# REPUBLIC OF YEMEN

| Table 1 | 2019 |
|---|---|
| Population, million | 29.6 |
| GDP, current US$ billion | 29.9 |
| International poverty rate ($1.9)[a] | 18.8 |
| Lower middle-income poverty rate ($3.2)[a] | 52.2 |
| National poverty rate[a] | 48.6 |
| Gini index[a] | 36.7 |
| Life expectancy at birth, years[b] | 66.1 |

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2017).

*An unprecedented humanitarian crisis persists, leaving many Yemenis dependent on humanitarian assistance and remittances, while economic activity continues to be hindered by distortions created by the fragmented state institutions. In view of dwindling foreign reserves and the lack of stable sources of hard currency, the Yemeni rial is vulnerable to downward pressures with profound humanitarian implications. The country's ability to cope with the spread of COVID-19 is limited given the weakened public health systems and fiscal space.*

## Recent developments

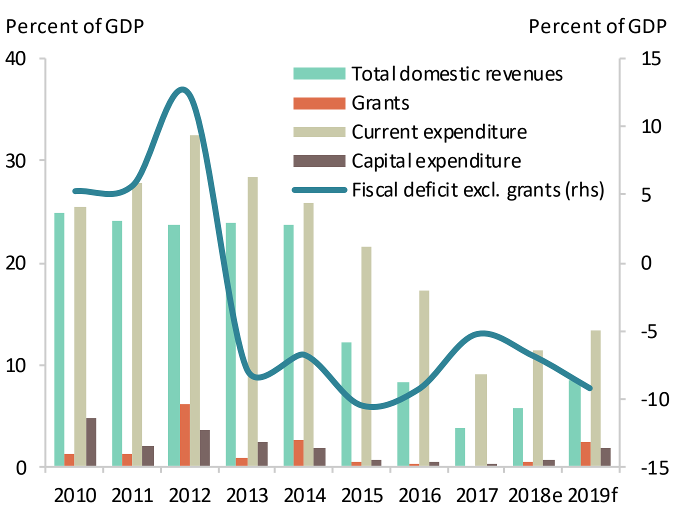
After almost five years of escalating conflict, Yemen continues to face an unprecedented humanitarian, social and economic crisis. Significant damage to vital public infrastructure has contributed to a disruption of basic services, while insecurity has delayed the rehabilitation of oil exports—which had been the largest source of foreign currency before the war—severely limiting government revenue and supply of foreign exchange for essential imports. The bifurcation of national capacity, including the Central Bank of Yemen (CBY), between the conflicting parties, and ad hoc policy decisions by them further compound the economic crisis and humanitarian suffering from violence.

Relative macroeconomic stability continued throughout 2019, supported mainly by balance of payments assistance from the Kingdom of Saudi Arabia (KSA). Available information suggests that the economy may have grown for the second year in a row, underpinned by reduced macroeconomic volatility and a continued recovery of oil production and exports, after a contraction of over 40 percent during 2014-17. However, oil exports remained significantly below the pre-conflict levels and a much-anticipated resumption of gas exports did not materialize in 2019 due to insecurity and repeated sabotages against critical infrastructure. Non-oil economic activity remained subdued, impaired by protracted hostilities, widespread destruction of infrastructure, interruption of basic services, and acute shortages of inputs, which were compounded by double taxation and economic distortions driven by uncoordinated policy decisions by the two authorities.

Significant pressure on public finances persisted in 2019. Despite the gradual recovery of oil exports, in Aden, government revenue in 2019 was far below what was needed to execute the ambitious State Budget, prepared for the first time since 2014. The significant revenue shortfall forced the Government in Aden to drastically cut expenditure, limiting the payment of salaries and pensions largely to recipients in areas under their control. The commitment to regular civil service salary and pension payments across the country was not fulfilled. The suspension of external public debt service remained in place except for payments to IDA. Preliminary estimates suggest that the fiscal deficit (cash basis) in 2019 was smaller than expected due to the sharp expenditure compression. The bulk of the deficit was monetized. Public finances by the *de facto* authorities in Sana'a, the country's main commercial and financial center, are operating under the cash budget system. Given the lack of hydrocarbon revenue, the scale of fiscal policy in Sana'a is smaller and depends on revenue from corporate profit tax.

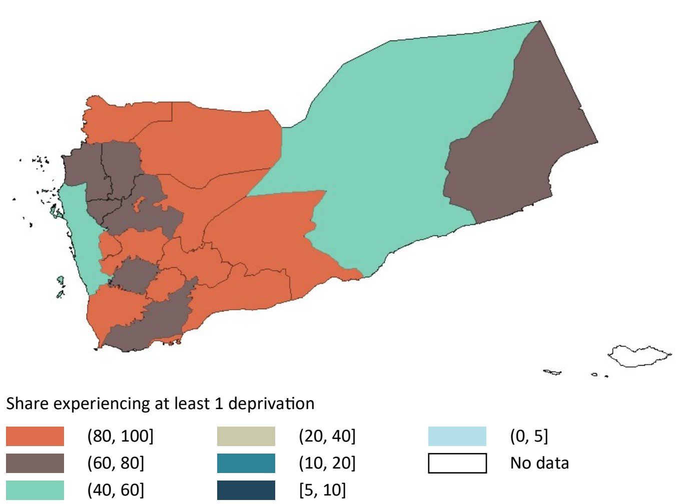
Inflation was largely contained during 2019 as the US$2 billion KSA deposit and oil export receipts allowed the CBY in Aden to supply foreign exchange for the import of essential commodities and sterilize the large-scale monetization of the fiscal deficit. The Yemeni rial was broadly stable on the parallel market until late

**FIGURE 1 Republic of Yemen** / Public finances




Sources: Yemen authorities, IMF, World Bank.

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




Source: World Food Program.

2019, when conflict over monetary control by the rival authorities escalated. In mid-December, citing the inflationary impact of money creation by the CBY in Aden, the de facto authorities in Sana'a announced a complete ban on the use of the new edition of banknotes, printed after September 2016 when the CBY headquarters moved to Aden, deepening the divisions in the financial sector and economic distortion. Market reaction to the banknote ban has seen increased speculation on the price of the old banknotes against the new, which led to diverging exchange rates between the areas controlled by two different authorities, causing a sharp increase in domestic financial transfer fees between the two areas, and adding further strains to businesses and households.

The poverty situation remains very difficult. Reduced macroeconomic volatility in 2019 does not appear to have eased Yemeni's living conditions significantly. Along with the lack of adequate financial resources, the disruption of basic services, widespread displacement, and violence has placed an extraordinary amount of stress on households that cannot be completely summarized by monetary poverty alone. Estimates from WFP surveys suggest that the share of households suffering any deprivation in basic services was approximately 80 percent in December 2019, and for a number of governorates, nearly every single respondent reported to suffering from at least one deprivation. The recent escalation of violence raises deep concerns about the deterioration of the humanitarian situation.

# Outlook

Economic and social prospects in 2020 and beyond are uncertain and hinge critically on the political and security situations. Affordability of food is a rapidly emerging threat to household welfare, as pre-existing global food price increases and rial depreciation is now interacting with COVID-19 related trade restrictions by food exporters. Yemen's import dependence is exacerbated by the impact of desert locusts on the cropping season.

A cessation of the ongoing violence and eventual political reconciliation, including the reintegration of vital state institutions, would improve the operational environment for the private sector, facilitating the reconstruction of the economy and rebuilding of social fabric. Recovery of the hydrocarbon sector would accelerate, giving a major boost to government revenue and foreign reserves and supporting macroeconomic stability.

# Risks and challenges

Yemen continues to face significant risks of renewed macroeconomic volatility. Without stable sources of foreign exchange, the Yemeni rial is vulnerable to downward pressures. KSA's deposit, which financed essential imports, is close to depletion and increased hydrocarbon exports are highly uncertain due to the bleak outlook of the global oil market, and the fragmented multiple exchange rate regimes. A further rial depreciation would immediately have a knock-on effect on the prices of imported commodities with dire economic and humanitarian consequences. A COVID-19 related global and regional economic slowdown may affect Yemen through reduced remittances from the GCC. However, as the country is a net importer of oil products, lower global oil prices would likely strengthen the trade balance. The net impact of COVID-19 would be uncertain but with already weakened public health systems and limited fiscal space, Yemen's official capacity to fight the spread of the virus is very limited.

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

| | 2017 | 2018 | 2019 e |
|---|---|---|---|
| **Real GDP growth, at constant market prices** | -5.1 | 0.8 | 2.1 |
| **Real GDP growth, at constant factor prices** | -5.8 | -2.7 | 2.1 |
| **Inflation (Consumer Price Index)** | 30.4 | 27.6 | 14.7 |
| **Current Account Balance (% of GDP)** | -0.2 | -1.8 | -4.2 |
| **Fiscal Balance, cash basis (% of GDP)** | -5.3 | -6.3 | -6.8 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

**The cut-off date for information in this MPO was April 02, 2020.**