

SPRING 2004

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The World Bank Group, Sana'a Office

Social and Economic Development Group (MNSED), Middle East and North Africa Region.

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Prepared by Nadir Mohammed & Maria Handal.

YEMEN ECONOMIC UPDATE

Yemen Economic Update is a quarterly report that consists of five sections. The first section highlights major economic and policy developments. The second section provides "flash indicators" for key economic variables that are available on a monthly or quarterly basis from the Government of Yemen. The third section uses different data sources to compare one development indicator in Yemen with other countries in the MENA region and countries with similar GDP per capita and population. The fourth section summarizes new legislation, publications, data, conferences, and donor activities. The fifth section provides contact information and recent World Bank operations and activities in Yemen. Occasionally, special topics are featured in the Update.

Economic and Policy Developments

(i) Key Policy Developments:

The Regional Intergovernmental Conference on "Democracy, Human Rights and the Role of the International Criminal Court" was held in the Republican Palace, Sana'a, during 10-12 January 2004. The conference was organized by the Government of Yemen (GoY) and the international NGO "No Peace Without Justice". More than 820 participants from the Arab world, Europe, Africa, Asia and international organizations participated in the Conference, which ended up with the adoption of *the Sana'a Declaration*. The Declaration emphasized the close links between democracy and human rights; democratic systems protect human rights; cultural and religious differences are at the core of universally recognized human rights; the basics of democratic systems is reflected in periodically elected legislature; the effective application of the rule of law protect democracy and human rights; and, that the private sector is a vital partner in strengthening the foundation of democracy and human rights.

The Executive Board of the *General Authority for the Aden Free Zone* held a meeting in January 2004 under the chairmanship of the Prime Minister, Mr. Ba-Jammal, to review procedural arrangements for the selection of component operator for the Aden Container Terminal. The meeting emphasized the importance of unifying administration of the docks in the two harbors in Aden.

In its efforts to enhance public and local administration in Yemen, the Cabinet approved in January 2004, a draft law on setting up *a new governorate at Al-Raima* to be composed of five districts. It also



Photo from <http://www.Yementimes.com>

approved a detailed plan to streamline the judicial system and to set up commercial and public funds courts in 2004.

Sana'a has been chosen as the *Arab Culture Capital for 2004*. Numerous efforts to upgrade the infrastructure of the city and to preserve and maintain historical sites and buildings were undertaken since mid-2003. A number of cultural and social activities are planned for the whole of 2004.

In February 2004, Yemen signed an *agreement with the US for commerce and investment promotion* between the two countries. The agreement targets strengthening of the economic and commercial ties between the two countries and is considered as a primary step towards free trade agreement negotiations.

In February 2004, the GoY announced the *merger of four public specialized banks* (Reconstruction and Development, the National, the Housing and the Agricultural banks). The Government stated that the decision was taken to reenergize the banking system and to ensure its full contribution in financing development projects in the country. The Government also announced its approval for Yemen to join the Regional Organization for Fighting Money Laundering and Financing of Terrorism.

Prime Minister, Abdul Kader Ba-Jammal (the Chairman of the National Women Council), inaugurated the first national conference on “*Fighting Violence Against Women*” in Sana’a in the first week of March 2004. He reviewed efforts in Yemen to eradicate all kind of discrimination against women based on the constitutional rights of women.

Parliament and the President approved the 2004 Budget in the last week of December. Total fiscal spending for the current year is about YR 745 billion. (See special topic in this issue). Parliament also approved amendments to the Law for the Civil Service Fund.

President Salih issued the Law 42/2003 which specify the implementation of the General Sales Tax (GST) from 1 July 2004. He also issued a Republican decree to set up the Civil Service Fund (No. 1/2004).

Capital Intelligence, the international emerging markets rating agency, raised *Yemen's long-term and short-term foreign currency ratings from C to B* reflecting the country’s improving external solvency, liquidity and declining debt ratios.

The International Financial Corporation (IFC), the private sector arm of the World Bank, held talks in Yemen in January 2004 on future cooperation with Yemen’s private sector. The IFC decided to open an office in Yemen in the near future.

(ii) Economic Developments:

GDP growth is estimated to have picked-up slightly to 3.9% in 2003 (compared to 3.6% in 2002). Due to stagnation in oil production, total industrial output rose by only 0.8% during the year. Agricultural and services value-added are estimated to have increased by 6% and 4.7% respectively.

Thanks to high oil prices, *the current account*, the capital and financial account and the overall balance of payments recorded surpluses in 2003.

Inflation rates increased in 2003 to 13.6% compared with 4.2% in the previous year. Easing of monetary and fiscal aggregates contributed to the price hikes in addition to factors related to higher transportation costs.

Interest rates on savings and (3 month, 6 month and 1 year) deposits remained unchanged at 13% since July 2000. Lending rates, however, stepped up slightly from 15-20% range in the last two years to 15-21% range since October 2002. The 3-month (and 1 year) Treasury bill rates increased gradually in the last half of 2003.

The *exchange rate* depreciated by 4.9% in 2003 (compared with about 4% in 2002) and *foreign reserves* continued to build up in 2003. They increased from US\$ 3.7 billion by end of 2002 to US\$ 4.4 billion by end of 2003 and they reached US\$ 5.3 billion by end of 2003 (see the Flash Indicators section).

Initial estimates indicate that the *fiscal deficit in 2003 was 4.2% of GDP* (compared to a deficit of 2.5% in the previous year). The approved 2004 budget projects fiscal deficit in the order of 4% of GDP.

(iii) Other Economic News:

- In December 2003, the Cabinet undertook a number of important decisions including: (i) authorizing the Ministry of Oil and Minerals and the Ministry of Agriculture and Irrigation to conduct feasibility study for construction of a fertilizer factory; (ii) the need to prohibit export of pesticides and herbicides harmful to people's health; and (iii) approval of the draft of the Industrial Strategy aiming to develop policies related to industrial matters and investments; and (iv) assessing the measures need to raise the standards of Yemenia airline and the feasibility of establishing a cargo airline company.
- The Ministry of Oil and Minerals revealed that a new "commercial quantity" of oil has been discovered in block 15 in Hadhramout where Canadian Nexen is conducting exploration activities.
- The Ministry of Oil and Minerals, the China-based Jinckso Oil Exploration and the Yemen Oil and Gas Company signed a second production sharing agreement in block 1 of Amaqin.
- The General Authority for Airports stated that the air traffic in Sana’a International Airport has increased markedly so that it has become necessary for the government to establish a new airport. The construction of the airport will be implemented in three phases in an area of about 30,000 square kilometers. The new airport is expected to come into service in 2007.
- Total deposits with the General Authority for Posts and Postal Savings reached YR 3.6 billion in 2003 (a 49% increase from deposits in 2002).
- Al-Jawda fisheries factory (with US\$ 1.2 million investment) was inaugurated in Al-Hodeidah on March 6. The factory is equipped in accordance with European standards and has processing capacity of 20 tons per day.
- Total imports of foodstuff through Yemeni ports of Al-Hodeidah, Al-Mokha, Salif and Rass Issa reached 1,447 million tons in 2003 compared to 1,423 million tons in 2002 according to the report issued by the General Corporation for Ports and Maritime Affairs.
- As part of its efforts to modernize its banking services, the International Bank of Yemen introduced Visa Check Card service.

Flash Indicators

(i) GDP:

GDP growth is estimated to have picked up slightly to 3.8% in 2003 (Table 1). Due to stagnation in oil production, total industrial value added picked-up by only 0.8% during the year. Agricultural value added is estimated to have increased by more than 6% due to favorable weather conditions. The services sector recorded an estimated growth rate of 4.7%.

TABLE 1: GDP ESTIMATES AND PROJECTIONS (%)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------------------|-----------------------|------------|------------------|------------|-------------------|
| | <i>Revised Actual</i> | | <i>Estimates</i> | | <i>Projection</i> |
| Agricultural Sector | 4.2 | 5.9 | 3.6 | 6.1 | 6.0 |
| Industrial Sector | 6.8 | 2.5 | 1.7 | 0.8 | 1.0 |
| Construction | 3.8 | 2.4 | 4.5 | 2.2 | 2.3 |
| Gas, Electricity & Water | 4.5 | 7.3 | 4.3 | 0.9 | 1.7 |
| Mining & Quarrying | 9.4 | 1.9 | -0.2 | 0.2 | 0.4 |
| Manufacturing | 2.3 | 3.3 | 4.8 | 1.0 | 1.1 |
| Services Sector | 3.4 | 5.3 | 4.5 | 4.7 | 3.9 |
| GDP | 4.4 | 4.7 | 3.6 | 3.9 | 3.5 |

Source: Central Statistical Organization (CSO), August 2003.

(ii) Government Finance:

The fiscal deficit in 2003 was estimated at 4.2% of GDP, following a deficit in the previous year (estimated at 2.5% of GDP) and two years of high fiscal surplus. The major determinant of the fiscal stance has been the decline in total fiscal revenues as a ratio of GDP (particularly oil and tax revenues) and an increase in fiscal spending over historical averages (Table 2). On the expenditures side, few items in the current spending (mainly on wages and salaries and subsidies and transfers) continued to increase. In 2002, diesel subsidy allocations alone represented 2.2% of GDP and further increased to 3% of GDP in 2003.

TABLE 2 YEMEN'S FISCAL STANCE, 1999-2004 (% OF GDP)

| | 1999 | 2000 | 2001 | 2002 | 2003 Estimate | 2004 Budget |
|---|-------------|-------------|-------------|-------------|------------------|----------------|
| Overall Fiscal Balance | 0.1 | 6.2 | 2.9 | -2.1 | -4.2 | -4.0 |
| Total Government Revenues and Grants | 29.1 | 38.7 | 34.4 | 33.8 | 28.5 | 29.1 |
| Direct Taxes | 3.0 | 2.8 | 3.2 | 3.6 | 3.1 | 3.4 |
| Indirect Taxes, Goods and Services | 4.0 | 4.0 | 3.4 | 2.6 | 2.8 | 2.8 |
| Tax Revenue | 7.8 | 7.3 | 7.6 | 7.5 | 7.1 | 7.7 |
| Government Consumption | 14.1 | 12.4 | 13.8 | 15.0 | 13.5 | 13.9 |
| Total Government Expenditure | 29.0 | 32.4 | 31.5 | 35.9 | 32.7 | 33.0 |
| Government Capital Expenditures | 6.0 | 7.4 | 7.0 | 8.9 | 9.3 | 10.3 |

Source: World Bank Database.

It is projected that the fiscal deficit in 2004 will be about 4% of GDP despite expected increase in investment spending by 1 percentage points of GDP (WHY?? JUST ONE SENTENCE). Please see the Special Topic in this issue for the 2004 Budget. In the medium-term, oil production is expected to decline by an annual rate of 5% from 2005 and the outlook for oil prices is also weak. Therefore, the fiscal stance is likely to deteriorate rapidly unless fiscal adjustment starts at its earnest. In particular, the GoY needs to reduce allocations for the inefficient diesel subsidy (already some cut in the subsidy was planned in 2004), widen the tax base through introduction of GST and improve tax administration. Allocations for the social sector, maintenance and operations need to be protected and enhanced during the period of fiscal adjustment..

(iii) External Sector

Trade and BOP statistics for the whole of 2003 have been recently released by the CBY. The figures show that the overall balance of payment recorded a surplus of about US\$ 0.34 billion in 2003 (down from US\$ 0.6 billion in 2002). Merchandise exports increased markedly in 2003 (more than US\$ 4 billion of which oil exports were US\$ 3.5). However, merchandise imports also rose by about US\$ 0.4 billion reaching about US\$ 3.5 billion in 2003.

TABLE 6: BOP IN YEMEN, 1998-2003 (US\$ MN)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|--|---------------|---------------|---------------|---------------|-------------|-------------|
| I- Current Account | -318 | 550 | 1337 | 671 | 443 | 342 |
| 1. Trade Balance | -785 | 358 | 1313 | 767 | 602 | 584 |
| Exports | 1504 | 2478 | 3797 | 3367 | 3684 | 4012 |
| Crude Oil | 1229 | 2131 | 3399 | 2905 | 3147 | 3459 |
| Imports | -2289 | -2121 | -2484 | -2600 | -3083 | -3428 |
| 2. Services balance | -519 | -536 | -599 | -678 | -680 | -700 |
| Service Receipts | 174 | 183 | 211 | 170 | 272 | 284 |
| Service Payments | -693 | -719 | -809 | -848 | -952 | -984 |
| 3. Income balance | -344.4 | -695.6 | -777.1 | -690.9 | -818 | -909 |
| Income Receipts | 69 | 57 | 150 | 179 | 120 | 99 |
| Income Payments | -413 | -752 | -927 | -869 | -938 | -1008 |
| 4. Current transfers balance | 1330 | 1423 | 1400 | 1273 | 1340 | 1367 |
| II- Capital and Financial account | -415 | -391 | -234 | 97 | -17 | 20 |
| 1. Financial account balance | -415 | -391 | -234 | 97 | -17 | 20 |
| 1.1 Direct investment | -219 | -308 | 6 | 136 | 102 | -89 |
| Of which Oil company investment | -214 | -234 | 6 | 136 | 114 | 111 |
| 1.2. Other investment | -196 | -84 | -240 | -39 | -118 | 109 |
| 1.2.1. Government Loans (net) | -63 | 27 | -56 | -33 | 39 | 57 |
| 1.2.2. Trade Credits | -117 | -119 | -18 | 76 | -58 | -19 |
| 1.2.3. Commercial Banks | -18 | 7 | -167 | -101 | -162 | -10 |
| 1.2.4. Other Sectors | 0 | 0 | 0 | 20 | 62 | 81 |
| III- Errors and Omissions | 278 | 111 | 286 | -114 | 171 | -26 |
| Overall balance | -4556 | 269 | 1389 | 653 | 597 | 336 |

Source: CBY, February 2004.

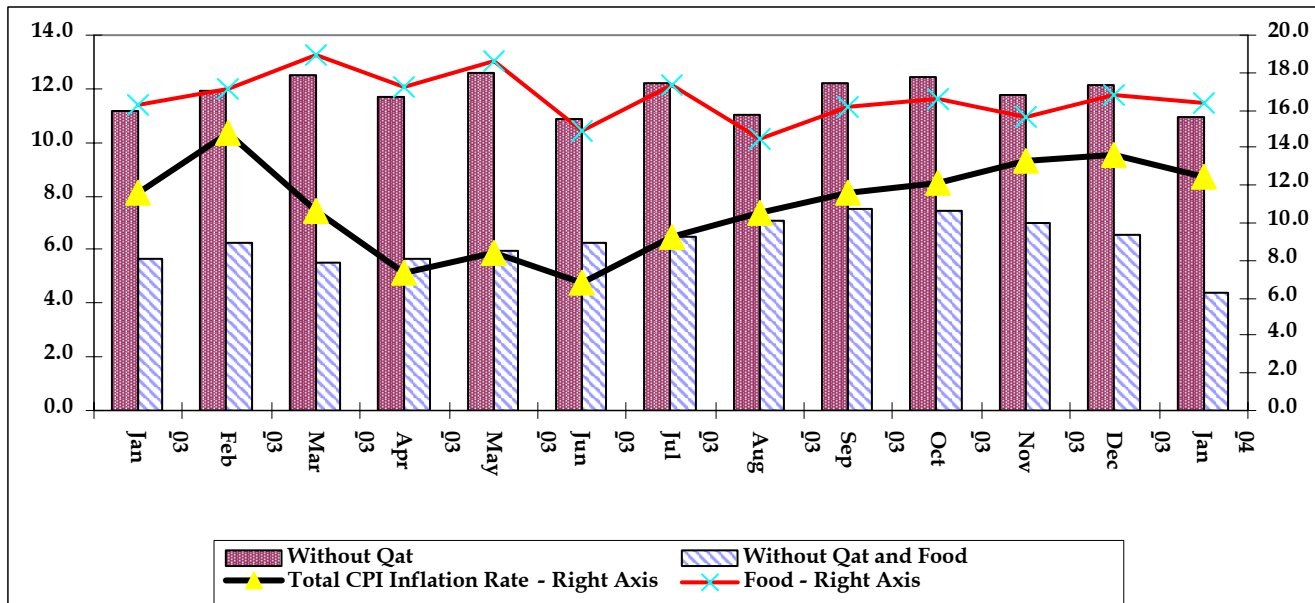
The service balance deficit widened in 2003 to US\$ 0.7 billion and the income balance also deteriorated by about US\$ 70 million in 2003 due to the increase in transportation and insurance payments. Unrequited transfers in 2003 were modestly up from the corresponding levels in the previous year. Therefore, the current account balance surplus declined in 2003 to US\$ 342 million (down from US\$ 443 million in 2002). The financial and capital accounts recorded a surplus in 2003 (US\$ 20 million), mainly as a result of a decline in direct investments payments and improvements in other investments.

(iv) Inflation:

Inflation soared in 2003. It jumped from 4.3% in 2002 to 13.6% in 2003. Prices increases have been above 10% during all months of 2003. The largest increases have been in Qat complements of the index (19.1% in 2003), followed by food components of CPI (16.8% in 2003) and housing costs (10.4% in 2003). The rest of the components increased by less than 10% in 2003. The CPI inflation (excluding Qat and food) for 2003 was 6.5%.

Inflation remains high in early 2004. CPI inflation rate for January 2004 (y-on-y) was 12.5% (16.4% for food) and 11% without Qat.

MONTHLY INFLATION RATES, 2003-2004



(v) Monetary Aggregates and Domestic Credit:

Monetary policy eased in the second half of 2003 and the first quarter of 2004. Monetary aggregates (broad and narrow money) increased rapidly during this period. The rate of growth of broad money has been above 20% in the period July-December 2003 (year-on-year). For the whole year, however, M2 grew about 20%, up from 18% in 2002. Rapid growth in M2 was noticed in the first half of 2003 (22% in January 2003 before decelerating again to 17% in February). The liquidity injection resulting from government spending was not fully sterilized. It then picked up again to 21% during March-July 2003. It averaged 21% in the last 5 months of 2003. This trend, if not addressed, may put more pressure on inflation as was noticed throughout 2003 and the first quarter of 2004. Bringing down monetary growth to about 14% may be necessary to have inflation rates below 10% by the end of 2004. In turn this target requires fiscal tightening in 2004 or an increase in interest rates (THE INCREASE IN INTEREST RATES WOULD BE THE RESULT OF MONETARY TIGHTENING?).

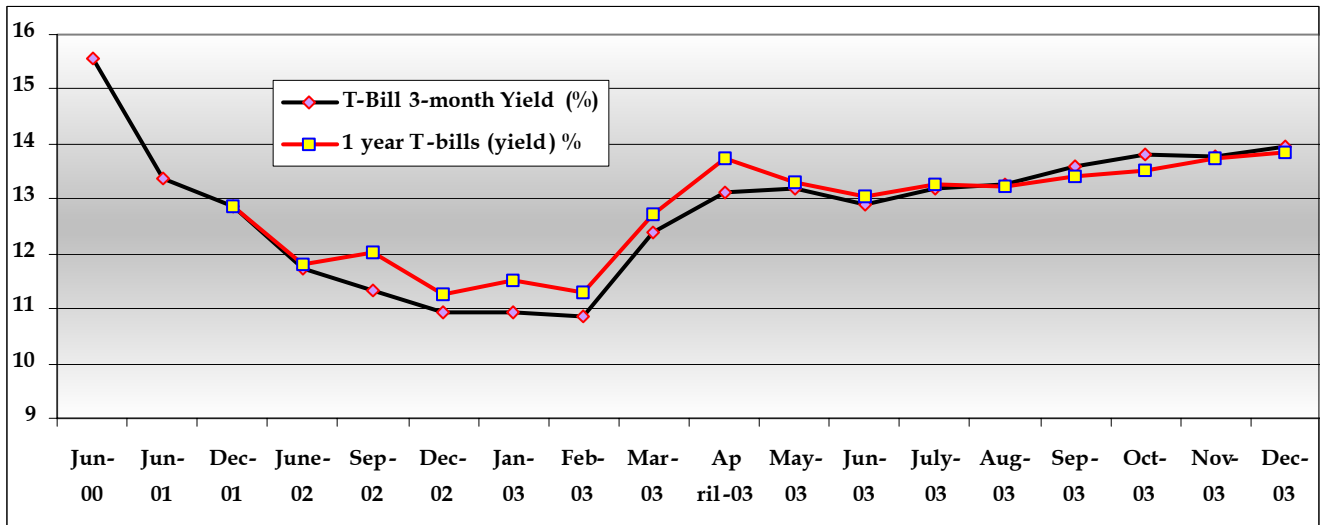
PERCENT CHANGE (Y-ON-Y) IN MONETARY AGGREGATES, 1999-2003

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|------------------|------|------|------|------|------|
| Broad Money | 13.8 | 25.1 | 18.7 | 18.0 | 20.0 |
| Narrow Money | 15.2 | 19.3 | 14.3 | 8.4 | 13.4 |
| Quasi Money | 12.2 | 32.1 | 23.4 | 27.8 | 25.6 |
| Foreign Currency | 16.3 | 30.9 | 25.9 | 19.1 | 23.4 |

Source: Central Bank of Yemen (February 2004).

(vi) Interest Rates:

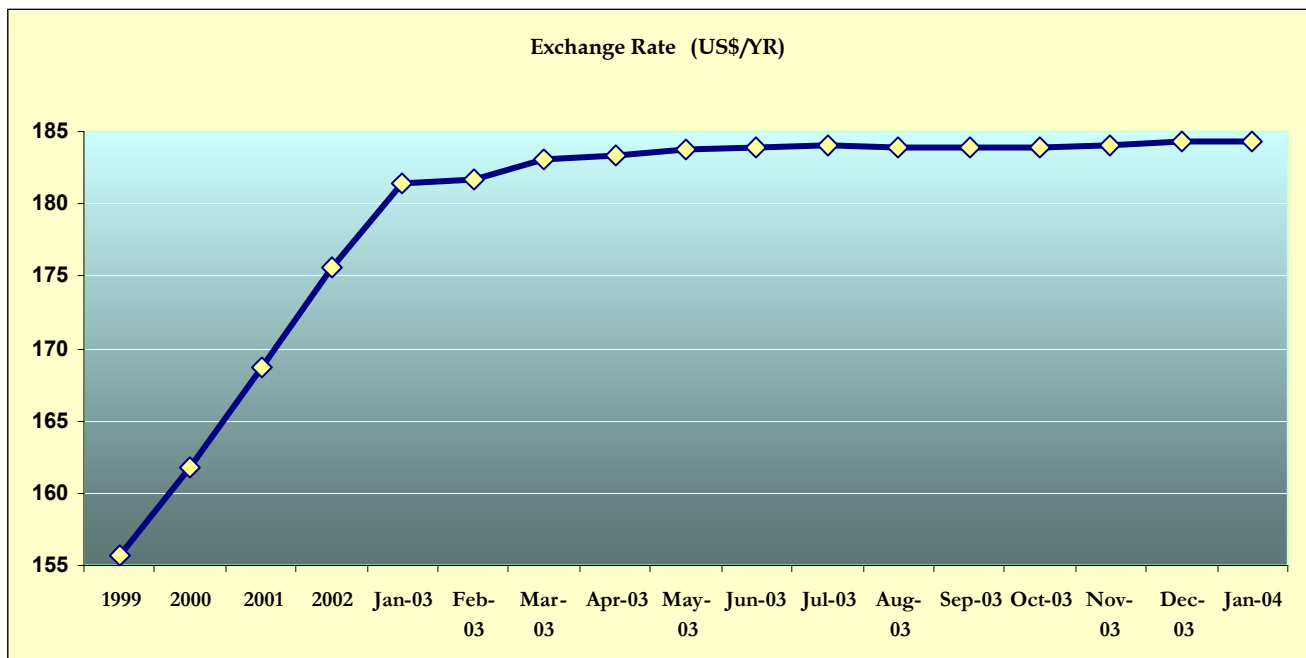
Interest rates on savings and (3 month, 6 month and 1 year) deposits remained unchanged at 13% since July 2000. Lending rates, however, stepped up slightly from 15-20% range in the last two years to 15-21% range since October 2002. The 3-month Treasury bill rate averaged 12% during January-June 2003. It increased to 13.2% in July 2003 and continued to increase gradually until it reached 14% by the end of 2003.



(vii) Exchange Rate and Foreign Reserves

The exchange rate depreciated by 4.9% in 2003 (compared with about 4% in 2002). A sharp depreciation occurred in January 2003 but has since then stabilized at about US\$/YR 183 throughout the first two quarters of the year. In the last two quartets of 2003, the exchange rate has remained stable at about the rate of US\$/YR 184 with minimal daily variations.

Foreign reserves continued to build up in 2003. They increased from US\$ 3.7 billion by end of 2002 to US\$ 4.4 billion by end of 2002 and they reached US\$ 5.3 billion by end of 2003. This level of reserves covers more than 21 months of merchandise imports and about 17 months of imports of goods and services.



Source: Central Bank of Yemen (February 2004).

Special Topic: The 2004 Budget

In this issue of the Update, the 2004 budget will be highlighted. The budget preparation started at the time when implementation of 2003 budget witnessed some difficulties due to changes in oil prices. Fiscal policy also loosened in the second half of 2003 mainly due to over-commitment of line ministries and an increase in the diesel subsidy resulting from higher oil prices. The Government had to go to Parliament for approving a budget supplement totaling YR 118 billion. As a result, the budget recorded a deficit estimated at about 4.2% of GDP (Table A1).

TABLE A1: FISCAL PERFORMANCE IN 2003 AND THE 2004 BUDGET
(Billions of YR unless otherwise state)

| | 2003 Actual Estimates | 2,004 Budget |
|---|--------------------------|-----------------|
| Total Fiscal Revenues and Grants | 566,655 | 639,136 |
| (<i>% of GDP</i>) | 28.5% | 29.2% |
| Current Revenues | 550,921 | 618,111 |
| (<i>% of GDP</i>) | 27.7% | 28.2% |
| Tax Revenues | 140,348 | 168,354 |
| (<i>% of GDP</i>) | 7.1% | 7.7% |
| Non-Tax Revenues | 410,573 | 449,757 |
| (<i>% of GDP</i>) | 20.7% | 20.5% |
| O/w Oil and gas revenues | 368,364 | 404,764 |
| (<i>% of GDP</i>) | 18.5% | 18.5% |
| Capital Revenues & grants | 15,734 | 21,025 |
| (<i>% of GDP</i>) | 0.8% | 1.0% |
| Total Fiscal Expenditures | 649,205 | 726,330 |
| (<i>% of GDP</i>) | 32.7% | 33.2% |
| Current Expenditures | 464,322 | 500,733 |
| (<i>% of GDP</i>) | 23.4% | 22.9% |
| Wages and Salaries | 199,188 | 228,987 |
| (<i>% of GDP</i>) | 10.0% | 10.5% |
| Goods and Services | 69,821 | 77,448 |
| (<i>% of GDP</i>) | 3.5% | 3.5% |
| Transfers and Subsidies | 129,107 | 129,481 |
| (<i>% of GDP</i>) | 6.5% | 5.9% |
| Maintenance | 12,708 | 9,872 |
| (<i>% of GDP</i>) | 0.6% | 0.5% |
| Interest payments | 40,227 | 38,188 |
| (<i>% of GDP</i>) | 2.0% | 1.7% |
| Capital Expenditures | 184,883 | 225,597 |
| (<i>% of GDP</i>) | 9.3% | 10.3% |
| Overall Fiscal Balance | -82,550 | -87,194 |
| (<i>% of GDP</i>) | -4.2% | -4.0% |

Source: Ministry of Finance, January 2004.

Work on 2004 budget started earlier in 2003. The Ministry of Finance issued circular and guidelines to central and local authorities and the cabinet discussed the budget framework in at least two meetings. The 2004 budget was approved in the last week of December 2003. It assumes an oil price of US\$ 21 per barrel. The budget estimates the fiscal deficit to be at 4% of GDP in 2004.

Total fiscal revenues in 2004 are projected to increase by about 1 percentage point of GDP mainly because of expected increases in tax revenues and modest increases in capital grants. While total revenues are projected to increase by about 13% in 2004, tax revenues are projected to increase by 20%

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mainly due to increase in income and profit taxes (22% increase in 2004) and about 19% increase in custom revenues and taxes on goods and services. Non-tax revenues (and oil revenues in particular at 18.5% of GDP) remained at the same ratios as in 2003. In nominal terms non-tax revenues are projected to increase by 9.5% due to more than 10% increase in the revenues from oil and gas. Profit transfers from public enterprises (PEs) are projected to decline by 7% in 2004 (Table A2).

TABLE A2: FISCAL REVENUES IN YEMEN, 2003-2004

(billions of YR)

| | 2,003 Estimate | 2,004 Budget |
|--|-------------------|-----------------|
| Total Fiscal Revenues and Grants | 566,655 | 639,136 |
| <i>Current Revenues</i> | <i>550,921</i> | <i>618,111</i> |
| Tax Revenues | 140,348 | 168,354 |
| Zakat Taxes | 3,646 | 3,962 |
| Income and Profit tax | 57,279 | 70,011 |
| Property taxes | 175 | 177 |
| Taxes on Goods and Services | 38,663 | 45,741 |
| Taxes on International Trade | 40,525 | 48,403 |
| Other taxes | 60 | 60 |
| Non-Tax Revenues | 410,573 | 449,757 |
| Income from projects and Assets | 396,512 | 431,016 |
| Oil and gas revenues | 368,364 | 404,764 |
| crude oil | 176,505 | 184,944 |
| oil products | 139,998 | 163,969 |
| gas sales | 13,917 | 17,235 |
| Fees from oil and mining companies | 37,944 | 38,616 |
| Other non tax revenues | 28,148 | 26,252 |
| o/w Income from operations | 1,401 | 1,404 |
| o/w Profits transfers of PEs | 26,242 | 24,328 |
| Administrative Fees and levies | 5,795 | 7,499 |
| Fines and Confiscations & other revenues | 1,081 | 2,982 |
| Contributions of pension and welfare | 7,185 | 8,260 |
| <i>Capital Revenues & grants</i> | <i>15,734</i> | <i>21,025</i> |
| Capital Revenues | 286 | 143 |
| Capital Grants | 15,448 | 20,882 |

Fiscal spending in 2004 is expected to increase by half percentage point of GDP and 12% in nominal terms over 2003 level. Most of the increase will be allocated to capital spending which is projected to increase by 1 percentage point to reach 10.3% in 2004 (22% increase in nominal terms). The 2004 provided for increased allocations in wages and salaries (half a percentage point of GDP) and reduced allocations for subsidies and transfers (0.6% of GDP reduction) due to increases in fixed capital investment and capital transfers (increase in equity participation) and a decline in acquisition of land. Total current spending is projected to increase by 8% in 2004. Within current spending most of the increase were allocated to wages and salaries (15% increase) and good and services (11% increase). Allocations for transfer and subsidies were kept at the same levels as in 2003. Total subsidies are projected to decline by 11% mainly due to reduction in diesel subsidy by about 19% (from YR 42.1 billion in 2003 to YR 34.2 billion in 2004). Allocations for maintenance will decline markedly in 2004 . Interest payments are also expected to decline by about 0.3 percentage points of GDP due to a 16% reduction in interest payments on foreign debt. Interest payments on domestic debt will remained at about the same level as in 2003 (YR 27.5 billion). Other non-classified current spending will increase from YR 13.2 billion in 2003 to YR 16.8 billion 2004 (Table A3).

TABLE A3: FISCAL SPENDING IN YEMEN, 2003-2004

(billions of YR)

| | 2003 Estimate | 2004 Budget | Nominal increase in 2004 (%) |
|--|---------------|-------------|------------------------------|
| Total Fiscal Expenditures | 649,205 | 726,330 | 11.9% |
| Current Expenditures | 464,322 | 500,733 | 7.8% |
| Wages and Salaries | 199,188 | 228,987 | 15.0% |
| Goods and Services | 69,821 | 77,448 | 10.9% |
| Transfers and Subsidies | 129,107 | 129,481 | 0.3% |
| Subsidies | 59,381 | 52,908 | -10.9% |
| Oil (Diesel) subsidy | 42,106 | 34,155 | -18.9% |
| Electricity subsidy | 6,000 | 6,000 | 0.0% |
| Other subsidies | 11,275 | 12,753 | 13.1% |
| Transfers | 69,726 | 76,573 | 9.8% |
| Foreign transfer | 707 | 800 | 13.2% |
| Transfers to non-profit organizations | 107 | 127 | 18.7% |
| Transfers to families and Individuals (scholarships, medicals, pension contributions) | 60,616 | 66,301 | 9.4% |
| Other non-classified transfers | 8,296 | 9,345 | 12.6% |
| Maintenance | 12,708 | 9,872 | -22.3% |
| Interest payments | 40,227 | 38,188 | -5.1% |
| Interest Payment on domestic debt | 27,500 | 27,500 | 0.0% |
| Interest Payment on foreign debt | 12,727 | 10,688 | -16.0% |
| Other non-classified Current spending | 13,271 | 16,757 | 26.3% |
| Capital Expenditures | 184,883 | 225,597 | 22.0% |
| Investment Spending | 154,373 | 189,428 | 22.7% |
| Fixed Capital Assets | 137,895 | 161,906 | 17.4% |
| Acquisition of land | 4,686 | 3,917 | -16.4% |
| Net Lending and Equity Participation | 30,510 | 36,169 | 18.5% |

Source: Ministry of Finance, January 2004.

What's New?

Laws, Decrees and Agreements (January-March 2004):

- On January 27th, the President of the Republic issued Law 1/2004 for setting up the Civil Service Fund. The Fund will be run by the Minister of Civil Service and Insurance and will aim to tackle the cases of surplus employment.
- On January 4th, the Ministry of Oil and Minerals and Yemen Hunt Oil Company signed an agreement renewing oil production concessions for 18 blocks in Marib and Al-Jawf for additional five years starting November 15, 2005.
- On January 4th, the Ministry of Fish Wealth signed an agreement with Iranian Neptune Company for Marine Fishing regarding implementation of MOI signed between Yemen and Iran in 2000.
- On February 17th, a cooperation agreement was signed between Yemeni and Syrian Ministries of Oil in the field of gas and mineral resources transportation and storing, and oil marketing.

Publications:

- The Higher Council prepared a study about poverty's relation to increasing violence against children for Motherhood and Childhood in cooperation with UNICEF and WHO in January 2004.
- The Ministry of Expatriates Affairs finished preparations for issuing an investment directory on expatriates' development projects.
- The National Women's Committee issued a book on "Violence Against Women" by Dr. Adel Al-Sharjabi in January 2004.

Conferences and Workshops:

- The Ministry of Social Affairs and Labor organized a training course on "Care for Juveniles and Street Children" in cooperation with UNICEF and Sana'a University during January 1-22.
- The Women Economic Empowerment Association organized a seminar on "Savings and Credits" on January 6.
- The Sisters' Arabic Forum in cooperation with International Federation organized the National Roundtable on "Ratification and Implementation of the International Criminal Court" for Human Rights during January 7-8.
- The Inter-Governmental Conference on Democracy, Human Rights and the Role of the International Criminal Court was organized by the Government of Yemen in cooperation with the European Union and No Peace Without Justice of Italy during January 10-12. The conference gathered 820 participants from 52 countries and issued Sana'a Declaration summarizing the results of the conference.
- A Workshop on "Project for Development of the Private Sector" was organized by the Ministry of Trade and Industry during January 13-14.
- The "Human Rights Skills Development Program" was launched by the Girls World Communications Center on January 15.
- A workshop on "Preparation of a Bio-diversity Safety National Program" was organized by the Environment Protection Authority on January 20.
- 4th Yemeni-Italian Public Health Conference took place on January 18-20.
- Workshop on the "Rome Statute of International Criminal Court" organized by the constitutional committee of the Parliament in cooperation with the International Committee for the Red Cross was organized during January 18-20.
- A symposium on "The Role of the General Federation of Workers Trade Unions of Yemen in Poverty Alleviation" was organized by GFWTUY in cooperation with International Confederation of Free Trade during January 20-23.

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- A training course for a commission to review draft Refugees Law was organized by the Ministry of Human Rights during February 8-11.
- A symposium "Dialogue among Cultures and Civilizations" was organized by Yemeni Center for Studies and Research in cooperation with UNESCO during February 10-11.
- The First Scientific and Legal Conference titled "The Role of Law in Achieving the Ultimate Benefit of Industrial and Technological Development with the Least Damage to Environment and Protection from its Risks" was held during February 22-23.
- The workshop on "Financial Bill of Administrative Units presented by the Technical Committee for Local Fees in accordance with Cabinet Decree number 185/2002" was organized by the Ministry of Local Administration during February 23-25.
- The Yemeni Center for Strategic Studies held a roundtable on Yemen's official policies on regional groupings on February 25.

Donor Activities:

- Embassy of Japan granted in-kind aid to the Tetanus Control Program including vaccines and medical accessories at the cost of US\$280,000.
- Loan agreement between the Government of Yemen and Arab Fund for Development for the amount of 15 million Dinars for road construction was signed on January 1.
- Cultural Grant Agreement between the Government of Yemen and Japanese Embassy for the amount of ¥ 42,400,000 equivalent to US\$ 396,261 to supply Sana'a Cultural Center with audio-visual equipment was signed on January 8.
- Loan Agreement between the Government of Yemen and the World Bank for funding of the Ground Water and Soil Conservation Project was signed on January 9 in Cairo.
- Saudi government agreed to finance the operation of the Aden Public Hospital at a cost of SR 50 million.
- General Authority for Investment signed an agreement with Hungarian government on protection and promotion of investment on January 18.
- International Financial Corporation held talks with Yemeni government during January 19-21 about areas of cooperation between IFC and Yemen and opening permanent IFC office in the country.
- An agreement was signed between the Yemeni Government and UNDP for Phase II of "Labor Market Information System" with UNDP contribution of US\$ 450,000 and Yemeni contribution of US\$ 200,000.
- An agreement was signed between Yemeni and French governments regarding a grant of □2.5 million to establish a livestock development project in Taiz.
- Netherlands government provided a contribution of US\$ 300,000 to the second phase of UNDP-funded National Landmine Program in Yemen through a UNDP Trust Fund.
- The government of Japan has decided to extend a grant of US\$ 64,557 to Al-Razi Public Hospital in Abyan to procure medical equipment in the framework of "Grant Assistance for Grassroots Projects".
- Loan agreement was signed between the Ministry of Planning and International Cooperation and Arab Fund for Economic and Social Development for the amount of 12 million Kuwaiti Dinars to finance water and sanitation project in Sana'a City.
- Taiz local administration and Italian Shemns Organization signed an agreement for material and technical support of health sector in Taiz governorate, including establishing and equipping several health centers and units and training medical staff.
- USA increased its financial and developmental aid to Yemen to US\$ 44 million in 2004 from US\$ 35 million in 2003.
- The office of German Bank for Reconstruction (KfW) was inaugurated in Sana'a on February 25. The Bank contributes 60% of total development aid provided by Germany, which amounts to □ 36 million per annum.
- Board of Directors approved IDA credit of US\$40 million for Groundwater and Soil Conservation Project. Total cost of the project is US\$53 million with the rest of the amount to be contributed by the government and beneficiaries.

Economic/Financial News:

- Total nongovernmental deposits recorded a 14% increase in the commercial banks in the end of the third quarter of 2003 compared to the same period of 2002 reaching to YR 442.2 billion. Integrated deposits at CBY recorded a 16% increase during the same period reaching 387.4 billion, with the government share of 47%, 21% bank share, 12.5% from social security funds, 11% from public organizations and 8.4% from deposit bills.
- On January 15, the Central Bank of Yemen sold three-month treasury bills for YR 10 billion, six-month treasury bills for YR 2 billion and 12-month treasury bills for YR 1 billion, with interest rates of 13.86%, 13.88% and 13.95% respectively.
- Yemeni agricultural production reached 2.3 million tons worth YR 202.8 billion in 2003, including corn production of 131,000 tons worth YR 5.4 billion, other crops production of 488,500 tons worth 25.9 billion, vegetable production of 818,900 tons worth 39.4 billion, fruit production of 719,700 tons worth YR 58.5 billion, Qat production 103,900 tons worth 63.7 billion, and livestock production worth YR 48.5 billion.
- Investment expense by the Public Electricity Corporation rose to YR 14.45 billion compared to YR 11 billion in 2003 and 9 billion in 2002.
- On January 25, the Ministry of Finance announced new employment budget for central and local authorities. Budget includes YR 90 million for 2,233 vacancies for central authorities and 10,000 vacancies in the local authorities.
- Capital Intelligence, the international emerging markets rating agency, raised Yemen's long-term and short-term foreign currency ratings from C to B which reflects Yemen's strong improvement in external solvency, international liquidity and government debts ratios.
- Total deposits with the General Authority for Posts and Postal Savings reached YR 3.6 billion in 2003, which is 49% higher than last year.
- The value of foreign funding for 2004 investment budget reached YR 133.4 billion, 39% of the total investment program of YR 344.3 billion. The volume of government funding is YR 165.5 billion (48%), self-funding YR 38.9 billion (12%), and local loans YR 6.2 billion (1%)
- Cooperation agreement was signed between Yemeni and Syrian Ministries of Oil in the field of gas and mineral resources transportation and storing, and oil marketing.
- Domestic banks activity constituted 66.5% of total bank activity in Yemen in 2003, while foreign banks performed 33.5% of the total. Domestic banks grew by 28.8% versus 10.6% for the foreign banks in 2003.

World Bank Operations in Yemen

Ongoing World Bank Operations in Yemen on 4 March 2004

| # | Name of the Project | Effectiveness Date | IDA Credit Amount (In million US\$) | Disbursed (In million US\$) |
|-----|--|---------------------------------|-------------------------------------|-----------------------------|
| 1. | Education Sector | March 23, 1995 | 33 | 24.39 |
| 2. | Vocational Training | August 7, 1996 | 24.3 | 19.99 |
| 3. | Southern Governorates Agricultural Privatization | June 29, 1998 | 20.7 | 9.92 |
| 4. | Seeds and Agricultural Services | September 2, 1998 | 12.5 | 11.04 |
| 5. | Sana'a Emergency Power | January 14, 1999 | 54 | 42.33 |
| 6. | Port Cities Development Program | January 23, 2003 (Board Day) | 23.4 | 0.5 |
| 7. | Civil Service Modernization | November 29, 2000 | 30 | 7.38 |
| 8. | Child Development | December 19, 2000 | 28.9 | 12.2 |
| 9. | Social Development Fund II | January 9, 2001 | 75 | 64.35 |
| 10. | Basic Education Expansion Project | January 16, 2001 | 56 | 19.53 |
| 11. | Irrigation Improvement | January 18, 2001 | 21.3 | 2.94 |
| 12. | Rural Water Supply and Sanitation | October 23, 2001 | 20 | 2.31 |
| 13. | Taiz Municipal Development and Flood Protection | February 26, 2002 | 45.2 | 9.87 |
| 14. | Rural Access Improvement | March 18, 2002 | 45 | 11.93 |
| 15. | Health Reform Support | July 22, 2002 | 27.5 | 1.5 |
| 16. | Higher Education Learning and Innovation | November 14, 2002 | 5 | 0.3 |
| 17. | Urban Water Supply and Sanitation | November 24, 2002 | 130 | 1.51 |
| 18. | Sana'a Basin Water Management | June 3, 2003 (Board Date) | 24 | 0.5 |
| | Total | | 675.8 | 242.49 |

To get more information about these projects, please refer to the Yemen Economic Update No 10.

World Bank Missions to Yemen (September–December)

Country Unit:

- To work on the preparation of Yemen Country Innovation Day, Roberto Matus, Consultant, visited Yemen during January 3-8.
- To meet with government officials and Yemeni businessmen, Sami Haddad, Director, and Tarek Allouba, Country Coordinator, (IFC) visited Yemen during January 17-22.
- To conduct WBI client survey, Heidi Shahrazad Zia, visited Yemen during February 11-17.
- To facilitate Yemen field visit for international experts in the framework of Scaling Up Poverty Reduction Global Learning Process (preparation for Shanghai Poverty Conference in May 2004), Mohini Malhotra, WBI Adviser, visited Yemen during February 27-March 2.
- A group of international experts and government officials participated in Social Fund for Development field visit in the framework of Scaling Up Poverty Reduction Global Learning Process during February 27 - March 2.
- To participate in the field visits of the Social Fund for Development and conduct negotiations with government officials, Mahdy Aljazzaf, Executive Director, Tariq Alhaimus, Sr. Advisor to Executive Director, and Mahmood Ayub, Country Director, visited Yemen during February 27-March 3.

Human Resources Development Sector:

- To participate in supervision of Health Reform Support Project and to initiate TA work on population, Sameh El-Saharty, Sr. Health Specialist, visited Yemen during January 5-16.
- To participate in supervision of Health Reform Support Project, Mira Hong, Operations Analyst, visited Yemen during January 3-15.
- To prepare Concept Note for Children and work on Youth Strategy, Iqbal Kaur, Social Protection Specialist, visited Yemen during January 11-24.
- To finalize Health Portfolio Supervision Mission, Sameh El-Saharty, Sr. Health Specialist, visited Yemen during February 9-13.
- To participate in Vocational Training Project ICR mission, Mira Hong, Operations Analyst, visited Yemen during February 18-26.
- To participate in Basic Education Extension Project pre-appraisal mission, Ayesha Vawda, Education Specialist, visited Yemen during February 13-27.
- To participate in preparation of Vocational Training Project II and provide technical support to Vocational Training Strategy, J. Roger Pearson, Consultant, visited Yemen during February 18 - March 1.

Natural Resources Sector:

- To participate in supervision mission of Port Cities Development Project and to launch study on Women in Economic Development, Meskerem Brhane, Social Development Specialist, and Helen Lackner, Consultant, visited Yemen during January 10-15.
- To supervise GEF component of Protected Areas Management and Coastal Zones Management, Stefanie Brackmann, Consultant, visited Yemen during January 15-25.
- To work on Decentralization and Local Development Project and Country Water Strategy, Mr. Jean-Francois Barres, Consultant, visited Yemen during January 16 - February 19.
- To work on Fisheries Resource Management Project, Gert Van Santen, Consultant, visited Yemen during January 16 - February 10.

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- To participate in supervision of Port Cities Development Project and to supervise local activities of the Red Sea Regional Development Project, John Bryant Collier, Operations Officer, visited Yemen during February 2-26.
- To lead Water Strategy Team and Sana'a Water Basin Management Project supervision mission, Maher Abu-Taleb, Sr. Water Resources Management Specialist, visited Yemen during February 16-28.

Infrastructure Sector:

- To work on Legal and Judicial Reform and financial sector developments, Elizabeth Sherwood, Financial Sector Specialist, visited Yemen during February 3-17.
- To participate in supervision of Port Cities Development Project and Taiz Municipal Development Project, Stephen George Karam, Sr. Urban Economist, visited Yemen during February 9-27.
- To supervise financial aspects of Cities Development Project and Taiz Municipal Development Project, and Josephine Masanque, Sr. Financial Analyst, visited Yemen during February 9-17.
- To work on Yemen Investment, John Speakman, Senior Private Sector Development specialist, visited Yemen during February 17-21.
- To hold meetings with Yemeni authorities, Zoubida Allaoua, Sector Manager, visited Yemen during February 17-21.

Social and Economic Development Sector:

- To work on Civil Service Modernization Project, and Public Expenditure Management, Catherine Laurent, Sr. Public Sector Management Specialist, visited Yemen during January 12-23.

Contact Information

Sana'a Country Office

*Address: P.O. Box 18152, Hadda Area, St. No. 40 off Damascus Road, Sana'a, Republic of Yemen
Telephone: (967) 1 413710, (967) 1 421623-8; Fax: (967) 1 413709, (967) 1 418733*

Country Manager:

Robert Hindle Ext. 237

Administrator:

Handal/Anisa Wajid Ext. 238

Information Technology:

Abdullah Haroon Ext. 225

Accounting:

Rebecca Shenbagam Ext. 244

Abubaker Zaidan Ext. 243

Economic Development:

Nadir Mohammed Ext. 241

Maria Handal Ext. 240

Samra Shaibani Ext. 242

Human Development:

Ousmane Diagana Ext. 233

Agriculture & Natural Resources:

Naji Abu-Hatim Ext. 228

Procurement:

Mikael Mengesha Ext. 222

Infrastructure Develop:

Ali Khamis Ext. 223

A. Al-Qattab Ext. 256

Country Director:

Mahmood Ayub

Tel: (20-2) 772-217

Country Coordinator:

Habib M. Fetini

Tel: 1(202) 473-4471