

YEMEN

The conflict in Yemen has caused a dramatic deterioration of the economic and social conditions in the country. Output contracted sharply, driving household incomes downward. Important institutions like the Central Bank became dysfunctional in late 2016. Yemenis are facing a catastrophic humanitarian situation, massive displacement, and destruction of vital infrastructure. The UN recently launched a humanitarian appeal (US\$2.1 billion) for helping the 8 million Yemenis suffering from rising food insecurity.

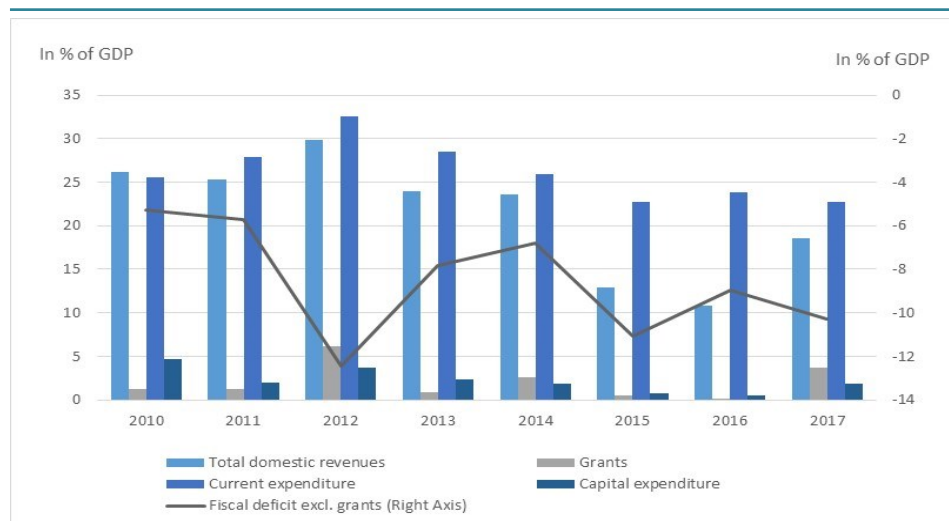
Recent developments

Official statistical reporting on Yemen is no longer available. However, the data gathered suggests that Yemen's GDP contracted since 2015 by about 40 percent, cumulatively. The country has effectively split into conflict zones. While the economy appears to have adjusted to the conflict mode, any positive economic impulse for 2017 can only originate from building peace in Yemen. The broadened conflict since March 2015 has led to widespread disruptions of economic activity and infrastructure. Oil and gas production and exports remain limited while production is being restored in Marib, the area influenced by the recognized government. Imports have greatly contracted since the Central Bank of Yemen (CBY) became dysfunctional in late 2016. Critical food and energy imports are facilitated exclusively through private channels without support from financial trade services offered earlier by the CBY. This is a particular challenge and creates uncertainty for supply of staple food, 90 percent of which has typically been imported. UNOCHA estimates a total of 8 million Yemenis in acute need of food. Annual inflation reached around 40 percent in 2015, and was contained in 2016 because of lack of fiscal resources which led to non-payment of public sector salaries and other arrears. Public finances are under severe stress. Public investment has come to a complete stop. The government suspended many public expenditure obligations during

2016 while trying to mainly meet wage and interest payment obligations, which reached up to more than 100 percent of total available revenues in 2016. As a result, since September 2016, salaries are paid at best partially and arrears towards suppliers and domestic as well as foreign creditors have been accumulating. Given the massive, evolving humanitarian needs in Yemen, the UN launched in February 2017 a Humanitarian Response Plan, which appeals for US\$2.1 billion. Many development partners engage in similar ways to support the UN. The World Bank is providing two large emergency and relief operations to Yemen, with a total of US\$450 million, supporting critical service delivery in the health sector, and providing employment and labor intensive infrastructure improvements in local communities.

The protracted conflict in Yemen is continuing to inflict a heavy toll on the population. Latest reports put human casualties at 48,000, which includes 7,500 fatalities as of the end of the year 2016. More than 2 million Yemenis remain forcibly displaced from their homes. Destruction of essential infrastructure, disruption of trade, commerce and supplies and the wholesale collapse of the service delivery apparatus has drastically deteriorated living conditions. More than half of the population is suffering from food shortages, and it is estimated that 3.3 million children and pregnant or lactating women are acutely malnourished, including 462,000 children under 5 suffering from severe acute malnutrition.

FIGURE 1 Yemen / Public Finances, in % of GDP



Sources: Yemen Statistical Organization, IMF and staff estimates.

Outlook

Economic and social prospects in 2017 and beyond will depend critically on rapid improvements on the political and security fronts, and ultimately whether an end to the on-going conflict will allow for rebuilding the economy, the productive sphere, and Yemen's social fabric. If peace is restored by mid-2017, the fiscal deficit is estimated to be halved, to 6 percent of GDP. Foreign financing can resume in the second half of the year (with emergency assistance estimated to reach 4 percent of GDP). At the same time, tax collection can pick up with the resumption of hydrocarbon production, with hydrocarbon tax revenues recovering to about 6 percent of GDP, of which two-thirds would be due to increased domestic energy consumption. Non-hydrocarbon tax revenues are estimated to reach about 8 percent of GDP in such a scenario. The outlook for revenue mobilization is unlikely to meet the financing needs of a recovery. Massive foreign assistance would be required for Yemen in a post-conflict period, to facilitate recovery and restore basic services and rebuild confidence, including in Yemen's institutions. It would be important to leverage such support, in parallel with

Yemeni efforts, to address some major drivers of conflict and build economic and social inclusiveness.

Risks and challenges

Yemen is facing enormous economic and social challenges. Restoring peace and political stability is critical to beginning reconstruction and addressing the country's deep-rooted governance, institutional, economic, social, and environmental challenges (including rapid depletion of ground water). Making peace sustainable in Yemen will require diversifying the economy, making employment more productive, designing fiscal and other policies that will support investment to create jobs and income for the many Yemenis who today only find a living by joining one or another militia or armed group.

TABLE 1 Yemen / Macro outlook indicators

(annual percent change unless indicated otherwise)

	2014	2015	2016 e	2017 f
Real GDP growth, at constant market prices	-0.2	-28.1	-9.8	5.0
Private Consumption	0.1	-19.4	-0.8	2.4
Government Consumption	-7.1	-22.4	-8.8	0.1
Gross Fixed Capital Investment	-3.6	-83.7	-22.7	165.1
Exports, Goods and Services	-4.1	-65.7	-71.0	223.2
Imports, Goods and Services	-6.1	-43.0	0.7	29.6
Real GDP growth, at constant factor prices	-0.4	-28.8	-10.6	5.7
Agriculture	1.0	-25.0	-6.0	2.0
Industry	-3.8	-37.9	-24.3	19.3
Services	1.0	-25.0	-6.0	2.0
Inflation (Consumer Price Index)	8.2	39.4	5.0	20.0
Current Account Balance (% of GDP)	-1.7	-5.5	-5.6	-4.2
Fiscal Balance (% of GDP)	-6.8	-11.1	-9.0	-10.3
Debt (% of GDP)	48.7	66.7	85.4	79.9
Primary Balance (% of GDP)	-1.2	-3.6	-0.7	-3.1

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice.

Notes: e = estimate, f = forecast.