

REPUBLIC OF YEMEN

Key conditions and challenges

Table 1 2020

Population, million	29.8
GDP, current US\$ billion	19.9
GDP per capita, current US\$	668.2
School enrollment, primary (% gross) ^a	93.6
Life expectancy at birth, years ^a	66.1

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

Notes:

(a) WDI for School enrollment (2016); Life expectancy (2018).

An unprecedented protracted humanitarian crisis, aggravated by COVID-19, leaves many Yemenis mostly dependent on relief and remittances. Socio-economic conditions are deteriorating rapidly, driven by a currency depreciation, trade disruptions, rising food prices, severe fuel supply shortages, disruption and downsizing of humanitarian operations. Intensifying violence and fragmentation of macroeconomic policies add further strains on the fragile economic conditions, and the population is at risk of famine in 2021.

The fallout of COVID-19 has hit the people and the economy of Yemen in a state of extreme fragility after seven years of conflict. Socio-economic conditions deteriorated further in 2020, affected by compound conflict, health, and climate events and depleted coping capacity. Distortions created by the fragmentation of institutional capacity and the divergent policy decisions between the areas of control have led to acute shortages of basic inputs, including fuel.

Without stable sources of foreign exchange, expansionary monetary policy has accelerated the depreciation of the Yemeni rial. Given Yemen's high dependence on imports, the weakening of the currency has passed through to domestic prices, eroding purchasing power of households and businesses. Recovery of oil production and exports remain slow, limiting government revenue. Collection of non-hydrocarbon revenue has been limited. Regular salary payments to public sector workers continue to experience recurring delays and uneven geographical coverage. Accurate poverty projections are unable to be produced in the current environment. The latest national poverty rate was estimated using data prior to the conflict, and provides a difficult base from which to estimate how poverty has changed since given the profound impacts the conflict has had on the country. Any projection of

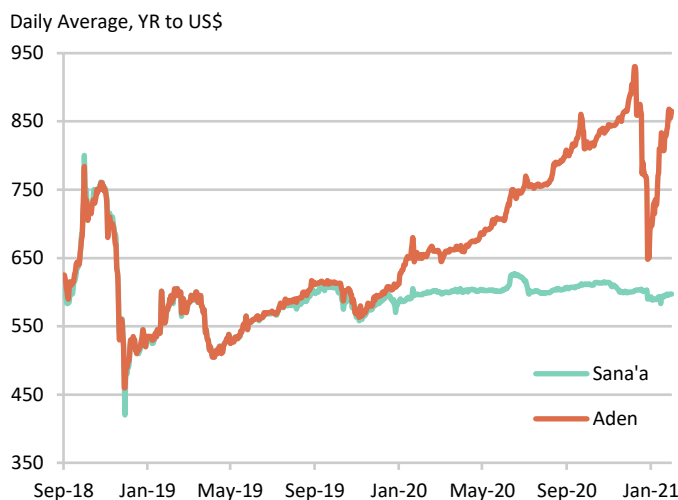
poverty is imprecise without a more thorough, data-borne understanding of the significant changes to both inflation and economic activity and the effects of forced displacement. Even though poverty estimates cannot be produced, the welfare situation in the country is dire, where approximately 80 percent of respondents of a monthly mobile phone survey conducted by the WFP in 2020 had difficulty accessing either food or basic services.

The overarching socio-economic risks derive from fragility and conflict. Near-term macroeconomic risks are closely tied to improving external accounts. In the government-controlled areas, there is a difficult trade-off between salary payments and macroeconomic stability, in the absence of other financing sources besides monetary expansion. In the non-government controlled areas, the private sector faces enormous challenges due to an arbitrary and sometimes coercive business environment and numerous interruptions to the inflow of commercial imports. Fragmentation of institutional capacity and the lack of policy coordination risks deepening the divisions in the financial sector and further aggravation of market distortions (e.g., smuggling and arbitrage of goods and currency).

Recent developments

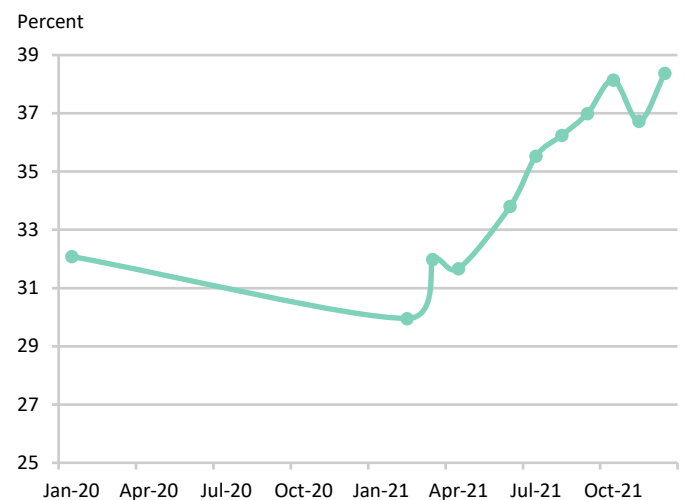
The economy contracted sharply from an already low base. The oil sector—the only large export earner—was hard-hit by low global oil prices. Non-oil economic activity

FIGURE 1 Republic of Yemen / Parallel market exchange rate



Sources: World Bank staff estimates.

FIGURE 2 Republic of Yemen / Share of respondents with poor food access



Sources: WFP Mobile Vulnerability Analysis and Mapping Survey.

suffered significantly from COVID-19 related trade slowdown and exceptionally heavy rainfalls, which caused intense flooding, damage and loss of life. Foreign exchange shortages deepened further with the near depletion of Saudi Arabia's basic import finance facility, reduced oil revenues, and downsizing of humanitarian assistance. Inflation has accelerated quickly in 2020. The weakening of the rial played a major role; other factors such as COVID-19 related disruptions, insecurity, trade restrictions and associated fuel shortages have also influenced price dynamics. The national average cost of the Minimum/Survivable Food Basket increased by 4 percent in December 2020 (m-o-m) and by 30 percent (y-o-y). Hodeidah port, a major port of entry for much of the country, showed a 6 percent volume reduction of imported food products during 2020, especially flour (30 percent decline) and wheat (20 percent decline). Fuel shortages also contribute to domestic price increases and disruptions in basic services delivery. The total volume of discharged diesel and gasoline imported through Hodeidah have declined by an estimated 34-40 percent in 2020. The divergence in cash exchange rates between Sana'a and Aden have widened in early 2021 reaching nearly YR 268 (approximately 45 percent more

depreciated in Aden) at the end of the January 2021. The divergence between exchange rates, and tightening of exchange controls and payment networks on both sides have increasingly fragmented local financial markets, impeding domestic transfer services. The cost of financial transfers through commercial banks and exchange bureaus from new to old banknotes saw a gradual increase in recent months and associated fees reached more than 40 percent at end-January 2021, all eroding the value of remittances. While no recent remittance data is available, global evidence is that formal channel remittances have held up well.

In addition to the decreasing purchasing power, the humanitarian response supporting households through years of conflict was significantly scaled back during 2020. Projections between January and June 2021 from the latest Integrated Food Insecurity Phase Classification (IPC) released in December 2020 suggest that 16.2 million people are expected to face high levels of acute food insecurity, and UN OCHA is warning of a potential famine in 2021 if humanitarian assistance is not increased.

Initially during 2020, households were able to maintain their food access at the start of the pandemic. However, as food

prices in the government-controlled areas and fuel prices in the non-government areas surged, households increasingly struggled to maintain adequate access to food. By the end of 2020, approximately 40 percent of households reported having either poor or borderline consumption, and the trend is getting worse.

Outlook

Economic and social prospects in 2021 and beyond are highly uncertain. A gradual recovery of global oil prices with increasing national production and export capacity, would help ease the strain on public finances in the government-controlled areas; means to support the government in payment of civil salaries would also reduce the recourse to central bank financing. Urgent progress to implement past agreements concerning access to supplies and fuel imports through Hodeidah would improve prices and access to food, the provision of public services and the operational environment for humanitarian operations. A cessation of hostilities and eventual political reconciliation remain prerequisites for the reconstruction of the economy and rebuilding of social fabric.

TABLE 2 Republic of Yemen / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018 e	2019 e	2020 f
Real GDP growth, at constant market prices	0.8	2.1	-5.0
Inflation (Consumer Price Index)	27.6	10.0	26.4
Current Account Balance (% of GDP)	-2.0	-3.9	-2.4
Fiscal Balance, cash basis (% of GDP)	-8.0	-5.5	-9.6

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

Notes: e = estimate, f = forecast.