBLIC OF YEMEN

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 2, 2013

Prepared By

Middle East and Central Asia Department (In Consultation
with Other Departments)

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FUND RELATIONS

(As of May 31, 2013)

Membership Status: Joined: May 22, 1990;

Article VIII

General Resources Account:

	SDR Million	%Quota
Quota	243.50	100.00
Fund holdings of currency (Exchange Rate)	243.49	99.99
Reserve Tranche Position	0.01	0.01

SDR Department:

	SDR Million	%Allocation
Net cumulative allocation	232.25	100.00
Holdings	164.64	70.89

Outstanding Purchases and Loans:

	SDR Million	%Quota
RCF Loans	60.88	25.00
ECF Arrangements	34.79	14.29

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jul 30, 2010	Apr 04, 2012	243.50	34.79
ECF ^{1/}	Oct 29, 1997	Oct 28, 2001	264.75	238.75
EFF	Oct 29, 1997	Oct 28, 2001	72.90	46.50

^{1/} Formerly PRGF.

SDR = US\$ 1.51335 as of June 20, 2013

Projected Payments to Fund ^{2/}

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Principal				6.96	13.05
Charges/Interest	0.02	0.04	0.28	0.27	0.25
Total	0.02	0.04	0.28	7.23	13.30

^{2/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Safeguards Assessment:

An update safeguards assessment was completed in June 2013 with respect to a disbursement made under the Rapid Credit Facility in April 2012. The updated assessment noted that steps have been initiated to strengthen CBY governance and financial statements are prepared and audited in accordance with international standards. The CBY has enhanced transparency with the publication of the full set of audited financial statements as recommended by the update assessment. The

assessment also recommended that the CBY, in coordination with the Ministry of Finance, finalize an agreement on repayment terms for credit extended to the government and that the capacity of the internal audit function be further developed.

Exchange Arrangements:

The currency of Yemen is the Yemeni rial. Under the IMF's classification, Yemen is currently considered to have "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.

Article IV Consultation:

The latest Article IV consultation was concluded on January 8, 2010. Yemen is on the standard 12-month consultation cycle.

FSAP Participation:

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

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

FAD—METAC revenue administration advisor and short term expert, May 2010

FAD—METAC revenue administration advisor and short term expert, August 2010

FADM—ETAC revenue administration advisor and short term expert, November 2010

FAD—Developing Core Treasury Functions, December 2010

FAD—Revenue Administration Assessment Mission, February 2011

FAD—Energy Subsidy Reform, December 2012

LEG—AML/CFT Diagnostic, May 2006

LEG—AML/CFT Legal drafting, November 2006

LEG—Desk Review of Payment System, January 2011

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

MCM—Developing the Government Sukuk Market, May 2010

MCM—Developing the Government Sukuk Market, July 2010

MCM—METAC – Developing Debt Management Capacity, July 2010

MCM—METAC- Banking Supervision, August 2010

MCM—Developing the Government Sukuk Market, February 2011

MCM—METAC – Developing Debt Management Capacity, February 2011

MCM—METAC- Banking Supervision, October 2012

MCM—METAC- Strengthening Prompt Corrective Action (PCA), March 2013

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
 STA—Consumer Price Index/Producer Price Index Mission
 STA—National Accounts Statistics, December 2010
 STA—Producer Price Index Mission – February 2010
 STA—METAC- Producer Price Index Mission, December 2012
 STA—METAC- Consumer Price Index Mission, December 2012
 STA—National Accounts Statistics, February 2013

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

Resident Representatives:

Mr. Gazi Shbaikat.

TA Coordinator

Mr. Ahmad Skeik Ebid.

WORLD BANK RELATIONS

- 1.** As of mid-June, the active IDA and TF portfolio in Yemen includes 31 projects with US\$930 million in commitments, of which about US\$655 million in undisbursed balances remain. The Bank is pursuing efforts to restructure its portfolio in Yemen, with a view to improving implementation performance, which was affected by the political turmoil. Bank's regular implementation support efforts are complemented by third-party monitoring and independent verification measures to ensure satisfactory progress and fiduciary integrity of its ongoing portfolio.
- 2.** The new framework for Bank support to Yemen (an ISN) was endorsed by the Board in November 2012. It lies on three strategic pillars: (i) achieving quick wins and protecting the poor by creating short-term jobs, restoring basic services, improving access to social safety nets, and revitalizing livelihoods; (ii) promoting growth and improving economic management by helping maintain macro stability, strengthening fiscal policies and public financial management, and improving the enabling environment for private sector growth and competitiveness; and (iii) enhancing governance and local service delivery by supporting transparency, accountability, capacity building, institutional strengthening, and improved citizen engagement. Bank work in the next 12 to 18 months is listed below.

YEMEN : Joint Management Action Plan (JMAP)

(As June 3, 2013)

Title	Products	Provisional Timing of Missions (if relevant)	Delivery/Expected Date
A. Mutual information on relevant work programs			
Bank work program in next 12 months	Emergency Recovery Grant (\$100 m IDA)	Completed	February 2013
	AF for SFD - LIW for Youth and Child Nutrition (\$25 m IDA)	Completed	March 2013
	Basic Education II (\$66 m IDA)	Completed	February 2013
	Road Asset Management (\$40 m IDA)	Completed	February 2013
	AF for Health and Nutrition (\$10 m IDA)		FY14
	AF for PFM Modernization Project (\$5 m IDA)	Completed	May 2013
	Enhancing Financial Inclusion, Transparency and Stability Project (IDA)		FY14
	Accountability and Transparency Enhancement –Support to SNAAC (\$5 m Deauville Partnership Transition Fund)		FY14
	Enterprise Revitalization and Employment Pilot (\$4.5 million Deauville Partnership Transition Fund)	Completed	January 2013
	Yemen Telecom Sector Reform (Transition Fund)		FY14
	Government-CSOs Partnership (\$1.5 m Transition Fund)	Completed	February 2013
	Conducting a new Household Budget Survey (MDTF)		September 2013
	Gender Challenges AAA	Completed	June 2013
	Water TA		FY14
	Stocktaking of Youth Issues AAA		FY14
IFC Business Edge Advisory Program (IFC)		FY13-14	

	Workforce Development Benchmarking AAA		FY14
	Customs Assessment TA		FY14
	Growth Study	September 2014	FY14
	IFC support for PPPs, MSME finance, and Corporate Governance (IFC)		FY14
IMF work program in next 12 months			
	Technical assistance on Enforcement Framework and FXR	March 2013	March 2013
	Technical assistance on National Accounts	February 2013	February 2013
	Technical assistance on tax and customs administration and tax policy		December 2013
	Technical assistance Needs Assessment	February 2013	February 2013
	The 2013 Article IV consultations mission	March 2013	April 2013
	Staff Visit – Review of macroeconomic development and discussions of the macroeconomic framework and main parameters of the 2014 budget.	October 2013	October 2013
B. Request for work program inputs (as needed)			
Fund request to Bank	DSA	March 2013	June 2013
	Reform of the Social Welfare Fund to make its targeting more effective, while strengthening its legal framework and bringing its operations in line with stated social objectives and fiscal possibilities.		
	Improving efficiency and governance in oil refineries, distributing and retail to help reduce the subsidy bill.		

Civil service reform to control the wage bill.

TA on the new hydrocarbon sector legislation, organization, advise on tender for exploration of reserves.

A study on the Accounting Subsidy and growth forecast.

Bank request to Fund

TA on tax revenue management.

Technical assistance on supervision.

C. Agreement on joint products and missions (as needed)

Joint products in next 12 months

DSA

March 2013

June 2013

STATISTICAL ISSUES

1. Data remain broadly adequate to conduct surveillance. However, some weaknesses persist (including delays in reporting). 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 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. The Central Statistical Organization (CSO) has benefited from substantial TA in national accounts and price statistics provided by METAC and with the support of the IMF's Statistics Department (STA). A series of peripatetic missions have been conducted to date, with the most recent mission on national accounts conducted during December 2010. As a result of this support, the CSO has succeeded in (i) improving the GDP estimates at current and constant prices for the period 1999–2005; (ii) constructing the new GDP series for 2000–2008, which include GDP (public and private) by economic activities at current and constant prices, and expenditure components of GDP at current prices; (iii) partially solving fluctuations in the nominal GDP values as well as in the volume measures of GDP for select economic activities; and (iv) addressing various methodological issues including assumptions concerning the intermediate consumption in different activities. 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).

5. However, the up STA mission noticed a number of weaknesses. Notably the non-observed economy, updating the frame and the sampling design for economic survey, using an improved set of deflators for calculating the GDP and GDP expenditure components at constant prices, conducting small surveys to update assumptions as in agriculture for estimating the inputs, and conducting a labor force survey since the last survey dates back to 1999. A follow up mission to help CSO address these weaknesses is planned for February 2013. Regarding **price statistics**, some improvements have been made in the compilation of the consumer price index and the production of foreign trade price indices. As part of *Middle East Technical Assistance Center (METAC)*'s work program a technical assistance (TA) mission on price statistics visited Sana'a during December 2–13, 2012 to assist the CSO in developing and compiling a Producer Price Index (PPI). 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 Consumer Price Index (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 is 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 are improving. 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 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 Foreign Direct Investment (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 reinstatement 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 Arab Monetary Fund (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.