

**Middle East and Central Asia Department
Regional Technical Assistance Strategy Note
June 2010**

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I. FUND TECHNICAL ASSISTANCE TO MCD COUNTRIES

A. Overview

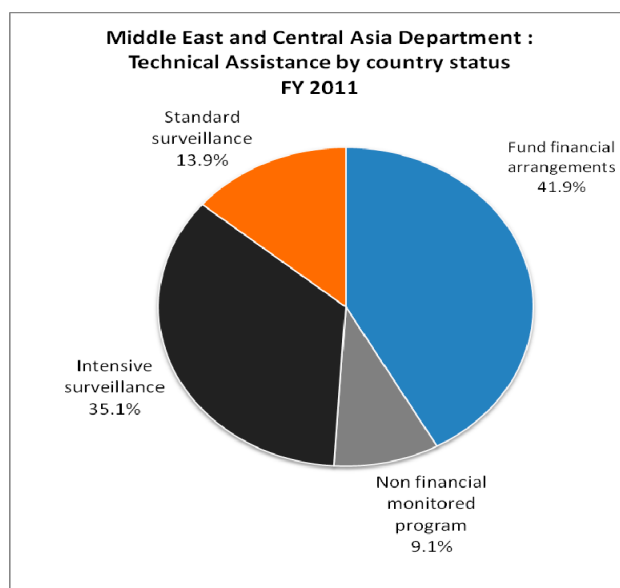
The Middle East and Central Asia (MCD) region spans a geographically diverse set of countries facing different circumstances and at different stages of development. In addition, the region has been buffeted by the global crisis of 2008-09, which exposed vulnerabilities in many countries. This range of circumstances has implications for the allocation of technical assistance depending on whether the main challenges are to build economic institutions, develop market structures, and/or respond to the issues raised by the global financial turmoil.

The allocation of technical assistance (TA) in FY2011 follows an assessment of priorities conducted by the Middle East and Central Asia Department in consultation with country authorities and TA providing departments. The country notes in Section II below summarize the assessment based on the surveillance and/or program priorities for each country, which is anchored in a three-year planning horizon.

Taking into account country characteristics and the varying impact of the crisis, technical assistance priorities for the region focus on improving banking system soundness, promoting development of local financial markets, mobilizing domestic revenues and improving fiscal positions, modernizing public financial management systems, and strengthening the legal environment.

Based on the above, the provision of TA will continue to be concentrated on countries with Fund financial arrangements (Afghanistan, Armenia, Georgia, Iraq, Kyrgyz, Mauritania, Pakistan, Tajikistan, and Yemen) or staff-monitored programs (Sudan and West Bank and Gaza) and some countries under intensive surveillance (Egypt, Jordan, Lebanon, and Libya).

In total, MCD countries are expected to receive about 400 TA missions from the Fund in FY2011. Fund TA will be delivered primarily in the form of diagnostic/ evaluation missions and short-term visits from headquarters. METAC will complement headquarters-based TA with frequent short-term expert visits to ten countries.¹ This pattern of delivery is in line with



¹ Afghanistan, Egypt, Iraq, Jordan, Lebanon, Libya, Sudan, Syria, West Bank and Gaza, and Yemen.

the strategy to move away from providing TA via long-term advisors and to increase the provision of TA from regional centers. In addition to METAC activities, it is also expected that the Central Asia Technical Assistance Center (CASTAC) will begin delivering TA in the last part FY2011 to about seven countries in that region (likely Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, and Uzbekistan).

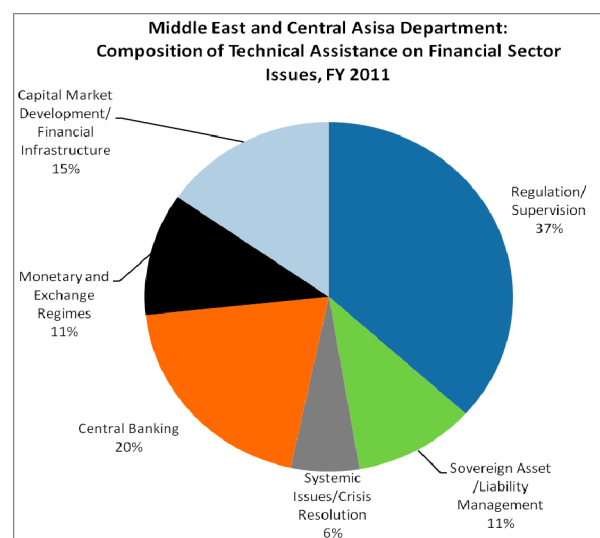
Of the total amount of TA for the region, the largest share of missions will be on monetary and financial sector issues (38 percent), followed by TA on fiscal issues (29 percent), statistics (22 percent), and legal (11 percent). The TA budget for FY2011 will be financed with the IMF's own resources (the new policy of charging for Fund TA has been deferred to FY2012) and additional financing from Japan (JSA), SECO, and multidonor subaccounts.

The IMF Institute aims at increasing the amount of training to the MCD region. INS training for participants from the region currently account for about 21 percent of total INS training. In FY2011-12, MCD participants from central Asia will benefit from the expansion of training at the JVI, based on an increase in funding from the Austrian authorities. Negotiations are also underway on a new regional training center in Kuwait, which will increase significantly the training to participants from the Middle East and North Africa.

B. Priorities by Functional Area

Financial Sector

Enhancing the supervision and regulatory framework will be an important priority, particularly in program countries and countries affected by the global financial crisis. In addition, emphasis will also be put on strengthening central banking, expanding stress-testing capabilities, and improving the crisis resolution framework. For other countries, (especially low-income and emerging market countries) debt management and development of monetary instruments and domestic debt markets will remain a priority. Another priority area is the provision of TA to improve sovereign asset/ liability management in selected countries (Iraq, Kyrgyz, Libya, Pakistan, Qatar, and Tajikistan). Lastly, TA on inflation targeting frameworks will be channeled to selected countries (Egypt, Georgia, Algeria, and Tunisia).

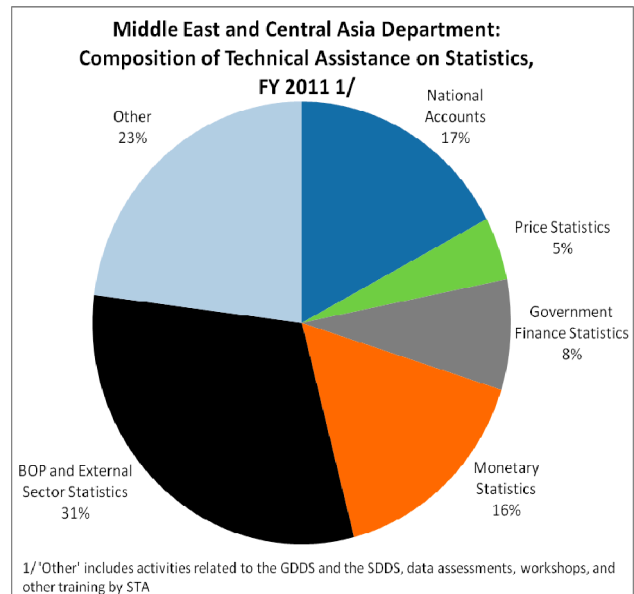
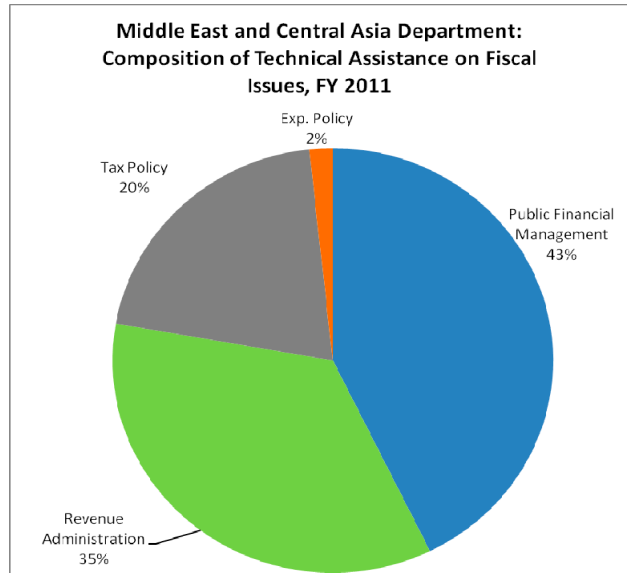


Fiscal

In the fiscal area, TA needs are concentrated on public financial management in program and intensive surveillance countries, especially strengthening cash management, introducing performance-budgeting, and improving medium-term expenditure frameworks. In emerging markets and low-income countries, a priority area will be to mobilize domestic revenues and set the basis for improvements in the fiscal position in the medium term. This will require TA on revenue administration and, to a lesser extent on tax policy.

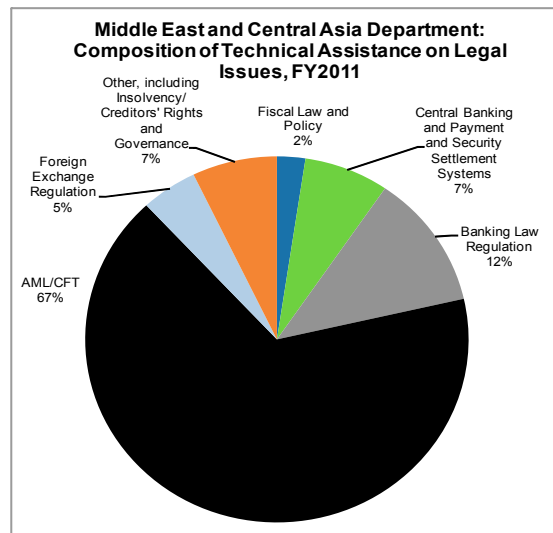
Statistics

Broad support to strengthen the statistical database for policy formulation and implementation will continue to be needed in most countries in the region, particularly in low-income countries of the Middle East and in many Central Asian countries. An important area for TA will be devoted to enhancing balance of payments data, including the international investment position (IIP) and external debt data. Other activities comprise compilation of national accounts and price statistics, improving government finance statistics in line with the *Government Finance Statistics Manual (GFSM 2001)*, and strengthening financial sector statistics with a view to improving balance sheet accounting and analysis.



Legal

Technical assistance in this area will focus on enhancing the legal and institutional capacity for anti-money laundering and combating the financing of terrorism (AML/CFT), strengthening legal frameworks for the financial sector (including insolvency and creditors' rights), establishing securities market in low-income countries, and improving the central bank regulatory environment and the payments system. Lastly, laws should be adapted to support tax regimes in a few countries, and more generally to strengthen fiscal frameworks.



II. METAC COUNTRIES

A. Afghanistan

Overview. Given its characteristics, Afghanistan's TA needs are massive. A new ECF-supported program is expected during 2010-13, whose key objectives are to preserve macroeconomic stability and set the basis for sustained growth and fiscal sustainability. Achieving these objectives will require, inter-alia, strengthening the conduct of monetary policy, promoting banking system consolidation, increasing tax revenues and enhancing expenditure management, and improving economic data. Fund technical assistance will need to focus on these areas. METAC assistance should supplement HQ-based TA on tax administration, PFM, real sector and balance of payments statistics, debt management, money market development, and banking supervision.

Fiscal. The main objectives are to improve revenue generation and public financial management. This will continue requiring TA on tax and customs administration, treasury bonds and cash management, and strengthening the medium-term fiscal framework. Tax policy issues, including the design of a VAT and a new tax code, will also need to be addressed. PFM reforms are also important, including the implementation of a simplified approach to program budgeting and the unification of the budget. Lastly, a fiscal ROSC will also be needed in FY 2012 to help define priority areas over the medium term.

Monetary and financial sector. The main objectives are to improve the monetary policy and strengthen and foster the consolidation of the banking system. This will require TA on monetary operations (including open market operations), the development of a secondary bond market, banking regulation and supervision, and bank restructuring. In addition, a mission will be needed to verify acceptance of Article VIII obligations. Lastly, Fund and

World Bank staffs concur with the need for an FSAP in FY12, and the authorities would like to submit a formal request accordingly.

Legal. Priority will be given to moving Afghanistan to Article VIII status and strengthening the legal framework for AML/CFT. A less priority item is the introduction of Islamic banking.

Statistics. The quality of the statistical base remains weak, including regarding coverage and timeliness. Continuing TA is required on almost all areas, including on monetary statistics and the introduction of an IFS page, GFS 2001 compilation, GDP and national accounts, prices, and balance of payments statistics. A data ROSC would be desirable in FY2012 to help the authorities develop a broad economic statistics plan that can be used to coordinate the provision of TA with the donor community.

B. Egypt

Overview. The key medium-term challenge for Egypt is to achieve a sustainable return to high growth—supported by raising productivity—that is needed to continue to make inroads into reducing poverty and address persistent unemployment. In this context, policy and reform priorities should focus on removing obstacles to private sector development and investment, including: (i) addressing fiscal vulnerabilities, with a large public borrowing requirement and still high public debt; (ii) rebalancing monetary and fiscal policy to ensure macroeconomic stability to help maintain confidence and reduce pressure on interest rates; and (iii) improving financial intermediation to more effectively and productively channel to the private sector.

Fiscal. Technical assistance on fiscal issues has the highest priority and is critical to support the authorities' medium-term fiscal consolidation efforts. The strategy entails a substantial broadening of the tax base, while strengthening revenue administration. Priority TA needs are assistance for the drafting the VAT law and completing the integration of the internal revenue and sales tax departments, including fundamental changes to the Egyptian Tax Authority's organizational structures, systems and processes which would help reap the benefits of VAT implementation. On the spending side, there is a need to improve the efficiency of spending—by tightening expenditure controls and streamlining costly fuel subsidies—and to ensure that any move towards fiscal decentralization will not undermine the overall fiscal control by the Ministry of Finance. In this regard, TA priority needs are revamping the fiscal framework (both at the national and the local levels), with a view to strengthening fiscal discipline, better informing policy decisions, and containing fiscal risks. This would require (i) modernizing the budget law to adopt a top-down approach to budget formulation and articulate budget decisions in medium-term fiscal/expenditure frameworks; and (ii) developing a policy to manage government guarantees and spending commitments from public-private partnerships. While the World Bank is assisting on the phasing out of energy subsidies and on redirecting savings to social safety nets, designing an automatic fuel pricing mechanism will be a crucial expenditure policy reform. Lastly, technical assistance to improve budget legislation and implement the GFS2001 framework for fiscal analysis would be beneficial.

Monetary and financial sector. The authorities are looking to public-private partnerships (PPPs) to mobilize private sector financing for infrastructure investment (and to assist fiscal adjustment). Given the importance that the financing of these projects is carefully structured to contain risks, technical assistance will likely be needed on hedging foreign currency risk and, possibly, other public finance aspects (e.g., contingent liabilities). In addition, the Central Bank of Egypt (CBE) has a medium-term objective of moving to inflation targeting, for which they are receiving TA from the European Commission. However, data improvements, in particular related to improving CPI statistics (see below) and developing a structural model for inflation forecasting are important preconditions for moving forward. The CBE is also undertaking a second phase of comprehensive banking sector reforms. In this context, technical assistance to strengthen the CBE's internal accounting and audit capacities, and also to improve the coverage and quality of financial soundness indicators could help better inform the CBE's supervisory and regulatory policies, and raise market awareness/confidence.

Statistics. Further steps to strengthen data quality will help improve the policy debate and business environment. In this regard, ensuring consistent high quality and high frequency national accounts—including a better understanding of growth sources, price (deflator) developments, and trends—will help the authorities better frame their policies in support of higher growth and their communication with investors. Other priority TA should focus on: (i) improving foreign direct investment data to better understand FDI trends/patterns; and (ii) improving CPI statistics (produced by CAPMAS) and build capacity for inflation forecasting, including refining the CBE's measure of core inflation and better communicating policy with markets.

C. Iraq

Overview. A new 2-year Stand-By-supported program has been designed to help address Iraq's economic challenges. In addition to preserving macroeconomic stability and providing financing, the program will help the authorities to rebuild key economic institutions. The program focuses on reforms in the areas of public financial management (PFM) and financial sector development, in close coordination with a Development Policy Loan (DPL) provided by the World Bank. Both operations focus on advancing PFM and bank restructuring action plans prepared by the authorities during 2008 and 2009 with the assistance of Fund and World Bank staff. In this connection, TA should continue focusing on building capacity at the Ministry of Finance, the Central Bank of Iraq (CBI), and the Central Organization for Statistics and Information Technology (COSIT). Progress will depend on the security situation, bottlenecks in administrative capacity, and the government's ability to reach political consensus after the elections.

Fiscal. The key objectives are to modernize Iraq's public financial management system, increase transparency in the oil sector, improve expenditure policy formulation, and broaden the revenue base. IMF assistance in the sector will focus on: (i) public financial management (PFM) reforms; (ii) oil sector management; (iii) developing a Medium-Term Budget Framework; and (iv) tax policy and administration. In PFM, the Fund's TA will focus on assisting the authorities to implement specific measures from an agreed action plan, including budget preparation, execution, and reporting; cash management; and the

accounting framework. The main oil sector issues are oil taxation, including the treatment of international and national oil companies; financial flows between the budget and oil companies; and domestic pricing of fuels (through periodic domestic fuel price adjustments) to avoid fuel subsidies.

Monetary and financial sector. The key objectives are to (i) improve central bank operations, including rebuilding the capacity of the CBI to conduct monetary and exchange rate policies, including improving the foreign exchange and Treasury bill auctions; enhancing foreign reserves management in line with the CBI's reserve management guidelines; and improving the accounting framework and assisting with the implementation of recommendations of the Fund's Safeguards Assessment Update and Ernst & Young audit reports; and (ii) reform the banking system by improving bank supervision (including completing an assessment of the supervision department) and completing the restructuring of the two largest state-owned banks (including by implementing recommendations from operational and financial audits of these banks and assessing the fiscal implications of the restructuring process). In addition, the CBI needs to develop the credit market infrastructure to improve the workings of this market.

Legal. The main priority is AML/CFT. An AML/CFT Capacity Enhancement and Sustainability training program is planned to be delivered by LEG jointly with the World Bank and the United Nations Office on Drugs and Crime in 2010. The main objectives of the program are to develop capacity in (i) understanding the role of each agency in AML/CFT; (ii) analyzing suspicious transaction reports and other documents; and (iii) enhancing coordination among concerned agencies. LEG may also need to provide TA on legislative drafting in AML/CFT.

Statistics. The quality and availability of macroeconomic statistics needs further improvement. It is also important to expand the statistical coverage to include the Kurdish region. In the area of monetary and financial statistics, TA will focus on improving the data for the depository and financial corporations, especially with regard to the sectoral classification of assets and liabilities, and continue to provide training on compiling monetary and financial statistics. There is also need for help balance of payments statistics (including international reserves) and national accounts and price statistics methodologies (including a wider CPI coverage).

D. Jordan

Overview. The global economic crisis has affected Jordan's exports, remittances, grants, and other external inflows. Key policy challenges are to reduce fiscal and external vulnerabilities, while fostering economic growth and employment creation. A significant fiscal tightening is needed to ensure the sustainability of public debt. Continued structural reforms will be vital in supporting fiscal adjustment and facilitating higher growth. The TA strategy supports reforms to ensure a good economic performance and address policy challenges.

Fiscal. Support from FAD on expenditure policy, revenue administration, tax policy, and PFM remains essential. Tax administration capacity should be strengthened, organizational changes in the Medium Taxpayer Office should be completed, and small taxpayer

administration should be improved. Short-term needs could be addressed through METAC and later through a follow-up evaluation mission from FAD. There may also be scope for follow up TA to the March 2010 mission on tax policy. Tax policy reform—with a particular focus on the income tax regime, strengthening the general sales tax, and other property taxes—is crucial for medium term fiscal sustainability. On the expenditure side, follow up TA may be needed on the recommendations from the recent mission on expenditure rationalization, and advice on strengthening the PPP framework and pension reform—possibly in coordination with the World Bank— would be important. Other PFM priorities are completing work on the treasury single account, improving budget classification, developing the link between the Multi Year Fiscal Framework with expenditures, and strengthening audit capacity.

Monetary and financial sector. The authorities need further assistance in improving debt management, implementing new debt instruments (including Sukuk), and further developing financial markets. In this connection, a follow up mission to support the design of a debt strategy will be important.

Statistics. Support is needed to follow up on remaining data issues, particularly balance of payments (reduce errors and omissions), national accounts (improve quarterly GDP statistics), and labor statistics (national and sectoral wage indices). In addition, follow up TA on the sources, nature, and type of remittances would be beneficial.

E. Lebanon

Overview. The main macroeconomic objectives for Lebanon are to reduce the large debt overhang and financial vulnerabilities, while generating sustained growth. Although on a downward path, the government debt-to-GDP ratio remains one of the world’s highest at 150 percent. Almost three quarters of government debt is held by the domestic banking system, funded largely by short-term deposits of almost three times of Lebanon’s GDP, exposing it to a maturity mismatch. The Fund should assist the authorities in tackling the debt overhang through medium-term fiscal consolidation and reducing financial vulnerabilities. The priority areas for Fund TA will depend on the intentions of the new government, but could include tax policy, revenue administration, public financial management, targeted assistance in the monetary and financial sector, and national and balance of payments statistics. METAC assistance should continue to supplement HQ-based TA in public financial management, real sector and balance of payments statistics, and revenue administration.

Fiscal. Fund TA needs to focus on areas to facilitate fiscal adjustment, in particular tax reforms to combine new taxes or tax rate increases with a broadening and rebalancing of the tax base (e.g. introduction of the planned global income tax, development of a simplified tax regime for the small taxpayers, review of the property tax and the distributional impact of the VAT); revenue administration reforms (for example, moving toward a unified function-based tax administration, starting with the large taxpayer office that integrates the VAT and income tax units, preparing for the introduction of the global income tax, and reviewing the VAT performance), PFM reforms (particularly on cash management and TSA, budget classification, debt management, and accounting issues), and public enterprise reform (with the World Bank taking the lead on Electricité du Liban) and expenditure policy reforms,

including subsidy reduction and improved social targeting (in close coordination with the WB). A risk management framework should be introduced if the authorities were to pursue PPP projects.

Monetary and financial sector. Fund TA could assist the authorities on (i) improving accounting and transparency practices (in line with recommendations from the Safeguards Assessment) and introducing short-term instruments (to guide interest rates once market conditions stabilize); (ii) modernizing legislation for the bank resolution mechanism. Such mechanism will likely have to be accompanied by a reform of the deposit insurance scheme; (iii) strengthening cross-border supervision and bank regulation, focusing on risks to the domestic banking sector from its regional operations, and enhance supervision coordination with regional counterparts in light of the banks' expansion of their activities abroad; and (iv) strengthening regulation and supervision of non-bank financial institutions. Lastly, an FSAP update or stand-alone BCP assessment in late 2010 could identify areas where Fund TA may be needed. Further advice may also be useful on BdL's accounting practices not aligned with international standards.

Statistics. TA should aim to address statistical gaps, in particular on national account statistics (e.g. transfer the responsibility for the production of national accounts from the Prime Minister's office to the Central Administration of Statistics), BOP statistics, high-frequency indicators of economic activity, compilation of a Producer Price Index (PPI) and the International Investment Position (once the quality of the BOP statistics becomes adequate), and monetary statistics (by implementing Standardized Report Forms that provide most of the required data for the Balance Sheet Approach matrices). Other areas may be identified by a METAC review of work processes of the BdL's Research and Statistics Department.

F. Libya

Overview. Since 2004, the IMF has provided a large amount of technical assistance in the areas of fiscal and monetary policies, banking supervision, bank restructuring, and statistics. TA priorities in the medium-term should follow up on earlier recommendations and focus on areas not covered previously. Further support is needed to strengthen expenditure management and control and enhance revenue policy and administration, modernize the central bank's structure, improve banking supervision, develop indirect instruments of monetary management, and improve the compilation of macroeconomic statistics. Within this envelope, METAC assistance should continue to supplement HQ-based TA in public financial management, tax policy and administration, real sector and balance of payments statistics, bank supervision, reserve management and payment system. METAC is expected to provide TA on debt management, developing the secondary bond market, and an auction system for the CD market.

Fiscal. Follow up TA from is needed in both public financial management area, and tax policy and administration. In the PFM area, the objective is to enhance budget unification (including relations of Libya Investment Corporation) and strengthen expenditure management and control, especially through establishing a treasury single account. On the revenue side, TA should help (i) restructure the customs department and tax department; (ii)

introduce self-assessment and risk based controls; (iii) prepare for the introduction of the VAT. TA could also help undertake a Poverty and Social Impact Analysis and reform the subsidy system.

Monetary and financial sector. Regular MCM inspection visits are needed to ensure effective implementation of advice in the different TA areas (Central bank restructuring and modernization, strengthening banking supervision; further developing of a CD market; and reserve management).

Statistics. Follow up TA is needed in real and external sector statistics. In the real sector, follow-up TA is needed to (i) consolidate improvements in the CPI compilation; (ii) help establish a PPI; (iv) further improve national accounts. In the external sector, TA should help strengthen balance of payment statistics, particularly in the compilation of the IIP and trade data.

G. Sudan

Overview. In early 2009, the authorities adopted a comprehensive package of reforms to mitigate the impact of global financial crisis, supported under an 18-month staff-monitored program (SMP). The main objectives of the SMP are to (i) maintain macroeconomic stability, a pre-requisite to protecting the most vulnerable segments of the population; and (ii) safeguard and rebuild foreign exchange reserves to avoid an abrupt and costly external adjustment. In this context, the fiscal and financial sectors remain the two core areas of weakness. On the fiscal side, improving tax administration and reassessing tax policy (with a view to reducing tax exemptions and widening the base) are top priorities. On the financial side, given that the financial sector vulnerabilities have increased over the past few years, the resolution of Omdurman Bank and the development of efficient monetary markets and instruments remain major challenges. An FSAP update remains a high priority as well as strengthening the statistical base for macroeconomic policy.

Fiscal. One of the main tasks of TA in the fiscal area is to broaden the revenue base to reduce dependence on oil revenues. This is critical given oil revenue volatility. In particular, there is a need for advice on how to improve collection efforts. Assistance on various public financial management issues remains crucial and is currently being pursued through a follow-up FAD mission. Assistance may also be needed in the areas of management of petroleum revenues, petroleum pricing, and targeted social safety nets.

Monetary and financial sector. The authorities and staff place high priority on an FSAP update, including in the payments system and insurance sector. A swift resolution of the issue of Omdurman Bank (a public sector bank that represents over 40 percent of the banking sector) is critical to financial stability. In this respect, assistance will remain helpful to bolster banking supervision and strengthen prudential regulation, particularly on foreign exchange exposure. The Bank of Sudan also needs follow-up assistance on liquidity forecasting and management and the payments system. A foreign exchange cash plan needs to be operationalized. Lastly, further assistance is needed on the conduct of monetary/exchange rate policy.

Statistics. Data deficiencies in many sectors continue to impair macroeconomic analysis and policy formulation. Continued assistance on improving national accounts and external sector data remains a priority. On GFS, continued progress toward extending budget classification to remaining states with a view to better monitor general government's fiscal operations and tracking public spending by sector remains crucial. Further assistance focusing on the consolidation of Government of South Sudan and Northern states accounts with the central government is also a priority to arrive at a comprehensive picture of government operations.

H. Syria

Overview. Over the medium-term, the goals are to increase non-tax revenue, gradually resuming fiscal consolidation, and developing the central bank's capabilities to manage liquidity and effectively supervise the banking sector. In this context, the authorities' priorities in the fiscal area include implementation of VAT now scheduled for 2011 and classifying government expenditure based on international standards. In the monetary and exchange rate area, the goal is to continue restructuring the CBS, modernize the payment system, and pave the way for greater exchange rate flexibility in the medium term. Regarding macroeconomic statistics, significant data weaknesses continue to hamper effective surveillance and monitoring the economy's response to reforms. Within this broad envelope, METAC assistance should continue to supplement HQ-based TA in tax administration reform and modernization, real sector and balance of payments statistics, debt management and money market development, bank supervision, and foreign exchange management.

Fiscal. TA is needed for follow up on classification of government expenditure based on international standards, and implementation of VAT and tax code procedures.

Monetary and financial sector. The reform strategy includes developing (i) indirect instruments of monetary control to enhance monetary management, including a government security market; (ii) developing a liquidity forecasting framework; and (iii) regulatory and supervisory capacity to ensure the safety and soundness of the financial system. Short-term expert visits are needed for the implementation of the 2008 FSAP recommendations. Equally important will be TA to conduct a comprehensive review of the exchange system and exchange restrictions subject to Article VIII.

Legal. A joint TA with MCM is needed to conduct a comprehensive review of the exchange system and exchange restrictions subject to Article VIII. TA is needed in tax code procedures.

Statistics. Follow up TA are needed in almost all areas. In the real sector, continued TA is needed in the national accounts and short-term indicators of economic activity, and price statistics. Continued assistance is needed in the area of balance of payments statistics, particularly in compilation of the IIP, the compilation and dissemination of external debt data, and development of better trade data. Lastly, TA is also needed in the provision of GFS by the authorities.

I. West Bank and Gaza

Overview. Since the Palestinian Authority was established in 1994, it faced the daunting task of creating policy institutions and a legal and regulatory environment conducive to private sector economic activity. The Fund has been actively involved in providing technical assistance to the PA in institution building and in establishing a legal and regulatory framework, with particular focus on tax administration, public expenditure management, banking supervision and regulation, and macroeconomic statistics. Despite progress in many key areas, further legal and institutional reforms are needed to revive the growth process and reverse the trend decline in per capita incomes—real GDP in per capita terms is estimated to have declined by 16 percent over the period 2000-09. To help implement these reforms, technical assistance from the Fund will be needed in both the short and the medium term on the government bonds development, public finances, banking sector supervision, the legal framework, and macroeconomic statistics.

Fiscal. An important short-term priority is a provision of assistance on development of the government bonds. This would require fielding of a mission to provide assessment of Public Finance Management (PFM) related aspects, (fiscal needs, sustainability, etc.) of the government bonds and possible next steps. PFM reforms are another important priority and require fielding of a mission before end-2010 to keep their momentum. FAD has fielded several missions during 2008-09 and agreed with the authorities on a timetable for 2010-12 for the implementation of key PFM reforms. One important objective of these reforms is the strengthening of commitment controls through the implementation of the procurement module in the Computerized Accounting System. Other measures aim at further developing the cash and debt management unit in the General Accounting Department at the Ministry of Finance with a view to prioritizing spending and minimizing expenditure arrears. This unit requires further TA to properly perform the tasks assigned to it. While the World Bank has been providing technical assistance on a social safety net, FAD technical assistance will be useful during 2011-12 to review the social safety net. The strengthening on tax administration is also needed to raise the domestic revenues, and a follow up mission on tax administration reforms (following the one in March 2010) will be needed.

Monetary and financial sector. The Palestinian Monetary Authority (PMA) has made progress since 2007 enhancing the supervisory and regulatory framework. A macroprudential division was created, and progress is being made with an early warning system. A new credit registry is allowing banks to better evaluate risks, reduce collateral requirements, and improve credit flow. Technical assistance will be needed during 2010-11 to support the modernization of the payments system and bank restructuring. In addition, TA during 2010-11 would be helpful in assessing the consequences of complications in the relationship between Palestinian banks and Israeli banks, including the inability of the former to place excess cash reserves in the latter. In addition, an important short-term priority is a provision of assistance on development of government bonds market—its organization, infrastructure, and trading framework. This will require mission based assessment of initial conditions, existing obstacles to the market's development, and advising the authorities on overall feasibility of this project and possible next steps.

Legal. With regard to legal reforms, an Anti-Money Laundering Law has been implemented, and a new Banking Law and a new Central Bank Law are expected to be finalized and implemented during 2010. Additional technical assistance from LEG will be needed during 2010-11 to evaluate the implementation and effectiveness of these laws.

Statistics. In the area of statistics, priority should be accorded to capacity building at the Palestinian Central Bureau of Statistics (PCBS), with particular focus on national accounts and balance of payment statistics. Further technical assistance will also be useful in 2011 to evaluate the use of the Standardized Report Form-based reporting of monetary and financial statistics. The purpose of the latter is to enable timely and automatic compilation of tables for the Monetary Survey, and for the balance sheets of the PMA and of commercial banks.

J. Yemen

Overview. Yemen is one of the poorest countries in the MENA region, with a limited resource base, weak capacity, and the prospect of a sizeable macroeconomic adjustment over the medium-term (prompted by the expected depletion of oil revenues). Recent drops in hydrocarbon production, together with oil price volatility and a rigid expenditure profile (dominated by a subsidy on domestic fuel products and high levels of spending on public wages and salaries); have resulted in increasingly large and unsustainable fiscal deficits and a marked deterioration in the balance of payments. The authorities have requested an IMF program, and negotiations have begun on an arrangement that could potentially be supported under the Extended Credit Facility. Yemen's key surveillance/program priorities center around improving public financial management, boosting non-oil revenue, a realignment of public expenditure (away from subsidies and other elements of current expenditure and towards higher levels of public investment); improvement of macroeconomic data and statistics; and develop a more market-oriented monetary policy framework and supporting monetary instruments.

Fiscal. Over the short-run, the priorities are to (i) strengthen the government's capacity with respect to public financial management (particularly commitment control and cash management functions that are to be embodied in the Automated Financial Management Information System—AFMIS); and (ii) boost non-hydrocarbon revenues through implementation of key tax reforms and revenue administration. Over the medium-term, attention should turn to more complex issues that serve the underlying objectives of moving Yemen to a more sustainable fiscal position, fostering non-hydrocarbon growth, and promoting transparency. In this regard, a review of expenditure and tax policies (with a view to providing input on policy options for inclusion in annual budget discussions) would be important. Further work on boosting public financial management (through implementation of GFSM 2001 and a Treasury system) would also be desirable. The Treasury system is an issue covered in previous IMF TA, but due to capacity constraints (particularly on AFMIS); no action has been taken to date.

Monetary and financial sector. Moving the central bank to a more market-oriented monetary policy, based on an elimination of the current administered benchmark deposit rate, would be desirable. Further, development of the domestic financial market through implementation of a credit registry, fostering a functional interbank market, and

implementing fundamental reforms with respect to creditor rights, property rights, and asset disposal, would be critical. In addition, TA will be needed to widen the government's domestic financing constraint via introduction of Islamic financial instruments (sukuk) to decrease reliance on monetary financing, as well as to foster foreign exchange auction mechanism and management.

Statistics. Progress on improving macroeconomic statistics (particularly the national accounts and balance of payments) is also important. National accounts data is currently available on an annual basis and with a considerable lag (up to 8 months). The current series is also a work in progress (a product of TA from ESCWA that was only partially completed). A timely set of national accounts data could be utilized by all government agencies and donors. Also important—given the shifting economic landscape and developments with respect to foreign exchange reserves—is more timely and accurate reporting on the balance of payments (also done only on an annual basis, with significant gaps in the capital/financial account, and frequent revisions).