REPUBLIC OF YEMEN

Table 1	2021
Population, million	30.5
GDP, current US$ billion	21.1
GDP per capita, current US$	690.4
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	66.1
Total GHG Emissions (mtCO2e)	22.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2019).

Economic conditions continue to deteriorate, and acute humanitarian crisis persists. The bifurcation of economic institutions by conflicting parties, and the uncoordinated policy decisions have further compounded the socio-economic crisis stemming from active conflict, now in its seventh year. Donor fatigue, soaring global commodity prices, and adverse climate conditions will continue to pose serious threat to the already dire socio-economic conditions.

Key conditions and challenges

After almost seven years of escalating conflict, Yemen continues to face an unprecedented humanitarian, social and economic crisis. Significant damage to vital public infrastructure has contributed to a disruption of basic services, while insecurity has delayed the rehabilitation of oil exports—which had been the largest source of foreign currency before the war—severely limiting government revenue and supply of foreign exchange for essential imports, including fuel. The bifurcation of national institutions between the conflicting parties—the internationally recognized government (IRG) based in Aden and de-facto authorities in Sana'a—and uncoordinated policy decisions have further compounded the economic crisis and humanitarian suffering from violence.

Reliable information on the economy is absent, as official statistics are no longer produced. Yemen's economy is largely informal and relies on remittances and aid inflows to fund consumption. Agriculture dominates the real economy (after the collapse of the oil sector) but suffers from an increasing frequency of climate- and pest-related disruptive events.

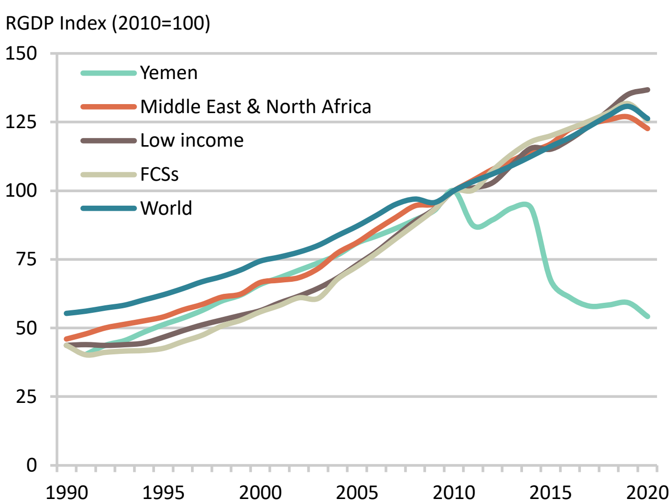
The social conditions are precarious, with the UN estimating more than 24 million people (some 80 percent of the population) in need of humanitarian assistance. With only 50 per cent of Yemen's health facilities functional, the COVID-19 pandemic placed additional pressure on the country's already fragile health system. Vaccination efforts are underway, but so far only two per cent of the population has been vaccinated.

Recent developments

Available information suggests that the Yemeni economy continued to weaken in 2021, affected by macroeconomic instability (especially in southern governorates), escalating hostilities, and heavy rains and flooding, which damaged shelters and infrastructure, destroyed livelihood, and facilitated the spread of diseases such as cholera. The volume of oil production remained significantly below the pre-conflict levels, notwithstanding slight improvements in recent years. Non-oil economic activity continues to suffer from hostilities, interruption of basic services (electricity, telecommunications), and acute shortages of inputs, which were compounded by double taxation and distortions created by uncoordinated policy decisions by the two authorities.

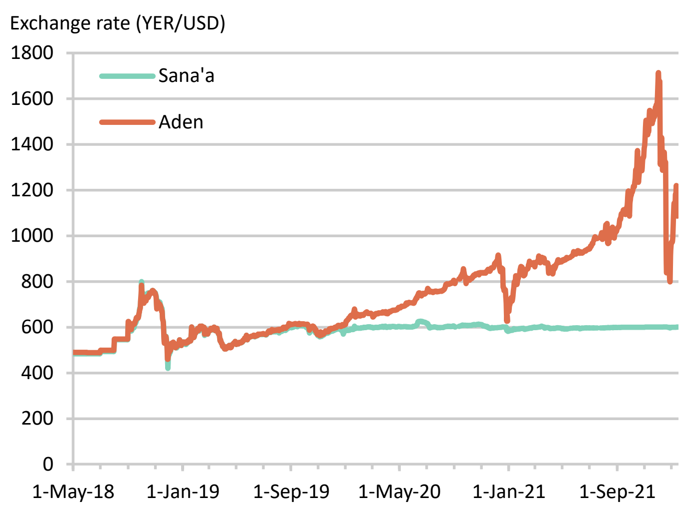
Yemen's public finances remain under severe stress. During 2021, continued monetization of the fiscal deficit in the IRG and STC-controlled areas, coupled with rising global commodity prices, fueled inflation and put a significant downward pressure on the currency in the southern governorates. The suspension of external

FIGURE 1 Republic of Yemen / Real GDP (indexed): Yemen and comparators



Source: MFMod, World Bank.

FIGURE 2 Republic of Yemen / Exchange rate trend: Yemen (Sana'a and Aden)



Sources: IMF and Central Bank of Yemen.

public debt services remained in place except for payments to IDA and IMF. Fiscal policy by the de facto authorities in Sana'a, the country's main commercial and financial center, is operating under a cash budget system. Given the lack of hydrocarbon revenue, the scale of fiscal policy in Sana'a is smaller and mostly depends on revenue from corporate profit tax.

Competing monetary policies by the two conflicting authorities have resulted in a large divergence of the exchange rate of the Yemeni rial. In the southern governorates, the rial depreciated by over 100 percent against the US dollar by early December 2021 (y-o-y). The introduction of a foreign exchange auction mechanism – since mid-November 2021 – coupled with the appointment of new central bank management in Aden on December 6, 2021, contributed to reverse the falling trend, allowing the rial to stabilize since January 2022. The sentiment also improved on account of the expected conversion of (at least part) of the recent IMF SDRs allocation to Yemen, which is expected to take place shortly. In the northern governorate, the exchange rate against the US dollar has remained relatively stable in the absence of monetary expansion, as a result of cash budgeting and a ban on the use of new banknotes printed after 2016.

Sharp depreciation and soring global food prices substantially strained the humanitarian crisis from an already dire situation. Importantly, food access is materially worse in the southern governorates, where the rial plunged substantially during most of the 2021.

The economic consequences of the Russian invasion, war and associated sanctions, on Yemen are expected to be broadly negative. In the short term, reduced imports of key commodities, on account of a supply side shock, and—over both the short and medium term—increased oil and food prices, will weigh heavily on the trade balance, inflation, and household consumption. The negative effects will be partially offset by some improvements on the fiscal front and on remittances—on account of higher global crude oil price (which Yemen exports). Millions may face severe food consumption gaps due to rapidly increasing levels of need, which could turn an already dire food crisis into a catastrophe, if assistance is not scaled up.

Outlook

Economic and social prospects in 2022 and beyond are highly uncertain and hinge critically on a resolution of the conflict and the overall security conditions. In this context, the flare-up of conflict, coupled with surging international oil prices, would be detrimental to the private sector's operational environment. On the upside, robust growth in GCC countries driven by rising global energy prices may boost remittance flows to Yemen. Revenue generation in Yemen as a whole will continue to be deeply challenged by an extremely low tax base. Trade will continue to be negatively affected by blockages of shipment offloading, infrastructural damages to the port facilities, and pervasive shortage of foreign exchange. Risks to the socio-economic outlook are related to potential economic sanctions by the US, elevated cost of wheat imports, and a decaying oil tanker in the Red Sea. The latter could cause lasting environmental and economic damages, by affecting one of the world's richest and most biodiverse marine ecosystems in the Red Sea, with long-term implications for Yemen's fisheries and shipping sectors.

TABLE 2 Republic of Yemen / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f
Real GDP growth, at constant market prices	1.4	-8.5	-2.1	0.8	2.5
Inflation (Consumer Price Index)[a]	10.0	35.0	85.1	31.7	15.0
Current Account Balance (% of GDP)	-3.9	-6.9	-3.0	-9.3	-9.0
Fiscal Balance (% of GDP)	-5.6	-5.2	-4.9	-5.5	-5.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
a/ Inflation rates refer to end-of-period figures.