

REPUBLIC OF YEMEN

Recent developments

Table 1 **2018**

Population, million	29.0
GDP, current US\$ billion	27.6
International poverty rate (\$ 19) ^a	18.8
Lower middle-income poverty rate (\$3.2) ^a	52.2
National poverty rate ^a	48.6
Gini index ^a	36.7
School enrollment, primary (% gross) ^b	92.4
Life expectancy at birth, years ^c	66.0

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

- (a) Most recent value (2014), 2011 PPPs.
- (b) Most recent WDI value (2016).
- (c) Most recent WDI value (2017).

Violent conflict has crippled Yemen's economy and created a humanitarian crisis. While there have been signs of remission of macroeconomic crisis since late 2018, the humanitarian conditions remain dire, with approximately three-quarters of the entire population in need of food aid and other forms of assistance, according to the UN estimates. Yemen's socio-economic outlook depends critically on a cessation of hostilities and a renewed political vision for the country.

Violent conflict in Yemen has severely disrupted economic activity and hydrocarbon exports, along with significant damage to infrastructure and a wide suspension of basic public services. The loss of oil receipts has created an acute foreign exchange shortage, while government revenue has plummeted. This, coupled with the fragmentation of state institutions, including the Central Bank of Yemen (CBY), has interrupted supply of foreign exchange for essential imports and payment of public sector salaries, fueling inflation and exacerbating the humanitarian crisis.

In late 2018, however, Yemen's economy began to show signs of stabilization, supported by balance of payments assistance from the Kingdom of Saudi Arabia and a gradual recovery of oil and gas production, which came to a near halt when the conflict broke out in March 2015. Available information suggests that GDP growth turned into positive territory in 2018, arresting a cumulative output contraction of over 40 percent during 2014-17. Nevertheless, oil production, albeit increasing, remains significantly below the pre-conflict levels, while protracted hostilities and widespread destruction of infrastructure continue to interrupt economic activity, leaving many Yemenis without a regular source of income.

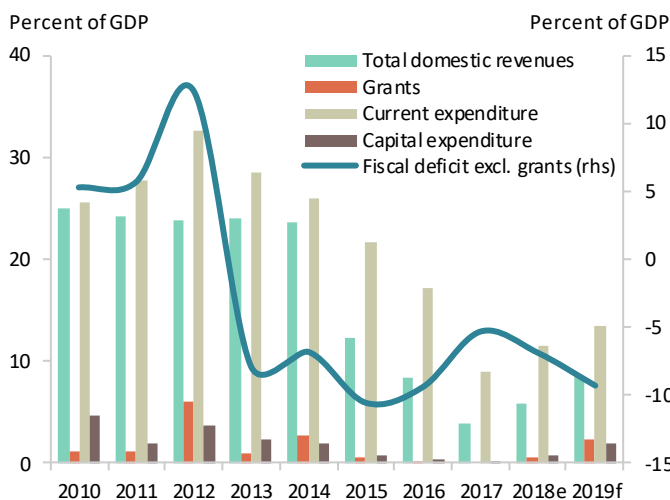
Progress in fiscal management 2019 has also contributed to the improvement of macroeconomic conditions. For the first

time since 2014, the government prepared a budget and made a commitment to resume pension and salary payments to all civil servants, including teachers and healthcare workers, throughout the country. This is an important step with potential to restore household purchasing power, prevent further deprivation of service delivery, and, given the size of public sector in the economy, ease liquidity crisis and inflationary pressures. While payments are already being made to all pensioners, not all civil servants have received salaries. Payment to about 25 percent of workers have been delayed due to revenue shortfalls. With still muted oil revenue, the government would likely be constrained to pursue its ambitious spending plan, while protecting salary payments to all civil servants. Fragmented conflict environment and political instability also pose a major challenge to the execution of capital expenditure.

Surging inflation was curtailed as the US\$2 billion Saudi Arabian deposit, oil grant, and increasing oil export receipts have allowed the CBY to supply foreign currency to finance essential imports. Increased foreign reserves have also helped to stabilize the exchange rate. Albeit depreciating incrementally, the Yemeni rial is trading broadly in line with the inflation path. The CBY's new measure to offer subsidized exchange rate for essential food imports has also helped to stabilize the exchange rate. Yet the Saudi Arabian deposit, which funded this arrangement, is soon being exhausted.

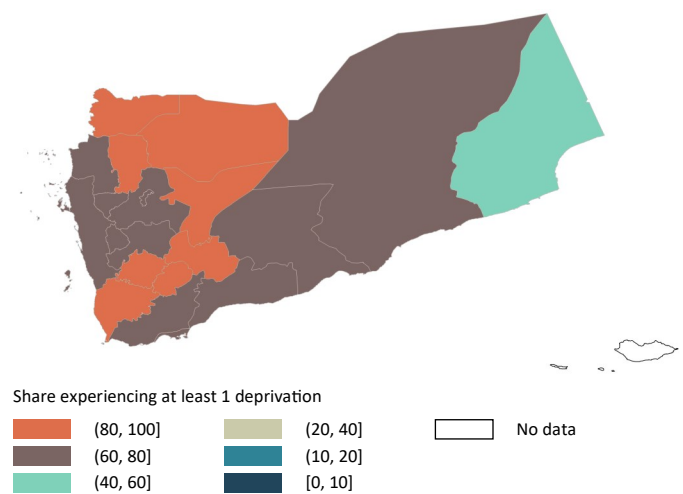
Improving macroeconomic conditions have not yet translated into the mitigation

FIGURE 1 Republic of Yemen / Public finances



Sources: Yemen authorities, IMF, World Bank.

FIGURE 2 Republic of Yemen / Household suffering deprivation (July 2019)



Source: World Food Program.

of poverty and human suffering. About 20 million people in Yemen are facing severe and acute food insecurity, and nearly 5 million people are either experiencing famine-like conditions or famine. Recent surveys by the World Food Program suggest that the share of households suffering any deprivation in basic services is nearly 90 percent, and for a number of governorates, nearly every single respondent reported to suffering from at least one deprivation. Broken sanitation systems and difficulties in accessing safe drinking water are contributing to the spread of cholera in 2019, further complicating the already dire humanitarian situation in Yemen.

Outlook

Economic prospects in 2019 and beyond are uncertain and depend critically on the

political and security situation. The generally improving macroeconomic conditions are under renewed stress because of the surge in violence in the interim capital Aden. If reconciliation efforts in the south succeed, macroeconomic improvement can continue in the latter half of 2019, underpinned by the gradual increase in hydrocarbon production and continued salary payments to public sector employees. The economy could grow by 2-2.5 percent a year over the next 2 years, far below rates needed for reconstruction or to address human development challenges. Inflation would continue to moderate, if donor support could help prevent monetization of fiscal deficits, and the availability of foreign exchange and security situations (especially in the largest seaports in Hodeidah) allow for imports of food and other essential commodities. As the Saudi Arabian deposit is projected to be exhausted by

end-2019, mobilization of additional external assistance would be critical to support adequate imports of basic items and maintain macroeconomic stability.

Risks and challenges

There are concerns that the recent political and security instability in Aden could affect the functioning of state institutions based in the city, including those tasked for economic management – which are already fragmented by their disconnect from Sana'a. The operating environment for the recognized government and development partners in the immediate future remains unclear. Further deterioration in the security condition in Aden could disrupt policy decisions and implementations, potentially reversing good progress made in recent months.

TABLE 2 Republic of Yemen / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2016	2017	2018	2019 e
Real GDP growth, at constant market prices	-9.4	-5.1	0.8	2.1
Private Consumption	0.1	1.3	-3.2	-1.0
Government Consumption	-26.7	-31.7	15.1	9.9
Gross Fixed Capital Investment	-24.8	37.6	174.9	44.2
Exports, Goods and Services	-67.5	4.4	34.9	25.5
Imports, Goods and Services	-5.2	15.3	5.3	4.4
Real GDP growth, at constant factor prices	-10.2	-4.9	0.9	2.1
Agriculture	-5.6	-5.7	0.7	2.0
Industry	-21.2	-2.5	1.3	8.4
Services	-5.6	-5.7	0.7	-1.5
Inflation (Consumer Price Index)	21.3	30.4	27.6	14.7
Current Account Balance (% of GDP)	-3.2	-0.2	-1.8	-4.2
Fiscal Balance (% of GDP)^a	-9.3	-5.3	-6.3	-6.8

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

Notes: e = estimate, f = forecast.

(a) Fiscal Balance is on cash basis.