

REPUBLIC OF YEMEN

Yemen's economy contracted again in 2025 amid persistent conflict, institutional fragmentation, and blocked oil exports. CBY-Aden interventions have stabilized the exchange rate, but vulnerabilities remain. Humanitarian needs remain severe, with 23.1 million people expected to require assistance in 2026. The new IRG Cabinet's reform commitments in early 2026 offer a window of opportunity for economic recovery, but the conflict in the Middle East poses acute downward risks.

Key conditions and challenges

Yemen's economic crisis reflects a decade of conflict and institutional fragmentation. Since 2015, real GDP per capita has declined by nearly 60 percent. The country now operates as two economic zones: areas under Houthi control host about 70 percent of the population, while hydrocarbon-rich areas are under the Internationally Recognized Government (IRG). Oil production remains constrained by the export blockade in place since October 2022, limited investment, and ongoing insecurity. Non-oil sectors face significant constraints, including limited access to finance, disrupted supply chains, overlapping tax regimes, weak governance, and regulatory distortions.

Food insecurity remains severe and in 2025 reached its highest level on record. According to the World Food Programme (WFP), the share of households facing inadequate food consumption fell from 70 percent in July 2025 to 64 percent in December, following a reduction in the minimum food basket cost in IRG-controlled areas starting from August. In

Population ¹ million	Poverty
41.8	..
Life expectancy at birth ² years	School enrollment ³ primary (% gross)
69.3	77.0
GDP ⁴ current US\$, billion	GDP per capita ⁵ current US\$
19.6	468.4

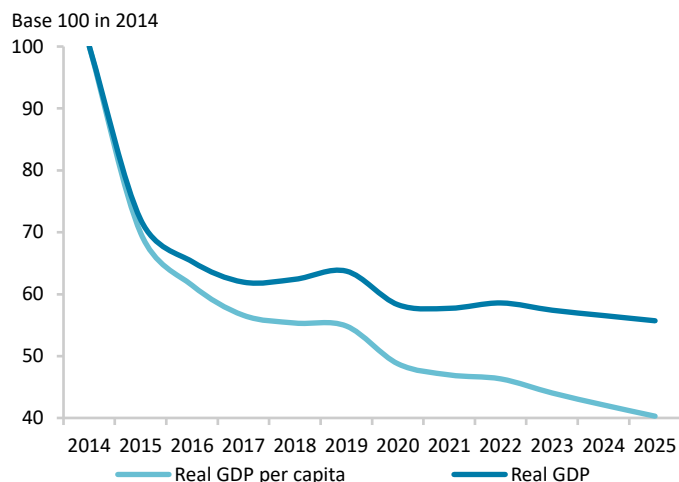
Sources: WDI, MFM0d, and official data. 1/ 2025. 2/ 2023. 3/ 2016. 4/ 2025. 5/ 2025.

January 2026, the Famine Early Warning Systems Network ranked Yemen among the most food-insecure countries globally. These outcomes reflect income losses from conflict and climate hazards, combined with reduced humanitarian assistance—particularly in Houthi-controlled areas. Model-based estimates indicate that nearly three-quarters of the population live below the monetary poverty line.

Recent developments

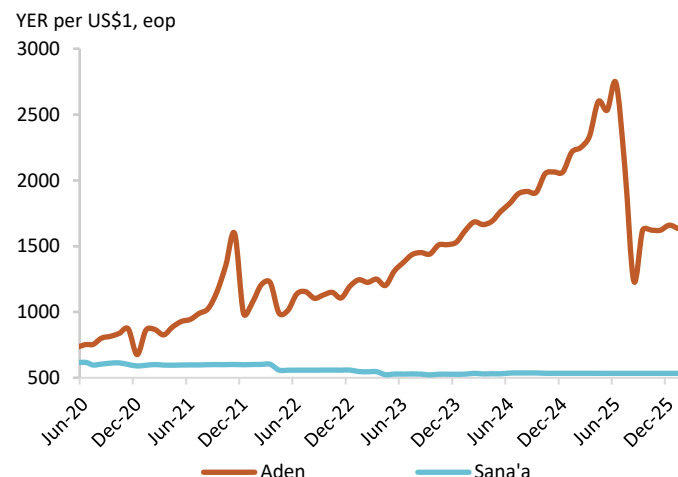
National real GDP contracted for a third consecutive year in 2025, falling by 1.5 percent. Oil activity remained stagnant under the export blockade, while the non-oil economy stayed under strain from a weak business environment and tight liquidity. In IRG-controlled areas, inflation averaged roughly 20 percent, eroding household purchasing power; in Houthi-controlled areas, damage to Hodeidah port constrained imports and market supply. Humanitarian financing also deteriorated: WFP suspended operations in Houthi-controlled areas in August 2025 following the detention of United Nations (UN) staff,

FIGURE 1 / Real GDP and real GDP per capita



Source: World Bank.

FIGURE 2 / Exchange rate trend: Sana'a and Aden



Sources: Telegram Exchange Market Group and World Bank.

and the UN's 2025 response plan was only 28.4 percent funded, down from 56.5 percent in 2024.

The IRG's fiscal position deteriorated further in 2025. Revenues fell to 5.6 percent of GDP from 8.6 percent in 2024, largely driven by a drop in grants—from 3.6 to 0.8 percent of GDP—as Saudi support tapered prior to recovering again in early 2026. Expenditures were compressed to 6.1 percent of GDP, disrupting service delivery, while capital spending was nearly suppressed at 0.2 percent of GDP. The fiscal deficit nonetheless remained contained at 0.5 percent of GDP.

Monetary and financial fragmentation persisted. In August 2025, the Yemeni rial (YER) in Aden appreciated sharply—from YER 2,905 per US\$1 in mid-July to about YER 1,600—and has since stabilized. This reflects Central Bank of Yemen (CBY) in Aden measures including caps on foreign-currency access, a ban on using foreign currency in local transactions, and license revocations for exchange houses suspected of manipulation. The National Committee for the Regulation and Financing of Imports (NCRFI) continued prioritizing foreign exchange for essential goods, while Saudi financial support announcements helped anchor confidence. Sustaining these gains will require adequate reserves and disciplined fiscal policy. For now, the underlying fundamentals—remittances, exports, and aid—remain fragile. In Houthi-controlled areas, the rial has been held near YER 535 per USD through constrained money supply, enforced official rates, and price controls. The local economy remains largely cash-based, liquidity shortages are intensifying, and financial institutions are increasingly relocating from Sana'a to Aden amid elevated sanctions risk following the U.S. Foreign Terrorist Organization redesignation of the Houthi movement.

External imbalances narrowed but remained substantial. Yemen's current account deficit is estimated at 14.7 percent of GDP in 2025, down from 26.6 percent in 2024, driven primarily by import compression in Houthi-controlled areas rather than exported improvement. Gross foreign exchange reserves were about US\$1.2 billion—roughly one month of import coverage.

Outlook

Economic prospects for 2026 remain subdued. With IRG oil exports still blocked and institutional fragmentation persisting, public finances and the external position are expected to remain under strain, even as revenue recover due to the IRG's mobilization efforts and increased Saudi grants. As a net oil and food importer, Yemen is particularly vulnerable to spillovers from the conflict in the Middle East: rising global energy and food prices are projected to weigh on the import bill, fiscal balance, and household purchasing power—compounding already severe levels of food insecurity. Exchange rate stability in Aden will depend on continued enforcement of money exchange regulations and sustained external inflows supporting foreign exchange availability. Acute liquidity constraints, particularly in Houthi-controlled areas, will continue to suppress consumption and private sector activity. National real GDP is projected to contract by 0.5 percent in 2026.

Downside risks are elevated. Direct Houthi involvement in the conflict in the Middle East could lead to critical infrastructure damage and widen the gap between humanitarian needs and available financing. Further increases in global energy prices could amplify inflationary pressures, deepening food insecurity, particularly among the most vulnerable households. Prolonged conflict could also disrupt remittance flows—especially from Gulf countries—while aid diversion represents an additional risk. Domestic frictions could deepen monetary and financial fragmentation. Humanitarian operations are unlikely to return to previous levels given funding shortfalls and operational constraints in Houthi-controlled areas, heightening the likelihood that poverty and vulnerability remain widespread absent de-escalation.

Even so, the new IRG Cabinet's reform commitments in early 2026 offer a window of opportunity—but this requires concrete follow-through and sustained donor support. If the new cabinet prioritizes development and macroeconomic stabilization, livelihoods and living conditions could improve. Ultimately, the country's prospects hinge on progress toward national peace, reconstruction, and institutional reforms to restore confidence and reignite growth.

Recent history and projections

	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices¹	-2.0	-1.5	-1.5	-0.5	1.6
Inflation (consumer price index)^{2, 3}	0.9	33.9	20.0	10.6	7.5
Current account balance (% of GDP)¹	-20.4	-26.6	-14.7	-16.5	-16.4
Fiscal balance (% of GDP)³	-3.7	0.2	-0.5	-0.7	-0.3
Revenues (% of GDP)³	7.2	8.6	5.6	7.9	9.7

Source: World Bank, Fiscal Policy & Growth Department. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ National coverage.

2/ Inflation rates refer to end-of-period figures.

3/ Data for IRG-controlled areas only.