

REPUBLIC OF YEMEN

Table 1 **2023**

Population, million	34.4
GDP, current US\$ billion	18.4
GDP per capita, current US\$	533.4
School enrollment, primary (% gross) ^a	83.9
Life expectancy at birth, years ^a	63.8
Total GHG emissions (mtCO2e)	22.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2016); Life expectancy (2021).

Amid the blockade of the IRG's oil exports by the Houthis and conflict in the Middle East, Yemen navigates between glimpses of hope and a grim reality. The national economic rebound in 2022 was short-lived, with 2023 witnessing a sharp 24 percent decline in GDP per capita. Consequently, widespread poverty and food insecurity are estimated to have intensified. The outlook remains uncertain, due to stalled peace negotiations and regional conflict. While the IRG faces mounting external financing needs, hopes for the future hinge on conflict resolution, timely support from partners, and government's reforms.

Key conditions and challenges

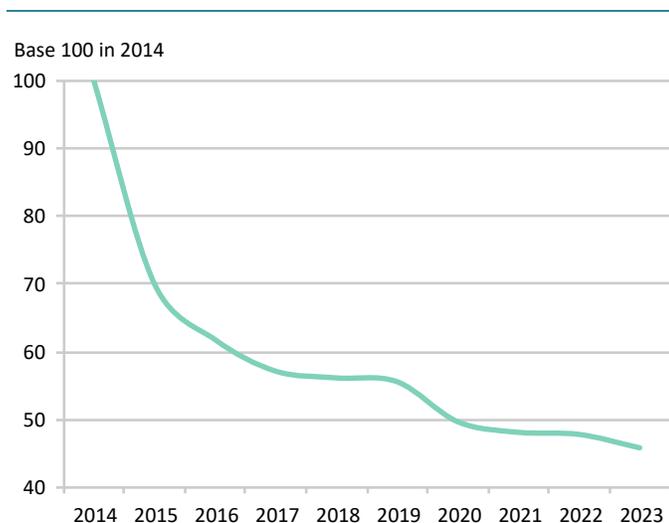
Yemen's humanitarian crisis is deeply rooted in its conflict and complex, highly fragmented political and economic landscape. Between 2015 and 2023, the country has experienced a staggering 54 percent contraction in real GDP per capita, resulting in most Yemenis living in poverty and 17 million facing food insecurity, as evidenced by the 2022 Integrated Food Security Phase Classification (IPC). Moreover, the conflict has intensified the country's fragmentation into two distinct economic zones, each governed by its unique set of institutions (including two central banks with their respective currencies) and policies, resulting in increasing disparities. The Northern areas, under Houthi control, are home to some 70 percent of the population while the Southern areas, governed by the Internationally Recognized Government (IRG), hold the country's oil and gas resources. The economy has further deteriorated since the expiration of the truce in late 2022. During 2022, the economy showed signs of improvement, supported by a UN-brokered truce that brought a glimmer of hope, albeit without the parties reaching a permanent political settlement. The truce expired in October 2022, and although an informal truce remained in place, the situation worsened due to a Houthi-imposed blockade on IRG's oil exports. This ongoing blockade dramatically

impacted national growth in 2023 and exacerbated IRG's fiscal and monetary challenges. Since October 2023, the escalation of the conflict in the Middle East and in the Red Sea, intensified by direct Houthi involvement, further compromises the already precarious economic and social conditions of the Yemeni people.

Furthermore, Yemen continues to face deep structural challenges. The key oil sector has suffered from years of lack of investments, maintenance, and inability to retain or attract foreign investment. The non-oil sector is severely constrained by physical barriers to domestic trade and logistics, interruptions in essential service delivery, acute input shortages, pervasive double taxation, and uncoordinated policies. Additionally, Yemenis remain vulnerable to volatility in remittances and aid flows, a key lifeline, as well as climate change impacts on agriculture and water resources.

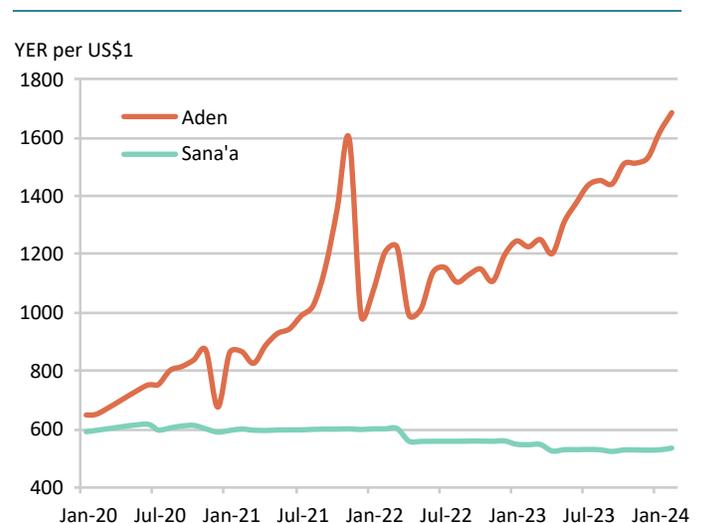
Living conditions are dire for most Yemeni people due to inadequate food security, limited dietary diversity, and access to health and education, as well as basic services. While some households, especially the better-off, can sell assets or tap into remaining savings to navigate shortages, due to widespread poverty and food insecurity, many households have exhausted these typical coping mechanisms. Consequently, they turn to last-resort strategies, including child labor or engaging in high-risk work, with enduring destructive effects on safety, physical and mental health, and family and social fabric. Children are most vulnerable and disproportionately affected by these challenges, suffering

FIGURE 1 Republic of Yemen / Real GDP per capita



Sources: World Bank and IMF staff calculations.

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



Sources: Telegram Exchange Market Group and World Bank staff calculations.

from some of the highest levels of stunting and being underweight.

Recent developments

The Houthis blockade on IRG's oil exports and heightened tensions significantly impacted Yemen's economy in 2023. Overall, national GDP is estimated to have contracted by 2.0 percent in real terms in 2023, following a rebound of 1.5 percent in 2022 but the dollar GDP per capita decline was much deeper, as noted above. The Houthi blockade on IRG's oil exports resulted in a notable decrease in oil production, from an estimated 51.4 thousand barrels a day in 2022 to 17.0 thousand in 2023. Additionally, heightened uncertainties, hostile actions, and protests further stifled activity in the non-oil sector.

The fiscal situation of the IRG has deteriorated. According to the Ministry of Finance in Aden, IRG's fiscal revenues declined by over 30 percent in 2023, primarily oil and customs revenues. The pledged budgetary support from Saudi Arabia, totaling US\$1.2 billion, with an initial disbursement of US\$250 million in August 2023 (followed by a second disbursement in early 2024), helped alleviate some of the financial pressures, particularly in funding public sector wages. However, despite measures such as reducing subsidies and expenditures on goods and services, the IRG's fiscal deficit is estimated to have widened from 2.7 percent in 2022 to around 4.0 percent of GDP in 2023.

Additionally, the complete halt in IRG's oil exports has intensified external pressures and led to the further depreciation of the Yemeni Rial in the Aden market

(YER). In 2023, the country's current account deficit widened to 19 percent of GDP, mainly due to the halt in IRG's oil exports. This resulted in pressures on liquid international foreign exchange reserves, as reported by CBY-Aden, and a notable depreciation of the YER in the Aden market to YER 1,620 per US dollar by the end of January 2024 (from 1,114 in 2022), reflecting levels last observed at the end of 2021. However, despite the currency depreciation in the Aden market, with the deeply depressed national economy, consumer prices in Yemen declined on average by 1.5 percent during 2023, also due to a drop in global commodity prices.

Outlook

The macroeconomic outlook for Yemen is clouded by the regional conflict and escalating tensions in the Red Sea. As a result, the resumption of IRG's oil exports in 2024 is now unlikely due to the slowdown in peace negotiations amid the conflict, resulting in a downward revision of growth projections. Also, maritime traffic along the Red Sea route has decreased by 30 percent since mid-December, disrupting broader trade flows. While Yemen's imports and prices have so far shown relative stability, with continued conflict, there are increasing risks of supply shortages and rising import costs due to reduced and more costly imports, increased shipping expenses, including due to rising war premiums and insurance costs. Furthermore, the sanctions imposed on the Houthis by the US administration in February 2024 could have extensive repercussions across various sectors, including the banking, aid,

and remittances. These developments are expected to significantly impact the economic situation in Yemen, with another projected contraction of 1.0 percent in real GDP in 2024 and further fiscal and monetary pressures on the IRG. Any disruptions to humanitarian aid, essential imports, remittances, and sources of livelihood will exacerbate Yemen's economic and social conditions, particularly in a society plagued by widespread poverty, deprivation, and food shortages. The risks regarding food insecurity are alarming, exacerbated by the suspension of aid and food distribution by the World Food Program (WFP) in Houthi-controlled areas. The conflict has already inflicted profound and far-reaching economic, social, and humanitarian consequences on Yemen.

Although risks continue to lean towards the downside, Yemen holds a significant opportunity for peace dividends if the conflict is resolved. The country stands at a pivotal moment in its development trajectory. While heightened domestic and regional tensions pose significant risks to its economic, social, and humanitarian situation, the attainment of a lasting truce or peace agreement holds the promise of rapid economic recovery. With strong external financial assistance and reconstruction efforts supported by Yemen's development partners, along with post-conflict reform, the country could achieve accelerated growth within a short timeframe. In such a favorable scenario, growth would be expected to be driven by a swift rebound in domestic transportation, trade, financial inflows, and reconstruction. Such efforts are essential for overcoming the current crisis and laying the foundations for a unified and prosperous future for all Yemenis.

TABLE 2 Republic of Yemen / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-1.0	1.5	-2.0	-1.0	1.5
Inflation (consumer price index)^a	31.5	29.5	-1.5	14.2	17.3
Current account balance (% of GDP)	-13.8	-17.8	-19.3	-24.5	-22.9
Net foreign direct investment inflow (% of GDP)	3.2	0.9	-0.4	0.4	0.2
Fiscal balance (% of GDP)	-0.9	-2.7	-3.9	-3.4	-3.5
Revenues (% of GDP)	7.3	9.5	6.9	7.0	7.3

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

Notes: e = estimate, f = forecast.

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