

REPUBLIC OF YEMEN

Recent developments

Table 1 **2018**

Population, million	29.0
GDP, current US\$ billion	26.9
GDP per capita, current US\$	929
International poverty rate (\$ 19) ^a	18.8
National poverty rate ^a	48.6
Gini index ^a	36.7
School enrollment, primary (% gross) ^b	92.4
Life expectancy at birth, years ^b	65.0

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2014), 2011PPPs.

(b) Most recent WDI value (2016).

Relative to pre-conflict levels, output is estimated to have contracted by about 40 percent, and UNOCHA estimates that 22.2 million people in Yemen — approximately three-quarters of the entire population — need humanitarian assistance. The protracted conflict has created a “war economy” where fiscal and monetary policy are dominated by short-term considerations related to holding fragile and opportunistic coalitions together.

Since the escalation of violent conflict in March 2015, the economy has deteriorated sharply. While official statistics remain unavailable, anecdotal evidence suggests that GDP contracted by an accumulated 39 percent since the end of 2014. The conflict has caused widespread disruption of economic activities, with substantial reduction in jobs, private sector operations, and business opportunities. Operating costs rose severely due to insecurity and lack of supplies and inputs, leading to massive layoffs to the country’s formal and informal workforce.

The decline in economic activity has led to a significant decline in the collection of public revenue and increased the country’s debt. The most recent estimated fiscal data show public revenues declining from nearly 24 percent of GDP before the conflict, to an estimated 8 percent of a much-reduced GDP in 2018. In order to finance the deficit, the government continued to use central bank credit and accumulate unpaid commitments, including public sector salaries. However, in November 2018, the Cabinet endorsed measures which promise to restore fiscal policy transparency and improve public finance management. The budget framework will aim to ensure deficit reduction to safe limits through rationalizing current expenditures, enhancing public revenues, and non-inflationary deficit financing. Other endorsed measures focus on improving the efficiency of state’s revenue collection capacity, including

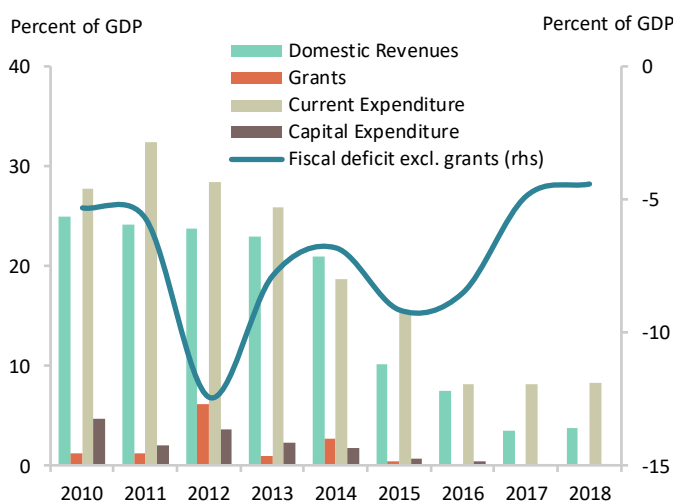
through enhancing central tax and custom collections from imported and domestic oil products.

Along with growing debt, there was a sharp increase in inflation and a large depreciation in the exchange rate over the past year which dramatically reduced the purchasing power of households. Preliminary estimates indicate the inflation rate for food prices was approximately 55 percent in 2018, up from approximately 25 percent in the previous year; and petrol and diesel prices in the third quarter of 2018 respectively surged by 30 and 50 percent in the northern parts of the country relative to price at the same time in the previous year. The acceleration of inflation is particularly difficult to cope with given already substantial loss in real income households have experienced, and the exhaustion of available coping strategies four years into conflict.

According to the latest official update to the Integrated Food Security Phase Classification (IPC) in December 2018, approximately 20.1 million people are facing severe and acute food insecurity, of which, nearly 5 million people are either experiencing famine-like conditions or famine. Food assistance has significantly increased since the beginning of 2017 with some estimates suggesting half of the population receives aid, but without both further increasing assistance and addressing some of the economic causes of the crisis, the food emergency will continue.

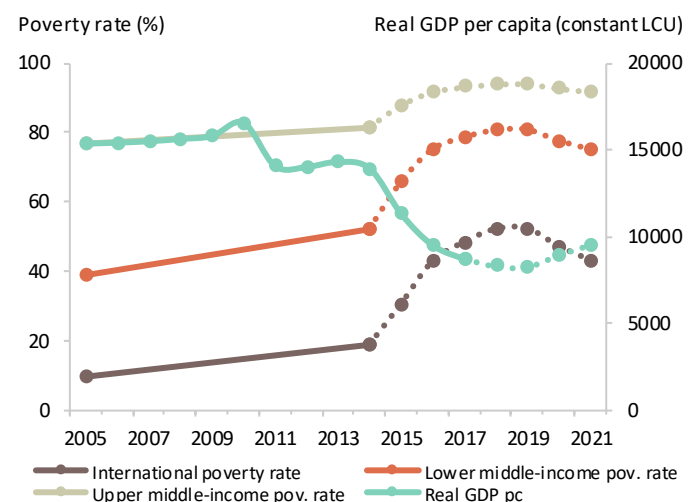
The humanitarian response continues to support the basic needs of a significant share of the population in difficult circumstances. There are approximately 153

FIGURE 1 Republic of Yemen / Public finances



Sources: Government of Yemen, IMF and World Bank staff calculations.

FIGURE 2 Republic of Yemen / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

humanitarian partners on the ground- 109 national non-governmental organization (NGO's) 36 NGO's, and 8 UN agencies. The World Bank supports the most vulnerable groups with approximately US\$1.3 billion through six large emergency operations providing critical health and other services, complementary income opportunities, and cash transfers. However, coverage by humanitarian partners is not uniform across the country, where only 200 out of 333 districts in the country are classified as "relatively accessible" by the humanitarian response. Out of the 22 million Yemenis targeted by the humanitarian response, 1.5 million live in districts with high access constraints. The deterioration of conditions has translated into a significant worsening of poverty. The share of the population living on less than US\$3.20 PPP per day (global poverty line for Yemen's former lower middle income status) has dramatically worsened since the conflict began, with projections suggesting over three-quarters of the entire population living below the poverty line. However, in addition to monetary poverty, all evidence suggests that households are experiencing many overlapping monetary and non-monetary deprivations. The lack of access to many basic services, food, widespread displacement, and insecurity has placed extraordinary stress on households.

Outlook

Economic prospects in 2019 and beyond will critically depend on stabilization of the political and security situation. If violence can be contained by mid-2019, GDP is projected to recover in the second half of the year with a double-digit growth rate. Much of the instability in macroeconomic indicators—rapidly growing government debt, accelerating inflation related to money printing for salaries, rapid depreciation of the exchange rate- will improve with an improvement in security, easing of import barriers, the restoration of government services, and a recovery of the private sector.

However, even in this scenario, little of the projected growth will translate into a substantial reduction of poverty. Rather, poverty is projected to remain high with over three-quarters of the population in 2019 living below US\$3.20 PPP a day, and approximately half of the population living below US\$1.90 PPP a day. Given the bleak outlook, massive foreign assistance would continue to be required to fund recovery and reconstruction in a post-conflict period. In particular, foreign assistance would be needed to help restore basic services and rebuild confidence in institutions.

Although the recent momentum for cessation of hostilities is promising, there is no definitive plan to achieve peace in the near future. Parties to the conflict engaged in peace talks for the first time in over two years in December in Sweden. However, continued conflict in the weeks after the Sweden consultations demonstrated the challenges in keeping the parties engaged.

Risks and challenges

The sharp increase in violence in Al Hudaydah in the past year, as well as the logistical problems caused by the further disruptions to the port, demonstrate that households in many regions of the country might have to continue to cope with conflict-related shocks well into medium-term, with buffers already depleted.

The massive social and economic disruption caused by the conflict poses a tremendous challenge for peace building. There are significant divisions amongst the population on issues related to regional autonomy, social exclusion, and grievances over the conflict could continue to affect the prospect of longstanding peace and could threaten the country's prospects for sustainable peace.

TABLE 2 Republic of Yemen / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	-13.6	-5.9	-2.7	2.1	10.0	8.5
Private Consumption	-5.3	0.0	-7.6	-1.5	0.1	9.4
Government Consumption	-26.9	-31.7	-4.1	5.3	12.6	14.9
Gross Fixed Capital Investment	-26.2	39.8	137.6	22.4	15.5	7.9
Exports, Goods and Services	-66.2	-3.8	25.1	-14.9	305.4	7.0
Imports, Goods and Services	-5.9	14.4	-9.2	-11.0	17.7	12.8
Real GDP growth, at constant factor prices	-14.3	-5.8	-2.7	2.1	11.5	8.4
Agriculture	-10.5	-6.6	-2.8	2.0	4.0	9.0
Industry	-23.5	-3.6	-2.3	2.3	31.9	7.1
Services	-10.5	-6.6	-2.8	2.0	4.0	9.0
Inflation (Consumer Price Index)	-12.6	24.7	41.8	20.0	7.5	5.0
Current Account Balance (% of GDP)	-2.8	-0.1	0.0	0.7	-1.9	-3.0
Net Foreign Direct Investment (% of GDP)	0.0	0.0	0.9	1.5	1.2	1.1
Fiscal Balance (% of GDP)	-8.4	-4.9	-4.4	-5.1	-5.5	-3.2
Debt (% of GDP)	68.0	76.4	63.3	54.7	42.8	36.6
Primary Balance (% of GDP)	-3.1	-4.7	-4.2	-4.9	-2.9	-2.0
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	42.6	48.2	51.9	52.1	47.0	43.1
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	75.0	78.5	80.6	80.8	77.6	75.2
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	91.8	93.2	94.0	94.1	92.8	91.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2014-HBS. Actual data: 2014. Nowcast: 2015-2018. Forecast are from 2019 to 2021.

(b) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.