

Table 1. Republic of Yemen: Structural Policy Matrix, January 1999–December 2001

Policy Area and Objective	Strategies and Measures	Timing	TA Requirements/Status at end-1998
1. Growth policies			
Improve free market environment to promote export-driven private sector growth and employment and enhance economic efficiency.	Implement pricing, exchange rate, trade, export promotion, privatization, public enterprise, deregulation, and sectoral reforms described below, and enhance efficiency of public investment.	1999–2001	
Provide stable macroeconomic environment conducive to higher investment.	Increase public sector savings to 5.5 percent of GDP and reduce domestic and external imbalances.	1999–2001	
2. Social safety net (SSN) policies			
Provide employment, training, and income support to the poor.	Strengthen the various programs addressing poverty, including the social welfare fund (SWF), the public works program, the Social Fund for Development, and existing training programs, especially those for women, and improve monitoring through appropriate social indicators.	1999–2001	
Improve SWF technical and administrative capacity	Strengthen SWF capacity to handle larger number of poor through higher budgetary resources for administrative purposes and, after reviewing reform recommendations by the World Bank, implementation of agreed reform plan.	Beginning with 1999 budget	Bilateral donors
	Delegate collecting certain revenues to local authorities in order to expand local authorities' SSN resources in accordance with draft law on local administration.	Beginning with 2000 budget	
3. Civil service reform			
Contain government wage bill and improve the quality of the civil service.	Initiate retrenchments of civil servants and public enterprise employees beyond retirement age based on census.	March 1999	World Bank
	Effective implementation of Civil Service Fund (CSF) Law with transparent policies relating to retirement/ buyout packages.	March 1999	Cabinet approved in December 1998; effective by Presidential decree in January 1999.

Table 5. Republic of Yemen: Key Indicators of External Indebtedness, 1996–2016

	1996	1997	Projections								Average	
			1998	1999	2000	2001	2002	2006	2011	2016	1997 -2006	2007 -2016
(In millions of U.S. dollars)												
1. A. Total debt service before debt relief (2+3) 1/ 2/	804	321	312	347	344	262	213	235	166	185	274	192
2. Principal (5+23)	684	227	231	255	268	190	138	158	82	96	193	106
3. Interest (13+25)	120	94	81	92	76	72	75	78	84	90	81	86
4. Scheduled debt service on existing debt	804	321	312	345	337	249	192	193	88	66	255	109
5. Principal	684	227	231	255	267	188	137	156	63	48	192	83
6. Multilateral 2/	90	79	68	105	139	107	60	117	36	29	95	55
7. Bilateral, of which:	594	148	162	150	128	81	77	40	27	18	97	27
8. Paris Club creditors	62	16	18	20	31	32	33	24	19	13	26	18
9. Post-cutoff date debt	0	0	0	0	0	3	3	4	4	3	2	4
10. Pre-cutoff date debt	62	16	18	20	31	29	30	20	15	10	24	14
11. Russian Federation	483	79	76	66	53	8	5	0	0	0	31	0
12. Other non-Paris Club creditors	49	53	68	63	44	41	39	16	8	5	40	9
13. Interest	120	94	81	90	71	61	56	37	24	19	63	26
14. Multilateral 2/	16	30	33	34	35	29	25	16	8	6	26	10
15. Bilateral, of which:	86	40	48	56	36	32	31	21	16	13	35	16
16. Paris Club creditors	11	5	12	11	16	14	13	6	4	3	11	4
17. Post-cutoff date debt	0	0	0	1	1	1	1	1	1	0	1	0
18. Pre-cutoff date debt	11	5	12	10	15	13	12	0	0	2	10	0
19. Russian Federation	67	31	31	42	17	15	15	13	12	9	21	11
20. Other non-Paris Club creditors	8	5	6	3	3	3	2	1	1	1	3	1
21. On arrears outstanding	18	24	0	0	0	0	0	0	0	0	2	0
22. Debt service on new borrowing (23+25)	0	0	1	3	7	13	21	42	78	119	19	83
23. Principal, of which:	0	0	0	1	1	1	1	1	18	48	1	23
24. IMF	...	0	0	0	0	0	0	4	9	14	1	10
25. Interest	...	0	0	2	6	12	20	41	60	71	18	60
26. Debt service ratio before debt relief 3/	32	13	18	18	16	12	10	9	6	5	13	7
27. B. Debt service after debt relief 4/	804	130	141	212	220	193	150	235	166	185	192	192
28. Principal	684	73	89	127	155	129	81	158	82	96	123	106
29. Interest	120	57	52	85	65	65	68	78	84	90	69	86
30. Debt service ratio after debt relief 3/	...	5	8	11	11	9	7	9	6	5	9	7
Memorandum items:												
Total debt stock before debt relief	9,085	9,012	4,492	4,703	5,027	5,244	5,306	5,394	5,218	5,557	5,559	5,330
(In percent of GDP)	172	157	84	86	87	86	82	71	59	55	88	60
Total debt stock (NPV) after debt relief 5/	...	3,924	3,730	3,962	3,716	3,825	3,933	3,815	3,841	4,427	3,879	3,960
(In percent of GDP)	...	69	70	73	64	62	60	50	44	44	62	44
(In percent of exports of goods and services)	...	159	215	205	178	180	178	151	131	86	177	129
GDP	5,294	5,728	5,334	5,442	5,800	6,121	6,508	7,566	8,771	10,168	6,390	8,934
Exports of goods and services	2,495	2,471	1,734	1,932	2,086	2,125	2,206	2,521	2,923	3,388	2,216	2,977

Sources: Central Bank of Yemen; and Fund staff estimates and projections.

1/ On public sector debt. There are no national data on private sector debt, and BIS data indicate that private debt to BIS reporting banks is small (less than \$200 million).

2/ Includes obligations to AMF and IMF.

3/ Ratio to exports of goods and services.

4/ Assumes 1997 Paris Club rescheduling is fully implemented, as well as rescheduling by non-Paris Club creditors at comparable terms.

5/ A stock-of-debt operation on Naples terms is assumed at the end of 2000 (end of the flow rescheduling).

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	<p>Implement rolling civil service reform program entailing: new civil service grade structure and minimum qualifications for each grade; assignment of job identification numbers for each position in all ministries and agencies; formulation and implementation of new organizational structure for all ministries and agencies; identification and exit (through buyout/pension packages) of redundant staff; and implementation of new salary structure allowing for significant wage differentiation and increase in real wages for retained staff once restructuring becomes effective.</p> <p>In the first round, implement reform for four pilot ministries including the Ministry of Finance and Tax Authority, and transfer redundant staff to CSF.</p>	<p>1999–2001</p> <p>June 1999</p>	<p>Preparations underway with World Bank assistance; well advanced for customs authority and Central Statistical Organization (CSO).</p>
4. Fiscal policy reforms			
a. Reduce the overall deficit ratio to less than 2 percent of GDP by 2001	<p>Continue tight fiscal stance by implementing tax, expenditure, and structural reforms measures detailed below.</p> <p>Parliamentary approval of 1999 budget consistent with 1999 macroeconomic objectives and the medium-term framework.</p>	<p>1999–2001</p> <p>End-1998</p>	<p>Approved in December 1998.</p>
b. Taxation			
Broaden income tax base, improve compliance, and reduce incentive distortions.	<p>Pursue agreed income tax reforms relating to: consolidation of all income for tax purposes; rationalization of rates, brackets, exemptions, deductions, and income coverage; and bank provisioning.</p> <p>Review long-term efficiency of income tax system, and if needed, agree on plan for further reform.</p>	<p>1999</p> <p>June 1999</p>	<p>First set of amendments implemented by Presidential Decree in January 1999.</p>
Rationalize exemptions from the corporate profits and business income tax and from import duties.	<p>Eliminate provisions in the Investment Law (IL) for extensions of exemptions from corporate profits tax, business income tax, and import duties.</p> <p>Continue to avoid tax and duty exemptions outside IL and other tax laws except for approved legal charity and diplomatic purposes.</p>	<p>June 1999</p> <p>1999–2001</p>	<p>Amended law submitted to parliament.</p>

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Improve tax compliance and reduce smuggling.	Implement cigarette bandroll tax system for imported cigarettes and require domestic producers to utilize ink-stamped packets and counters.	December 1998	Implemented
Rationalize import taxation.	Parliamentary approval of elimination of the remaining two identified import surcharges and fees.	End-1998	Approved by parliament in December 1998.
Modernize clearance procedures to facilitate trade and transparency; strengthen duty collection procedures to increase revenues.	Continue implementation of agreed reform; submit agreed amendments of Customs Law to cabinet (March 1999) with parliamentary approval by June 1999.	1999–2000	UNDP/IMF Program and UNCTAD
Broaden indirect taxation base; improve compliance; eliminate cascading; increase tax efficiency and neutrality; and improve incentives.	Amendments to existing production, consumption, and services (excise) tax law to harmonize excises on foreign and domestic goods; strengthen credit mechanism, invoicing, and record keeping requirements; and reduce exemptions. Agreed General Sales Tax (GST) (to replace production tax) with basic rate of 10 percent, tax credit mechanism, zero rating for exports, and extension to services to become effective.	March 1999 With 2000 budget.	A first set of amendments implemented by Presidential Decree in January 1999. UNDP/IMF Program
	Establish task force of relevant agencies to combat smuggling and develop strategy and targets for seizure. Customs Authority to begin seizure of smuggled cigarettes.	End 1998 January 1999	Done
Increase revenue by strengthening tax and customs administration.	Expand Taxpayer Identification Number (TIN) system beyond major taxpayers and require Tax and Customs Departments to utilize TIN for all tax payments; review need for computerization; enforce use of TIN through adequate penalty for nonobservance.	March 1999	UNDP/IMF
	Implement agreement requiring that energy sector public enterprises and MOF transactions, accounting, and payments for crude oil/petroleum products be based on world prices.	With 1999 budget	Underway

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	To eliminate energy sector public enterprise arrears to budget: (i) implement timetable for reduction of cross arrears outstanding as of end-1997 between PEC, YPC, the water company, and the government; (ii) PEC and YPC to continue to cease deliveries to all customers in arrears more than 90 days and to avoid delivery of electricity free of charge to staff and other ministries, and (iii) establish specific budget allocations for utility use.	With 1999 budget	Underway

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c. Expenditures			
Enhance expenditure efficiency and reallocate resources to priority areas (infrastructure, education, health, social safety net, and operations and maintenance (O and M)).	Review expenditure structure in the light of the public expenditure reviews conducted with the World Bank.	1999–2001	World Bank
i. Development expenditures	Reach understanding with the World Bank on size and composition of annual public investment programs.	For each budget 1999–2001	World Bank
	Evaluate major new public investment projects in terms of economic and financial efficiency.	Beginning with 1999 budget	World Bank/ IMF/UNDP
ii. Subsidies	Implement agreed price increases for flour and diesel to eliminate subsidies by start of 2001. Fully liberalize wheat imports, marketing, and pricing.	1999–2001 January 1999	
	Reach understanding on mechanism to allow automatic regular adjustment of domestic petroleum product prices to movements in world prices and the exchange rate to preserve positive differentials, except for diesel and LPG. Prepare strategy of phasing of diesel price increases during 1999–2001.	June 1999 March 1999	
	Implement adjustments in electricity, water, and wastewater tariffs and/or cost structures as needed to eliminate budget transfers and provide for full cost recovery, including adequate provision for financial charges in 1999.	March 1999	World Bank
iii. Public enterprises	Agree annually on list of public sector enterprises and entities which may continue to receive current or capital transfers, and eliminate transfers to all other enterprises and entities. List to be shortened each year.	Beginning with 1999 budget	Done for 1999 budget.

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iv. Wage bill	Contain wage bill to agreed levels (9.6 percent of GDP in 1999 and to be reduced gradually to 9.4 percent in 2001); based on census, formulate specific provisions in budget law linking real wage increases closer to qualification, performance, and preparedness to redeploy in rural areas.	Beginning with 1999 budget	

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d. Social expenditures			
i. Education Strengthen basic education, especially for females.	Agree on reform program with World Bank staff to be implemented over 1999–2001 entailing: increased primary and secondary enrollment; strengthened vocational and technical training; reduced share of expenditure going to higher education; allocation of expenditures among governorates on the basis of enrollment, with special emphasis on increasing female and rural enrollment; and improved school construction programs.	Early 1999	World Bank
ii. Health Strengthen basic health services, especially preventive care.	Agree on reform program with World Bank staff entailing: increased access to health facilities below the tertiary level and preventive/promotive care programs; increased current and capital expenditures beginning with 1999 budget for materials and supplies, O and M, medical personnel salaries, and upgrading of medical facilities.	Early 1999	1998–2001 World Bank
e. Financing			
Release resources to private sector.	Revert to policy of zero/negative central bank borrowing by government. Regularize debt to wheat importers.	1999–2001 March 1999	
f. Budget management reform			
Strengthen MOF capacity to manage (formulate, control, and monitor) the budget.	Implement agreed budget management reform program with new system to become fully operational with 2000 budget and GFS consistent classification to become operational by November 1999.	1999	UNDP/IMF program, World Bank
g. Pension fund reform			

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Ensure financial viability and capacity to facilitate retrenchment in public sector employment.	<p>GAPSS to complete comprehensive and accurate record of all contributors and pensioners and their relevant personal data (birth dates, total salaries, yearly contribution, marital status and dependants qualifying for survivor benefits), based on civil service census results and available information on private sector participants.</p> <p>Pending agreement on pension reform, maintain separate funds for private and public pension, but increase private sector and trade union participation in Investment Board.</p>	<p>Early 1999</p> <p>March 1999</p>	Ongoing
	Cabinet to nominate steering committee to guide pension reform, including representatives of ministries concerned as well as employers and trade unions.	Early 1999	Committee nominated in January 1999
	Steering committee to draft new pension law, on basis of existing draft prepared by GAPSS and with IMF technical assistance, and conduct complete actuarial and financial analysis of the pension fund under proposed law, and submit to cabinet.	March 1999	IMF/World Bank
	Submit agreed draft Pension Law to parliament. The agreed draft will: grant the fund legal autonomy; allow governance by a board of directors; and reduce staffing to levels needed; on the basis of the actuarial and financial analysis, expand the contribution base to include total/ salary payments and all cash allowances; rationalize contributions and benefits by establishing a closer link between resources and payouts; and rationalize survivor benefits.	June 1999	
	Agree on similar reform programs for pension funds of Ministries of Interior and Defense for implementation over 1999–2000.	June 1999	
5. Financial sector reforms			
Enhance effectiveness of monetary policy and foster financial system development.	Continue agreed reform program for indirect monetary controls, including new CBY institutional arrangements and programs for development of secondary bill and interbank markets.	1999–2001	UNDP/IMF program
	Develop secondary bill market through building of CBY stock of treasury bills, introduction of bearer bills, and use of repurchase and reverse repurchase operations.	1999–2001	IMF (MAE)

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	Strengthen CBY procedures through recently created monetary operations committee and a technical unit designated for data management and projections.	June 1999	IMF (MAE)
Free market determination of interest rates, positive real rates, and reduced intermediation costs.	After a period of satisfactory performance of indirect monetary control, eliminate minimum benchmark deposit rates.	Early 2000	
Resolve nonperforming loan problems and ensure effective and timely loan contract enforcement so as to improve banking system efficiency and ensure private sector obtains credit on reasonable basis at market conditions.	Enforce agreements with all private commercial banks on provisioning schedules regarding nonperforming credits, and ensure all banks have made proper provision for bad and doubtful debts before dividends are paid.	1999–2001	Agreements concluded in late 1998.
	Set up steering committee including Ministry of Finance, Ministry of Justice, CBY, Bankers' Association, and Chamber of Commerce to develop action plan to make special courts more effective. Options to be explored include: (i) requiring all special court decisions, including holding and reasoning, be made in writing and published promptly; (ii) strengthen enforcement of court decisions through bailiff system; (iii) quantitative system for monitoring monthly the effectiveness of special court operations; and (iv) reduce number of courts to a few with highly qualified and well-paid judges. Committee to submit action plan to cabinet. Adoption of action plan by cabinet.	End-1998 March 1999 June 1999	UNDP/IMF Program
	Maintain bad loan notification system with threshold of 5 million rials.	1999–2001	
Establish modern legal framework and new financial instruments	Cabinet approval of agreed Central Bank Law by June 1999 for effectiveness by end-1999.	1999	IMF
	Agree with IFC/IDA on medium-term program for developing legal framework for leasing operations at commercial banks.	March 1999	World Bank/IFC
Ensure bank soundness and effective prudential oversight	Implement reform program for strengthening soundness and prudential supervision of commercial and specialized banks with support by World Bank FSAC. Strictly enforce prudential regulations.	1999–2001	World Bank/IMF

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	1. Conclude agreements between CBY and all commercial banks on timetable for meeting capital adequacy requirements, and limits on insider lending and credit concentration.	End-1998	Agreements reached with all private banks
	2. Implement institutional development plan for CBY supervision department, including enhancement of off-site inspection and on-site monitoring, design and implementation of a rating and early warning system, and enforcement of penalties and corrective measures.	1999	UNDP/IMF Program
	3. Parliament passage of revised Banking Law, to provide CBY with authority over bank liquidity requirements; and with reforms relating to licensing, ownership, management quality, credit risk concentration, insider lending, liquidity, and capital requirements.	March 1999	Revised law adopted by parliament in December 1998.
Privatization of public sector commercial banks	4. Continued efforts to sell at least 51 percent of government share-holding in NBY to the private sector and for YBRD implementation plan, satisfactory to IDA, for institutional and financial restructuring, privatization, and merger or liquidation.	NBY: 1999 YBRD: by end-March 1999	NBY brought to point of sale in late 1998. World Bank
	5. Prepare and adopt action plans, in agreement with IDA, for restructuring, privatization, merger, or liquidation of the three specialized public banks (Housing, Industry, and Agriculture).	End-1998	World Bank; preparation underway
	6. Prepare and adopt follow-on reforms, including deepening current banking sector reforms, improving the regulatory framework for non-bank financial system; and improving reliability and availability of financial and economic information.	1999–2000	World Bank
6. Exchange rate policy			
Maintain efficiency of foreign exchange market	Maintain freely floating exchange rate regime and monitor competitiveness using agreed external performance indicators.	1999–2001	
7. Trade and tariff reforms			

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Improve resource allocation and productive efficiency through further trade liberalization.	Implement agreed phased elimination of remaining import bans imposed for economic reasons (on fresh fruits and vegetables, and coffee). Publication of negative list with all remaining import restrictions.	With the 1999–2000 budgets. January 2000	By January 1999, bans for 13 out of 21 categories eliminated

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8. External debt policy			
Maintain prudent debt management policy; establish normal financial relations with creditors and a viable external position.	Limit recourse to nonconcessional borrowing.	1999–2001	
	Complete bilateral debt relief agreements with non-Paris Club creditors and commercial debt relief agreements under IDA facility.	June 1999	Discussions with creditors underway
	Implement DMFAS at central bank by June 1999 and at MOF (which will eventually manage the system) by end-1999, with appropriate links to MOP.	1999	UNDP/IMF Program and UNCTAD
9. Deregulation			
Enhance free market conditions through regulatory and legal framework appropriate for market economy	Amend Trade Law and Agencies Law to eliminate provisions allowing for price and trade monopoly enforcement by government.	January 1999	Implemented by Presidential Decree in January 1999
	Liberalize import and marketing of petroleum products	With 2001 budget	
	Prepare further reform of investment law as needed in light of private investment performance and in line with 1997 FIAS recommendations.	September 1999	World Bank/IMF
	Appoint steering committee including relevant private sector institutions, concerned ministries, and CBY to prepare diagnostic review of regulatory structure, administrative procedures for domestic/foreign trade and investment, remaining trade monopolies, transparency issues, and other obstacles to investment in Yemen. Submit diagnostic report to cabinet.	January 1999 June 1999	Steering Committee appointed in January 1999
	Eliminate through penal action if necessary, the trucking sector cartel (ferzah system), and subsequently eliminate trucking tariff setting by the government.	End-September 1999	
	Agree on reform program with the World Bank for Yemen Ports Authority to increase ports efficiency and reduce shipping costs to be implemented during 1999.	End-1999	World Bank

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	Prepare action plan to develop Aden Free Zone as test-case for modern legal/regulatory/judicial framework for investment.	September 1999	
Establish legal framework appropriate for market economy	Begin judicial training, including: refresher courses for judiciary on commercial and business law, modernized curricula, and arbitration.	June 1999	World Bank
	Prepare diagnosis and reform action plan of legal frameworks for land law, and other business, economic and financial activities.	June 1999	World Bank
	Implement reform plans.	1999–2001	
10. Privatization			
Promote private sector-led growth.	Obtain parliamentary approval for Privatization Law encompassing transparent provisions regarding sales conditions and procedures, liquidation, use of proceeds, and labor retrenchment policies.	March 1999	
	Implement three-year privatization program comprised of agreed lists of enterprises to be privatized/liquidated in each year.	1999–2001	1998–2001 World Bank
	Complete sales/liquidation of 1998 list of 24 enterprises to be privatized/liquidated.	March 1999	
	Complete privatization of 1999 agreed list of 20 enterprises.	End-1999	
	Interministerial committee to review procedures under existing laws for titles/registration of properties (including land) to be privatized and to propose interim procedures for proving clear title/registration, pending completion of broader review of Land Law (see above).	March 1999	
	Prepare privatization of larger enterprises as agreed with World Bank under IDA privatization credit.	1999	World Bank
11. Public enterprise reform			
Improve financial performance of retained public enterprises and entities and permit MOF to monitor financial performance and evaluate requests for transfers.	Ensure that all financially important or transfer-receiving enterprises and entities submit to MOF quarterly balance sheets and operating statements of accounts beginning with third quarter 1998.	1999–2001	Enterprises have been notified of requirement.

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	Identify for each prospectively retained enterprise and entity its arrears and agree on a two-year program for 1999–2000 for clearance of arrears.	June 1999	
	Extend the civil service reform program to retained enterprises and entities.	December 1999	
12. Sectoral policies			
Electricity	Implement reform program agreed with World Bank staff entailing: clearance of cross arrears among PEC, YPC, and government agencies; enactment of legal frameworks for power sector and PEC including restructuring, computerization, and private participation; and establishment of regional power utilities and tariffs.	September 1999	World Bank
Urban water and wastewater	Implement reform program agreed with World Bank staff for implementation of a national water policy, a national water law, and autonomous regional utilities with private sector participation (allowed to set their own tariffs).	1999–2001	World Bank
13. Environment			
Adoption of economic policies conducive to environmental preservation.	Implement phased correction of diesel price to slow the depletion of ground water and the proliferation of private power generators; and maintain cross-subsidization of LPG to contain deforestation. Discourage concessional donor financing of water pumps.	1999–2001	
14. Statistics			
Improve quality and availability of economic and financial data	CSO to implement programs to upgrade national accounts and CPI, including thorough development of appropriate surveys to close existing data gaps, and improve labor force/employment data.	1999–2001	Netherlands, IMF, and other donors
	Continue program to upgrade balance of payments data (oil sector, services, remittances, private financial flows).	1999	IMF
	Prepare action plan to improve institutional arrangements for provision, coordination, and dissemination of statistics, in consultation with the Fund's Statistics Department.	End-March 1999	IMF

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15. ESAF program implementation			
Timely implementation of reform program through enhanced administrative capacity and coordination.	Implement separate payrolls to be vetted by MOF for staff of ministries and the central bank directly responsible for implementation of reform program.	1998–2001	Ongoing
Improve public understanding of the rationale of the reform program.	Initiate awareness campaign about role of reform program for Yemen economy, including through publication of PFP.	Early 1999	