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YEMEN



ECONOMIC MONITOR

Navigating Increased
Hardship and
Growing Economic
Fragmentation

Fall 2025



Yemen Economic Monitor

Navigating Increased Hardship and
Growing Economic Fragmentation

Fall 2025

Global Practice for Economic Policies

Middle East, North Africa, Afghanistan & Pakistan

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ACRONYMS & ABBREVIATIONS

IBRD	International Bank for Reconstruction and Development	ACAPS	Assessment Capacities Project
IDA	International Development Association	YETI	Yemen Economic Transformation Index
IRG	Internationally Recognized Government	WB	World Bank
OPEC+	Organization of the Petroleum Exporting Countries plus allies	IMF	International Monetary Fund
IPC	Integrated Food Security Phase Classification	FAO	Food and Agriculture Organization
USD	United States Dollar	REACH	One of three IMPACT initiatives focused on strengthening evidence-based humanitarian decision-making through efficient data collection, management, and analysis before, during, and after emergencies
OCHA	United Nations Office for the Coordination of Humanitarian Affairs	JMMI	Joint Market Monitoring Initiative
UN	United Nations	MENAAP	Middle East, North Africa, Afghanistan and Pakistan
FTO	Foreign Terrorist Organization	GDP	Gross Domestic Product
USAID	United States Agency for International Development	PPP	Public-Private Partnership
CBY	Central Bank of Yemen	IPP	Independent Power Producer
FX	Foreign Exchange	YPG	Yemen Partners Group
YER	Yemeni Rial	YPTT	Yemen Partners Technical Team
MFB	Minimum Food Basket		

PREFACE

The *Yemen Economic Monitor* provides an update on key economic developments and policies over the past six months.¹ It also presents findings from recent World Bank analytical work on Yemen. The *Monitor* places these developments, policies, and findings in a longer-term and global context and assesses their implications for Yemen's outlook. Its coverage ranges from the macro economy to financial markets to human welfare and development indicators. It is intended for a wide audience, including policy makers, development partners, business leaders, financial market participants, and the community of analysts and professionals engaged in Yemen.

The *Yemen Economic Monitor* is a product of the World Bank's Yemen Economic Policies (EP) team. This issue was prepared by Yasmine Osman (Country Economist, EP) and Mohammad Al Akkaoui (Consultant), with contributions from Alia Aghajanian (Senior Economist) and Omar Al-Aqel (Private Sector Specialist).

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The findings, interpretations, and conclusions expressed in this *Monitor* are those of World Bank staff and do not necessarily reflect the views of the Executive Board of The World Bank or the governments they represent.

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¹ The analysis presented in this edition reflects the situation as of end-July 2025. Events occurring after this cutoff date are not included.

EXECUTIVE SUMMARY

Yemen's economy remained under severe strain in the first half of 2025. Oil-sector activity stagnated due to the Houthi movement's ongoing blockade on exports, while the non-oil economy faced mounting pressures from a deteriorating environment. In areas controlled by the Internationally Recognized Government (IRG), inflation sharply eroded household purchasing power, with the cost of a Minimum Food Basket rising by 26% year-on-year as of June. Additionally, declining aid flows and dwindling foreign currency reserves weighed heavily on imports and consumption. Meanwhile, in Houthi-controlled areas, Israeli airstrikes damaged critical infrastructure, further restricting imports and placing additional strain on access to essential goods. The financial sector also faces growing difficulties, as banks and other institutions continued to relocate from Sana'a to Aden to avoid U.S. sanctions.

The IRG's fiscal position deteriorated further.

Revenues declined by 30% year-on-year in the first half of 2025, primarily due to a reduction in grants following substantial Saudi support in 2024. Although revenues excluding grants increased by 22%, they remain well below pre-blockade levels, underscoring a structural shift in the fiscal envelope. In response to dwindling resources, the IRG implemented an 8% reduction in spending, which helped contain the fiscal deficit but disrupted the provision of essential services.

External imbalances intensified. The Yemeni rial weakened sharply on the Aden market, reaching an all-time low of 2,905 per US dollar (USD) by mid-July. The IRG responded with stabilization measures, including revoking licenses for money exchangers, imposing new limits on foreign exchange purchases for personal use, and establishing an import committee to oversee hard currency allocation. These actions led to a rapid appreciation of the rial to around 1,676 per USD in early August. However, underlying vulnerabilities—particularly limited foreign exchange reserves—persist.

International aid, a main source of foreign exchange and livelihoods, has declined sharply.

The reduction has been particularly pronounced in Houthi-controlled areas, following the detentions of United Nations staff. As of mid-September 2025, only 19% of the US\$2.5 billion required under OCHA's humanitarian response plan had been secured, compared to 58% coverage for the entire year in 2024. Food insecurity has reached alarming levels, with 64% of households in IRG-controlled areas and 62% in Houthi-controlled areas reporting inadequate food consumption in August, following a record high in July. The lack of affordability of basic goods, compounded by low humanitarian aid, declining remittances, and limited employment opportunities, have forced many households to adopt negative coping

strategies such as begging, undermining both current and future welfare.

Economic prospects for 2025 are clouded by lingering vulnerabilities and uncertainty. Persistent domestic challenges and adverse external conditions offer little hope for stabilization. With no clear path to peace and oil exports blocked, public finances and external accounts are expected to remain under strain. Inflation is likely to remain elevated, especially as price controls contribute to supply shortages and further erode purchasing power. Acute liquidity shortages in Houthi-controlled areas are expected to persist, stifling consumption and business activity. The economic divide between the two zones is set to remain entrenched, marked by divergent monetary policies and currencies. Remittances and donor support show little momentum, and near-term prospects for a significant pickup are uncertain. As a result, national real GDP is projected to contract by 1.5% in 2025. The latest IPC update warns of rising phase 3 and 4 food insecurity, with some risk of phase 5 (catastrophic hunger) by end-2025.

Downside risks to the economic outlook remain significant. In the immediate term, the absence of oil exports and lack of external support severely constrain the IRG's ability to pay salaries and finance essential imports, posing substantial risks to population and food security. Other risks are also important to consider. Externally, intensified regional conflict could further damage infrastructure, disrupt imports, and widen the gap between limited foreign aid and urgent needs. Domestically, escalating economic tensions between the IRG and the Houthi movement—such as those witnessed following the printing of new banknotes and coins—could reignite instability and increase uncertainty. These tensions may also manifest through retaliatory actions by the Houthi movement, including resistance to bank relocations and opposition to the IRG's efforts to centralize import financing through the official banking system. Yemen's future continues to depend on achieving peace, advancing reconstruction, and implementing critical institutional reforms to restore business confidence and support recovery.





RECENT DEVELOPMENTS

1. Real Sector

Yemen's macroeconomic conditions continue to deteriorate reflecting the ongoing oil export blockade, dwindling fiscal and foreign exchange buffers, and an increasingly fragmented institutional landscape.

In the first half of 2025, Yemen's economy remained under acute strain. Oil-sector activity stagnated from the continuation of the blockade, while the non-oil economy faced mounting pressures and worsening conditions across both IRG- and Houthi-controlled areas.

In IRG-controlled areas, declining purchasing power and dwindling incomes have substantially weakened aggregate demand. Private consumption has been particularly affected by the depreciation of the rial in Aden, which has driven up consumer prices and eroded household purchasing power. By the end of June, the cost of the Minimum Food Basket in IRG areas had risen by 26% year-on-year. In addition, limited foreign aid and currency availability have further con-

strained consumption and imports. Public sector salaries have continued to be delayed or only partially paid, as the ongoing blockade on oil exports has reduced government revenues, contributing to the overall drop in consumption.² The depreciation of the rial in Aden has impacted not only consumption but also production, as the rising cost of imported inputs has undermined competitiveness and disrupted supply chains. These challenges are compounded by frequent electricity blackouts, exacerbated by fuel shortages, which have severely affected essential services, leaving many areas with only a few hours of power per day.

Houthi-controlled areas continued to face severe strain, compounded by heightened security challenges. Persistent liquidity shortages, cash withdrawal restrictions, restricted access to financing, and limited civil servant salary payments suppressed local consumption and constrained business activity. The issuance of new coins and banknotes by the

² Famine Early Warning Systems Network. (2025, September). Yemen key message update: Flood damage and losses undermine access to food and clean water. (link).

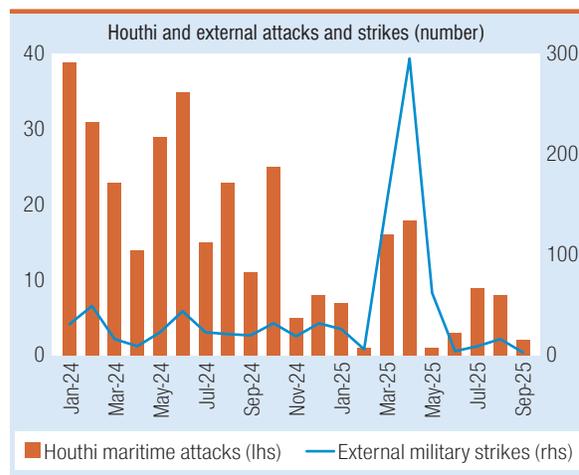
Central Bank in Sana'a has heightened institutional tensions with CBY Aden.³ Meanwhile, financial institutions have continued relocating from Sana'a to Aden to avoid U.S. sanctions.⁴ Externally, the military conflict with Israel resulted in airstrikes on Hodeida Port that inflicted severe infrastructure damage, curbing imports. Growing security concerns, including the detention of several United Nations (UN) personnel by the Houthi movement, have led to a substantial scaling back of UN operations in these areas. As a result, vital support for vulnerable families who depend on these services has been severely diminished.

Maritime security in the Red Sea continued to deteriorate, marked by ongoing attacks. Between October 2023 and September 2025, Houthi movement forces were responsible for 631 maritime security incidents in the Red Sea, including 211 direct attacks on commercial vessels (Figure 1.1). Attacks on commercial shipping temporarily paused during the Israel– Hamas ceasefire (January–March 2025)⁵ and the U.S.–Houthi movement ceasefire (May–July 2025).⁶ However, the hostilities intensified in the third quarter of 2025, when the Houthi movement attacked and sank two commercial vessels.⁷ During the same period, Israeli military operations resulted in the killing of the Houthi Prime Minister and eleven senior officials, including nine ministers.⁸ These events triggered an expansion of Houthi movement attacks into the Upper Red Sea near Yanbu port in Saudi Arabia, posing new threats to regional energy infrastructure and the shipping industry.⁹

Global shipping experienced significant disruptions as both shipping costs and import-related risks increased. By mid-2025, vessel traffic through the strategic Suez Canal and Bab El-Mandeb Strait—which previously accounted for about 30% of global container traffic—had fallen to less than half its pre-conflict level and many ships rerouted around the Cape of Good Hope. These disruptions led to pronounced volatility in container freight rates, which peaked at 280% above baseline in August 2024 before moderating to approximately 53% above normal by September 2025 (Figure 1.2).

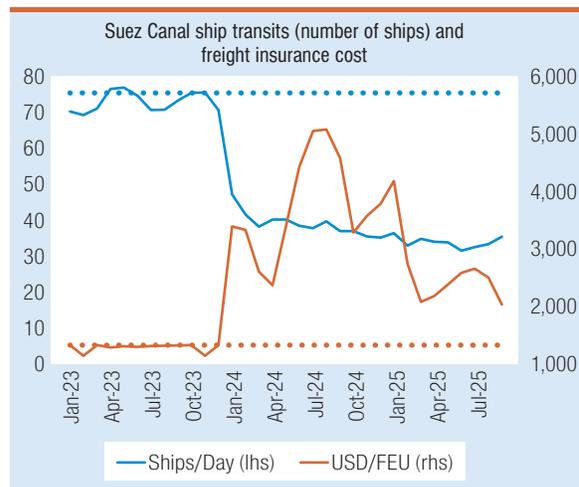
Against the backdrop of continued macroeconomic deterioration, food insecurity has escalated to alarming levels. For a country that is as heavily

FIGURE 1.1 • Maritime Security in the Red Sea Continued to Deteriorate



Sources: ACLED.

FIGURE 1.2 • Global Shipping Faced Disruptions

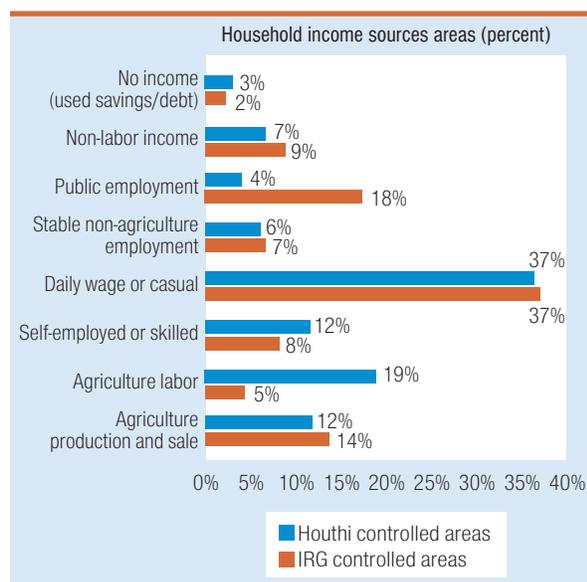


Sources: IMF Port watch and Freightos Baltic Index.

Note: FEU (Forty-Foot Equivalent Unit) is the global standard for measuring containerized cargo capacity, representing a 40-foot container. It is commonly used to quote freight rates.

- ³ Sana'a Center, Currency War Threatens to Deepen Yemen's Monetary Rift (link).
- ⁴ According to CBY-Aden, to date eight banks have relocated their headquarters from Sana'a to Aden (link).
- ⁵ Yemen's Houthi movement to resume attacks on Israeli ships after Gaza aid deadline ended (link).
- ⁶ US-Houthi ceasefire 'a welcome opportunity' to advance peace efforts in Yemen (link).
- ⁷ Yemen: Houthis' attacks on cargo ships apparent war crimes (link).
- ⁸ Israel kills 12 top officials in Yemen's Houthi-controlled government (link)
- ⁹ Yemen's Houthis attacking ship in northern Red Sea (link)

FIGURE 1.3 • Precarious Income Sources Predominate among Households



Source: FAO GeoPoll Phone survey, June 2025.

import-dependent as Yemen, higher shipping costs and heightened logistical risks have placed additional strain on goods availability and specifically food security. As of August 2025, 64% of households in IRG-controlled areas and 62% in Houthi-controlled areas reported inadequate food consumption.¹⁰ The primary driver is the lack of affordability of essential goods, compounded by low humanitarian aid and limited opportunities for employment and livelihoods. In response, many households resorted to negative coping mechanisms, including begging, eroding both current well-being and long-term human capital development.

Phone survey data reveal the precariousness of household livelihood and income sources. Daily wage and casual employment remain the most common household income source, supporting around 37–38% of households (Figure 1.3). Public sector employment is notably more prevalent in IRG-controlled areas (18%) compared to Houthi-controlled areas (4%). Agricultural labor serves as a vital lifeline in Houthi-controlled regions, with nearly one in five households depending on it, while less than 5% of households in IRG areas do so. Non-labor income, including remittances and humanitarian aid, provides crucial support to many households, particularly in IRG areas, where it

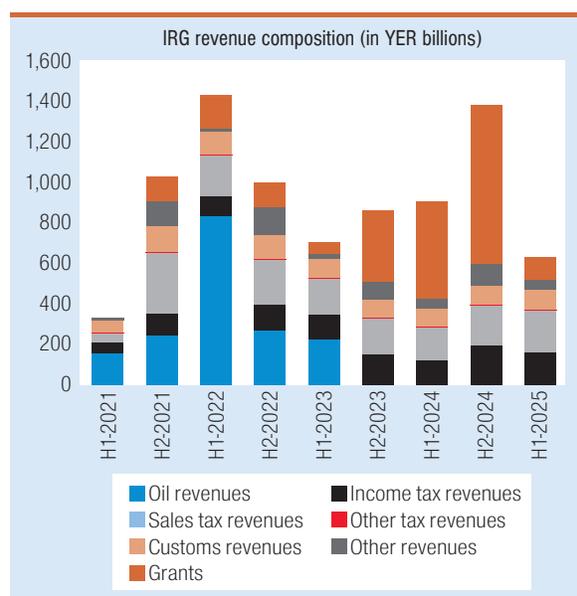
accounts for 9% of income sources. Most households report a substantial decline in income compared to the previous year, with over a quarter in both regions stating that their income has dropped to less than half of its former level. These findings underscore the persistent economic fragility in Yemen and highlight the urgent need for diversified livelihood opportunities and strengthened social protection measures.

2. Public Finance Developments¹¹

The IRG's fiscal position is deteriorating amid plunging revenues, prompting deep spending cuts that have affected both public sector wages and essential service delivery.

IRG's revenues contracted sharply in the first half of 2025.¹² According to data from Aden's Ministry of Finance and World Bank staff estimates, fiscal reve-

FIGURE 1.4 • IRG Fiscal Revenues Declined



Sources: MOF; WB staff calculations.

¹⁰ WFP Yemen food security update, September 2025 (link).
¹¹ The following figures only reflect the fiscal position of IRG and do not encompass areas controlled by the Houthi movement, which is understood to operate a balanced cash-based budget system.
¹² IRG revenue data are reported on an accrual basis except for oil revenues, which are recorded on a cash basis.

nues decreased by 30% year-on-year to YER 631 billion (Figure 1.4). This contraction was mainly driven by a substantial 76% drop in grants, following the cessation of direct budget support from Saudi Arabia in early 2025 after substantial assistance in 2024, and the ongoing Houthi movement oil export blockade, which effectively eliminated a key source of fiscal revenues.¹³

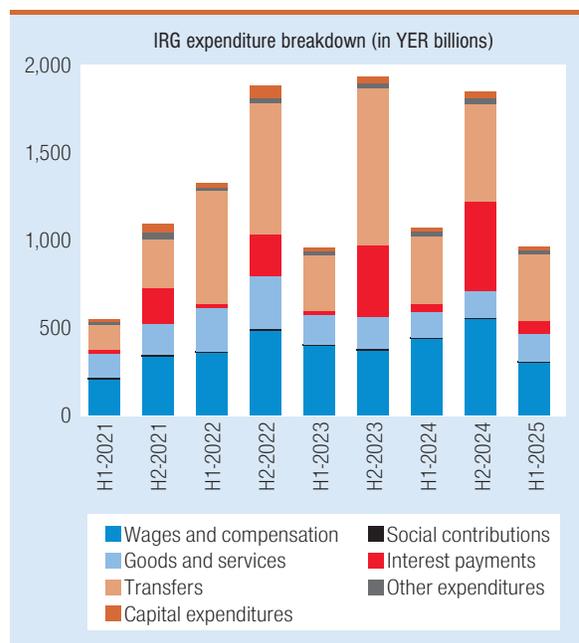
Despite some improvement in domestic revenue mobilization, the IRG’s fiscal position remains highly vulnerable. Revenues excluding grants rose by 22% in nominal terms, reaching YER 518 billion, primarily due to higher tax and customs revenues. However, the effect of this nominal growth was largely offset by accelerating inflation.

In response, the IRG implemented significant spending cuts, with a large share of the adjustment affecting civil servants’ payments. On a cash basis, total expenditure in the first half of 2025 fell by 10% year-on-year, reaching YER 963 billion. The most substantial reduction occurred in the wage bill, which contracted by 31% following the complete suspension of payments to civil servants starting from June.¹⁴ In contrast, subsidies, particularly for electricity, remained largely unchanged at YER 280 billion, and account for almost one-third (29%) of total spending. Interest payments on domestic debt increased (Figure 1.5), while capital spending remained broadly stagnant, at just 2.2% of total expenditure. These patterns underscore the rigidity of the spending envelope, with a large portion locked into recurrent items, leaving little-to-no room for infrastructural, developmental or responsive fiscal measures (on this, see also previous Monitor).¹⁵

While expenditure cuts helped contain fiscal pressure, declining revenues more than offset these gains and ultimately drove a substantial expansion in the deficit. On a cash basis, the fiscal deficit approximately doubled year-on-year in the first half of 2025. This figure excludes arrears owed to public contractors; on an accrual basis, the deficit would be considerably larger.

Structural challenges continue to undermine the sustainability of Yemen’s public finances. The

FIGURE 1.5 • IRG Reduced Fiscal Expenditure



Source: MOF; WB staff calculations.

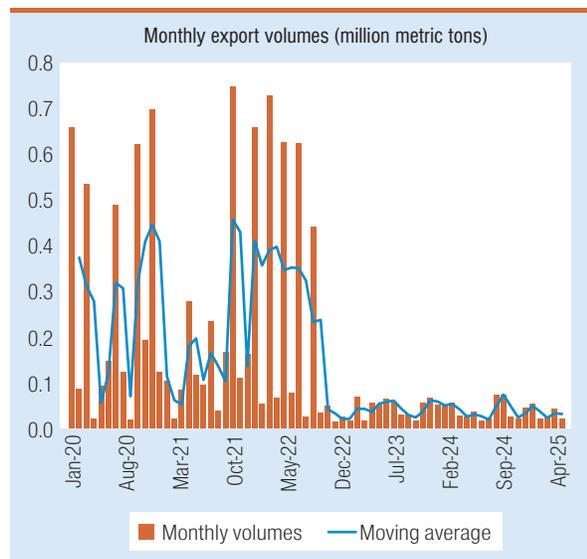
fiscal environment remains severely constrained, as public accounts and living standards deteriorate under the combined pressures of protracted conflict, external shocks, and persistent inflation. Compounding these difficulties, governorates are increasingly withholding tax and customs revenues, leading to a significant rise in unsettled revenues. This trend has disrupted the delivery of essential public services and heightened concerns about the transparency and accountability of tax and customs operations. As a result, the central government has become more reliant on grants to cover budget deficits—a dependence that is fiscally unsustainable over the long term. This situation highlights the urgent need for more resilient and diversified revenue sources. However, without a meaningful recovery in economic growth, efforts to strengthen Yemen’s fiscal position are likely to remain limited.

¹³ Saudi budget support amounted to US\$500 million in 2024. This grant is part of a larger extensive financial support from Saudi Arabia totaling about US\$2 billion over 2023–24.

¹⁴ Yemen: Government announces resolution of salary crisis after 4-month hiatus ([link](#)).

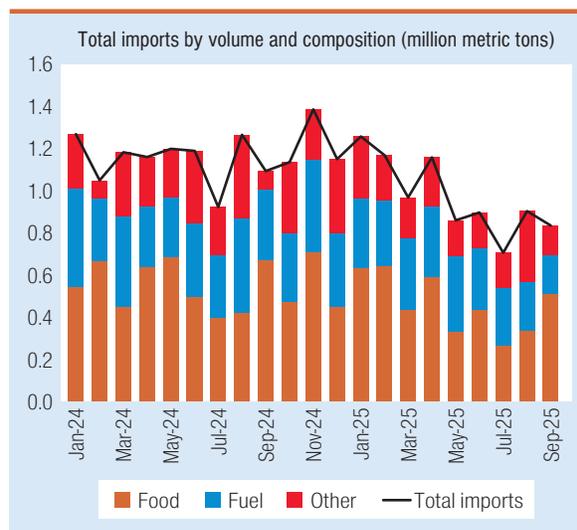
¹⁵ Yemen Economic Monitor, Spring 2025: Persistent fragility amid rising risks ([link](#)).

FIGURE 1.6 • Exports Volumes Contracted



Source: IMF Port Watch.

FIGURE 1.7 • Import Volumes Contracted, Including Food and Fuel



Source: ACAPS – YETI and WB staff Calculations.

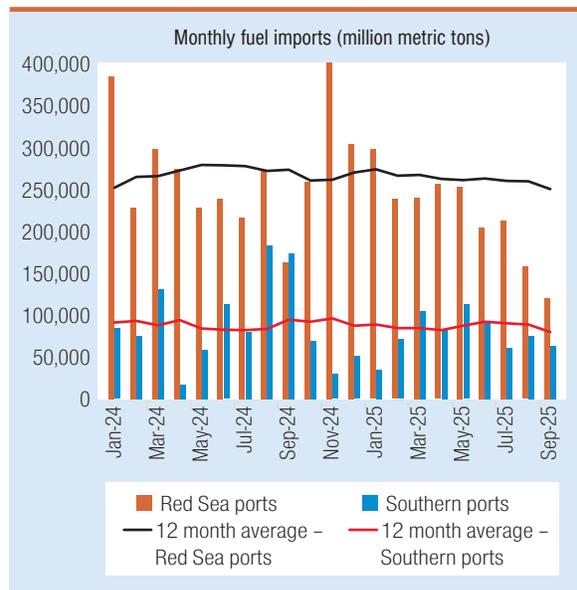
3. External Sector Developments¹⁶

External imbalances are intensifying, driven by the ongoing blockade on IRG oil exports, persistently high imports, and sharp reductions in aid.

Export activity remained depressed during the first eight months of 2025. According to IMF port watch data, real exports totaled just 250,000 metric tons in the first eight months of 2025, a steep 31% drop from the same period in 2024 (Figure 1.6). The medium-term decline is even starker: exports plummeted 92% compared to 2022, underscoring the cumulative toll of the oil export blockade, now in its third year. With oil exports generating zero foreign exchange since late 2022—down from historical averages of US\$1.1 billion annually—and non-oil exports unable to offset the loss despite currency depreciation, the country has lost one of its main sources of hard currency inflows.

Imports also contracted, though less sharply than exports. According to data from the Assessment Capacities Project (ACAPS), real imports declined by approximately 15% during the first eight months of 2025 compared to the same period in 2024 (Figure 1.7). This decline was driven by reductions in both food and fuel imports, affecting ports controlled by both the Houthi movement (for food and fuel) and the IRG (for fuel

FIGURE 1.8 • Fuel Imports Declined in Yemen

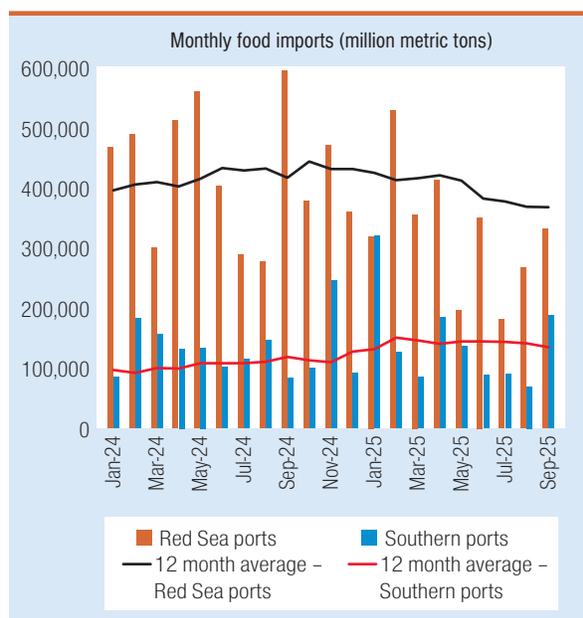


Source: ACAPS – YETI and WB staff Calculations.

only) (Figures 1.8 & 1.9). In Houthi-controlled areas, key factors included decreased port capacity, disrupted operations, and damage to infrastructure following repeated strikes on Hodeida between May and July 2025, as well as attacks on Salif and other coastal loca-

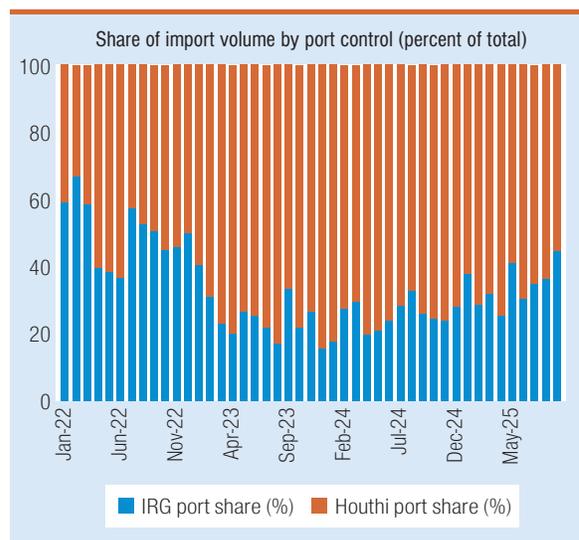
¹⁶ Note that the following figures reflect external accounts for the whole of Yemen.

FIGURE 1.9 • Food Imports Declined Sharply at Red Sea Ports



Sources: ACAPS – YETI and WB staff Calculations.

FIGURE 1.10 • Imports Shifted Away from Houthi-Controlled Ports for the First Time since 2022



Sources: ACAPS YETI, and WB staff calculations.

Note: IRG-controlled ports (blue shades): Aden and Al Mukalla; Houthi controlled ports (orange shades): Hodeida, Ras Isa and Saleef.

tions. Ongoing attacks on Yemen’s Red Sea ports have critically jeopardized food import flows and reserves, impacting food availability in Houthi-controlled areas. In IRG-controlled areas, reduced fuel imports have led to prolonged power outages and worsening household hardships. Although food imports in IRG-controlled areas declined at several points this year, total volumes over the first eight months increased, primarily due to exceptionally high imports in January.

A sustained diversion of trade activity away from Houthi-controlled ports marks an observable shift in Yemen’s import patterns.

The share of imports passing through Houthi-controlled ports declined to an average of 65% in the first nine months of 2025, down from 75% during the same period in 2024—marking the first sustained diversion since the 2022 truce framework (Figure 1.10). This shift was driven by three concurrent factors: the imposition of U.S. restrictions prohibiting petroleum imports via Houthi-held facilities (effective April 4); the relocation of banking operations from Sana’a to Aden, which disrupted trade finance; and infrastructure damage at Hodeida and Ras Isa ports due to military strikes. Consequently, goods destined for northern population centers now travel longer over land routes from southern ports,

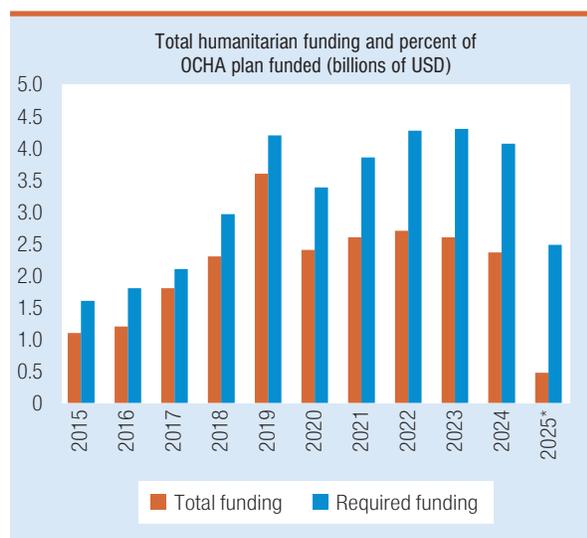
resulting in higher final prices due to increased transport costs and double taxation.

At the same time, declining international aid inflows—a key source of foreign exchange—removed a critical buffer that had previously helped offset the loss of oil export earnings.

As of early September, the 2025 UN Humanitarian Response Plan had received only US\$471 million—just 19% of the US\$2.5 billion required—compared to 58% coverage for the entire year in 2024. This marks the lowest funding level since the onset of Yemen’s conflict in 2014 and represents a significant drop from the 2020–24 annual average of approximately US\$2.5 billion (Figure 1.11). Similarly, ODA is expected to decline: the OECD, which compiles ODA statistics, anticipates substantial reductions in global aid in 2025, with projected cuts of 9% to 17%.¹⁷ In addition to these global

¹⁷ “Cuts in official development assistance, OECD projections for 2025 and the near term”, OECD, 26 June 2025 (link). Eleven OECD DAC members—accounting for nearly three-quarters of total ODA in 2024—have publicly announced ODA cuts for 2025–2027. Notably, four of these donors—France, Germany, the United Kingdom, and the United States—provided almost two-thirds of total ODA over the past decade, with the United States alone contributing one quarter. Their ODA allocations

FIGURE 1.11 • Humanitarian Funding Has Declined



Source: OCHA Financial Tracking Service.
* 2025: total funding covers the months of January to September.

trends, three main factors have contributed to the substantial shortfall of aid in Yemen: (i) the termination of USAID support in April; (ii) operational constraints resulting from the Foreign Terrorist Organization (FTO) designation; and (iii) Houthi detentions of UN personnel and restrictions on development and aid programs, which have further complicated assistance delivery.

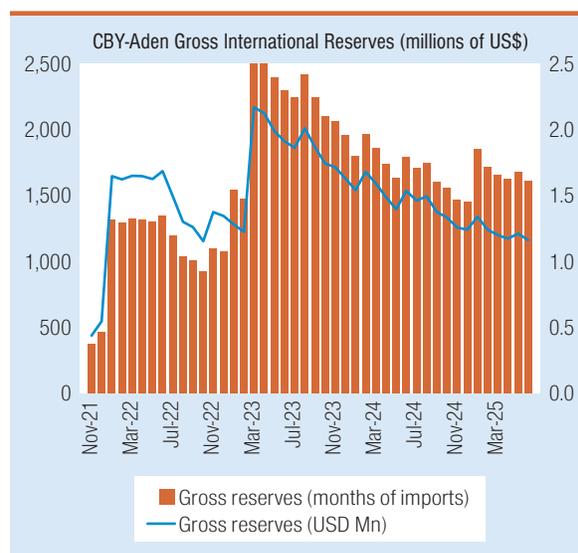
Overall, Yemen’s external position weakened markedly during the first half of 2025. In this period, CBY-Aden’s foreign reserves dropped to US\$1.16 billion, providing only 1.6 months of import coverage, well below the three-month adequacy threshold (Figure 1.12). This weakening reserve position has been a major factor contributing to exchange rate depreciation during the first seven months of 2025. Without progress in resolving the export blockade and restoring international support, reserve depletion is likely to persist.

4. Monetary Policy and Inflation

Monetary developments continue to be shaped by severe constraints in the availability of foreign exchange.

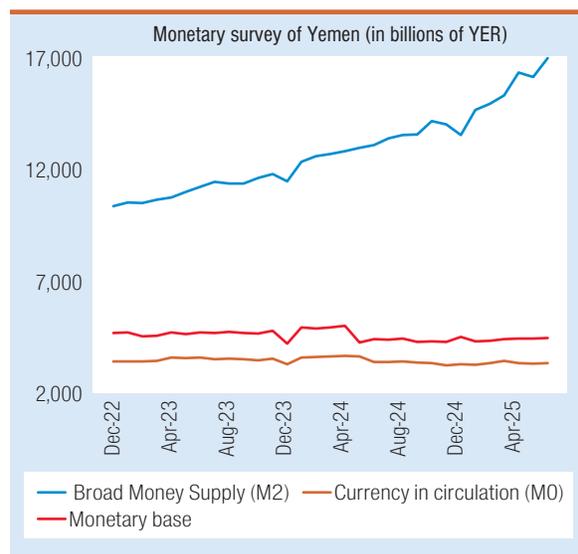
Yemen’s monetary conditions in the first half of 2025 were characterized by subdued base money

FIGURE 1.12 • Gross International Reserves Fell Below Critical Adequacy Threshold



Sources: Central Bank of Yemen in Aden; ACAPS – YETI; and WB staff calculations.

FIGURE 1.13 • Yemen’s Monetary Base Remained Stable However Broad Money Supply Has Been Increasing Steadily

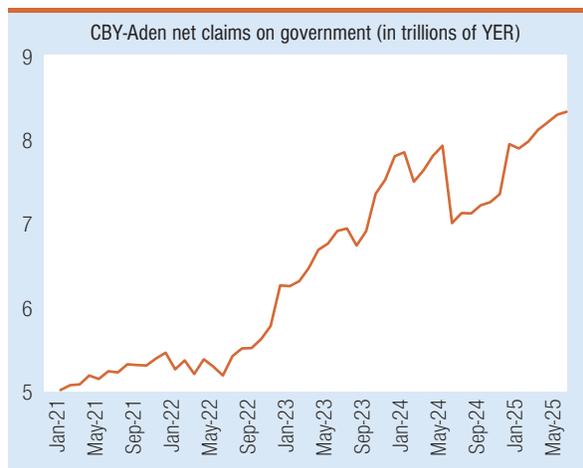


Sources: CBY- Aden and WB staff calculations.

expansion and limited monetary financing, reflecting ongoing pressures on foreign exchange availability. According to the CBY in Aden, base money growth was -0.9% in the first half of 2025, signifi-

are highly concentrated: from 2014 to 2023, half of their combined net bilateral ODA to Least Developed Countries (LDCs) went to just seven countries, including Yemen.

FIGURE 1.14 • Monetary Financing Has Increased



Sources: CBY- Aden and WB staff calculations.

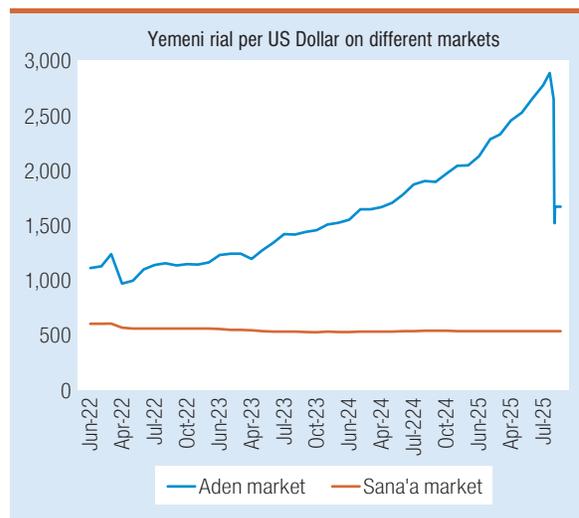
cantly below the annual target of 8.4% (Figure 1.13). However, net credit to the government rose by 1.7% over the same period (Figure 1.14). The shortfall in foreign exchange (FX) resources constrained CBY’s ability to sterilize monetary financing of the public sector through foreign exchange sales to the private sector, limiting its capacity to absorb excess liquidity.

More broadly, the effectiveness of monetary policy in Yemen is severely limited by the predominance of cash transactions and weak banking intermediation. Acute liquidity shortages persist, as banks remain hesitant to finance government operations due to ongoing concerns about debt repayment. Fragmented data between IRG and Houthi-controlled areas further complicates monetary policy analysis and implementation. The widespread use of informal financial channels adds challenges in directing funds into the formal banking system. To restore confidence and support economic recovery, it will be essential to continue stabilizing the exchange rate and curbing inflation through prudent monetary policy, strengthen coordination between the CBY and commercial banks, improve data collection and analysis, and integrate informal financial activities into the formal system, while enhancing liquidity management.

In response to mounting pressure related to dwindling foreign exchange resources and a sharp depreciation of the Yemeni rial, the IRG under-

took a series of stabilization measures in late July 2025. By mid-July, the YER fell to a record low of 2,905 per USD on the Aden market. To stem the decline, the IRG resorted to: i) revoking licenses for money exchangers, ii) introducing new limits on FX purchases for personal use, and iii) establishing an import committee to oversee the allocation of hard currency. These measures triggered a rapid appreciation of the YER to around 1,676 per USD by early August (Figure 1.15). The import financing committee, coordinated between the CBY-Aden, the IRG, and key stakeholders—including banks, exchange companies, the Yemen Customs Authority in Aden, Yemen Banks Association in Aden, and the Ministry of Trade—centralizes FX inflows and allocates them towards essential imports financing. Despite the exchange rate recovery on the Aden market, significant vulnerabilities persist; in particular, hard currency availability continues to be very limited, raising concerns about the resilience of monetary policy going forward. Meanwhile, in Houthi-controlled areas the rial has been held near a de facto fixed rate around YER 540 per USD, maintained through constrained money supply, administratively enforced official rates and strict oversight of exchange firms, and price controls— rather than a reserves-backed peg.

FIGURE 1.15 • Exchange Rate Intervention Led to Sharp Appreciation in Early August



Source: ACAPS YETI.

After steadily rising for more than a year, food inflation in IRG-controlled areas slowed sharply during the summer, reflecting pass-through

effects of the rial's appreciation and price controls. As of June 2025, the cost of the minimum food basket (MFB) in these areas had risen by 26% year-

BOX 1.1. SUMMARY OF ACTIONS TAKEN BY THE IRG TO STABILIZE AND CONTROL MARKET PRICES FOLLOWING THE IMPROVEMENT IN THE YEMENI RIAL

1. Cabinet decisions. On August 13, 2025, the Council of Ministers, chaired by Prime Minister Salem Saleh bin Braik, approved a set of urgent measures aimed at aligning market prices with the recent appreciation of the Yemeni rial. Local authorities were directed to increase market inspections, address monopolistic practices, and enforce the prohibition of foreign currency use in commercial transactions. The government called for prompt adjustments in fuel and transport costs to reflect currency gains.

2. Ministry of Industry and Trade initiatives. The Ministry of Industry and Trade introduced “Rasd,” Yemen’s first centralized electronic monitoring platform, designed to facilitate citizen reporting of pricing violations and provide access to official price lists. In its initial month, the platform received over 10,000 reports from citizens. The Ministry also organized volunteer teams to support field activities and initiated legal actions against violators, which included fines, shop closures, and court referrals.

3. Local enforcement campaigns. Local authorities in Al-Mahra, Aden, Taiz, Marib, and Hadramout conducted field campaigns in markets, restaurants, and pharmacies. These campaigns led to arrests and closures related to price manipulation. Citizens observed reductions in the prices of food and produce, while prices for gas and medicine remained comparatively high.

4. Fuel and gas adjustments. The Yemeni Gas Company announced a reduction in the official price of domestic gas cylinders to 6,525 rials. The state oil company in Aden lowered gasoline prices to approximately 1,550 rials per liter. Compliance with these price adjustments was monitored through inspection campaigns.

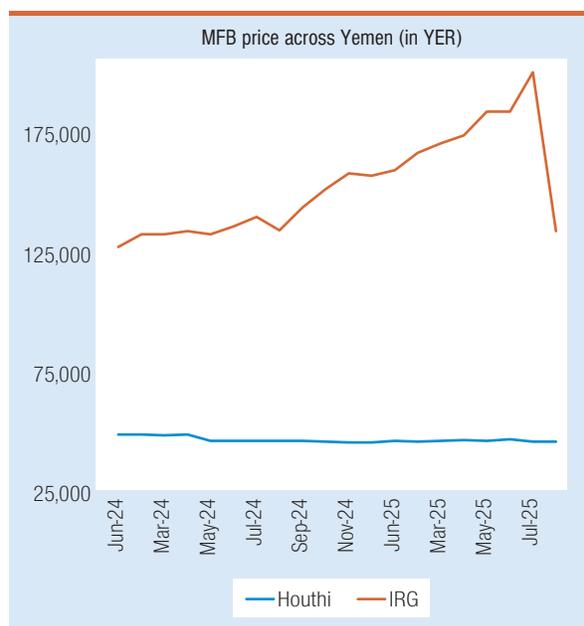
5. Pharmaceutical oversight. Health authorities increased inspections of pharmacies, resulting in the closure of 39 pharmacies in Aden and the issuance of fines for violations of official pricing or for selling medicines without prescriptions. Weekly inspections were scheduled to monitor and ensure that medicine prices correspond with the improved exchange rate.

Source: World Bank.

on-year. However, the upward trend eased after the IRG implemented currency stabilization measures and introduced price controls on essential items at the end of July (Box 1.1). In August, the cost of the MFB in IRG-controlled areas dropped by 34% month-on-month, the largest decrease recorded to date, and by 12% year-on-year (Figure 1.16). Meanwhile, the prevalence of inadequate food consumption fell from

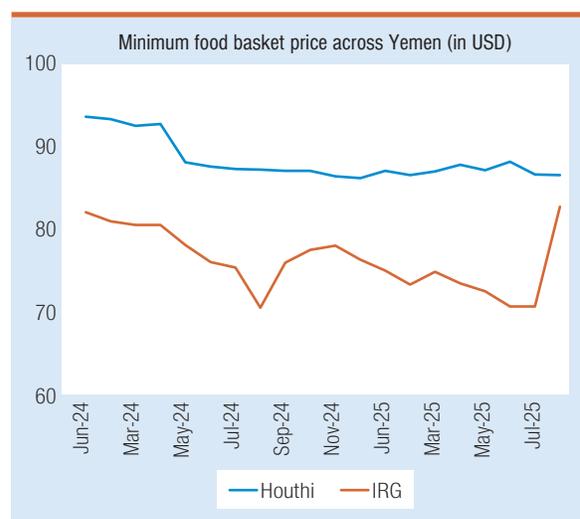
70 to 64% in IRG areas. The sustainability of these price reductions will depend on the IRG’s ability to maintain currency stability and prevent supply constraints. In Houthi-controlled areas, the cost of the MFB remained stable but continued to be higher than in IRG areas when measured in US dollar terms (Figure 1.17).

FIGURE 1.16 • MFB Cost Decreased in IRG Areas



Sources: FAO and WB staff calculations.

FIGURE 1.17 • Cost of MFB in USD is Higher in Houthi Areas



Sources: FAO and WB staff calculations

Note: Exchange rate and MFB monthly averages are aggregated using a simple average per area based on ACAPS area of control classification (link) excluding mixed control areas.

TABLE 1.1 • Selected Economic Indicators (2020-2024)

	2020	2021	2022	2023	2024
Real Sector					
Real GDP Growth (annual percentage change)	-8.5	-1.0	1.5	-2.0	-1.5
GDP per capita (nominal USD)	560	522	616	493	469
Money and Prices (Annual percentage change, unless stated otherwise)					
Consumer Prices	21.7	31.5	29.8	0.9	33.9
Base Money	13.3	13.7	4.4	(10.0)	6.9
Exchange Rate (YER per USD, average)					
Aden	782	1,036	1,125	1,376	1,823
Sana'a	604	600	573	536	535
IRG's Finances^a (In percent of GDP)					
Total Revenues and Grants	6.2	6.8	10.0	6.2	6.4
Total Expenditures	10.6	8.2	12.2	11.7	8.8
Overall Fiscal Balance	-4.5	-1.4	-2.2	-5.6	-2.4
External sector^b (In percent of GDP)					
Current Account Balance	-18.3	-9.9	-16.1	-20.4	-26.6
Other memo items					
GDP Nominal in USD (millions)	20,220	19,394	23,534	19,412	19,046
Gross Reserves in USD (millions)	489	545	1,343	1,626	1,240

Sources: Central Bank of Yemen Aden, Ministry of Finance, ACAPS YETI, REACH JMMI, and World Bank staff estimates.

^a The fiscal figures only reflect the fiscal position of IRG and do not encompass areas controlled by Houthi movement.

^b The external sector figures reflect external accounts for the whole of Yemen.



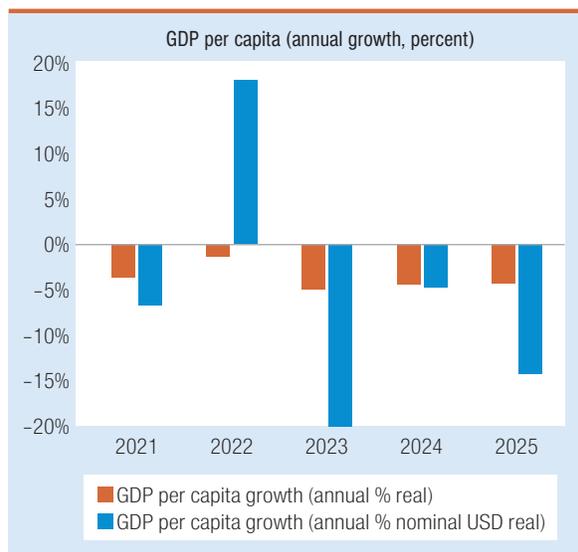
OUTLOOK AND RISKS

The regional economic outlook for the Middle East, North Africa, Afghanistan, and Pakistan (MENAAP) region has shown signs of improvement in recent months.¹⁸ Regional growth is projected to reach 2.8% in 2025 and 3.3% in 2026, up from 2.2% in 2024. However, this overall improvement conceals significant differences among countries. Oil exporters are set to benefit as voluntary OPEC+ production cuts are lifted, with Saudi Arabia—a key partner for Yemen—expected to see faster GDP growth in 2025, driven by increased oil output and robust non-oil sector expansion. In parallel, oil-importing economies are expected to experience improvements in private consumption, investment, and agriculture. While uncertainty surrounding tariffs and global demand growth may moderately affect trade and economic performance, the impact will differ across the region. At the same time, ongoing instability and conflict—most notably in Gaza—continue to inflict severe human suffering and dampen economic activity, even in countries not directly affected by the hostilities.

In Yemen, economic prospects for 2025 remain subdued. National real GDP is projected to con-

tract by 1.5%, while the decline in nominal GDP per capita is expected to be even more severe, at 14.2%

FIGURE 2.1 • GDP per capita Is Expected to Continue its Decline



Sources: Yemeni authorities and WB staff.

¹⁸ MENAAP Economic Update, October 2025: Jobs and Women: Untapped Talent, Unrealized Growth (link).

(Figure 2.1). The latest IPC update warns of rising phase 3 and 4 food insecurity, with some risks of phase 5 (catastrophic hunger) by end-2025. Beyond the humanitarian implications, acute food insecurity is expected to undermine labor productivity immediately, as individuals facing hunger are unable to work effectively or at all. Over the long term, sustained malnutrition—particularly among children and working-age adults—can cause irreversible damage to human capital accumulation, with lasting consequences for economic potential and growth outcomes.

Persistent domestic challenges and adverse external conditions offer little hope for rapid economic stabilization. With no clear path to peace and with oil exports blocked, public finances and external accounts in IRG controlled areas are predicted to remain under strain, at least over the short term. Inflation is expected to remain elevated, especially as price controls contribute to supply shortages and further erode purchasing power. Acute liquidity shortages in Houthi-controlled areas are likely to persist, stifling consumption and business activity. The economic divide between the two economic zones is set to remain entrenched, marked by divergent monetary policies and currencies. Remittances and donors' support show little momentum, and near-term prospects for a significant pickup are uncertain.

Downside risks to the economic outlook remain significant.

- **In the immediate term, risks to the IRG's financing capacity threaten its ability to sustain core government functions and deliver essential public services,** heightening the potential for social unrest. In this context, Saudi Arabia's announcement in September 2025 of a US\$368 million financing package for budget, energy, and health support, presents a potential source of short-term relief;¹⁹ however, sustained support from a broad range of donors will remain essential. On the domestic front, addressing this situation will require strengthening IRG's domestic revenue mobilization and rationalizing expenditures.
- **Other external risks are also important to consider.** On October 9, 2025, Israel and Hamas

agreed to the first phase of a peace plan, raising hopes for greater regional stability. However, any reversal or escalation of the conflict could reignite tensions between Israel and the Houthi movement, trigger military strikes that damage critical infrastructure, widen the gap between limited foreign aid and urgent humanitarian needs, and disrupt imports—driving up their prices and further threatening food affordability.

- **Escalating economic tensions between the IRG and the Houthi movement threaten to reignite instability.** These tensions became more evident in the first half of 2025, following the printing of new banknotes and coins. The situation risks further deterioration if the Houthi movement pursues additional retaliatory measures to resist bank relocations and oppose the IRG's efforts to centralize import financing through the official banking system. In mid-August, the Central Bank of Yemen in Sana'a (CBY-Sana'a) issued a directive prohibiting financial institutions from processing import-related transactions with entities in IRG-controlled areas. Meanwhile, CBY-Aden's mandate requiring the use of Yemeni rials for domestic payments poses a direct threat to trade between the two economic zones. Most transactions between Houthi- and IRG-controlled areas continue to rely on hard currency, a practice shaped by dual exchange rates and the Houthi movement's ban on currency issued in Aden. Together, these developments are further entrenching the fragmentation of Yemen's economic landscape.

Yemen's future hinges on achieving peace, advancing reconstruction, restoring human capital, and enacting critical institutional reforms to restore business confidence and support economic recovery.²⁰

- **The government's two-year "Plan for Economic Developments and Urgent Priorities," announced in December 2024, sets out essen-**

¹⁹ Saudi Arabia to provide \$368 million in economic support to Yemen (link).

²⁰ World Bank. (2023). Yemen Country Economic Memorandum: Glimmers of Hope in Dark Times. Washington, D.C: World Bank. (link).

tial reforms aimed at revitalizing the economy.

The plan is structured around six key objectives: enhancing the sustainability of public finances and reducing the budget deficit; strengthening banking sector stability and addressing currency depreciation; improving the capacities of the electricity sector and other vital productive and service sectors; curbing inflation; reinforcing governance and advancing institutional reforms; and fostering a genuine partnership with the private sector. These reforms are intended to bolster economic resilience and mitigate the humanitarian impact of ongoing economic challenges.

- **Progress on the plan is ongoing but remains slow.** Implementation is closely coordinated with international donors through the Yemen Partners Group (YPG) and the Yemen Partners Technical Team (YPTT), ensuring that donor

support—whether through projects, technical assistance, or key diagnostics—aligns with government priorities. While main areas of focus have been confirmed (Table 2.1), the pace of implementation continues to lag behind the urgency of Yemen’s needs.

- **Yemen’s medium-term recovery can be driven by revitalizing key sectors.** Agriculture and fisheries, supported by new strategies and Gulf partnerships, can boost productivity and exports despite climate challenges. The oil sector’s recovery hinges on restoring security at export ports and refurbishing facilities, with regional cooperation essential for resuming exports. Investment in infrastructure—electricity, roads, education, and health—is underway and will be critical to secure long-term growth, though progress is slowed by security, capacity, and cost issues.

TABLE 2.1 • YPTT Task Teams and Working Groups Priorities Supporting the IRG Two-Year Plan—October 2025 Update

Governance and public finance management	
Pension reform	Actuarial assessments, investment strategy reviews, and a thorough evaluation of the current financial situation of pension schemes. Policy advice will support partnerships with the private sector, and there will be a focused assessment of security and military pension funds to improve efficiency and transparency.
Improvements in public financial management and payroll	Automating tax and customs procedures, streamlining payroll systems, and integrating financial management information systems to enhance accuracy and oversight.
Capacity building on areas relating to above reform priorities	Targeting the National Institute, its affiliates, and the Ministry of Finance, with training programs designed to strengthen civil service employees’ skills in public administration and financial management.
Economic and private sector	
Strengthen banking stability and implement solutions to curb currency depreciation	Improving tax policy, revenue administration, and expenditure controls, while enforcing international banking criteria. The digitization of regulatory reporting between banks and the Central Bank, along with the development of the National Financial Inclusion Strategy, will further support financial sector resilience.
Curb inflation	Analyzing its drivers and building a robust Consumer Price Index to inform policy and monitor price stability.
Establish a genuine partnership with the private sector	Supporting the PPP unit and enhancing the private sector’s role in promoting food security and green economic development, advancing a just transition and crisis resilience in Yemen.
Energy sector	
Regulatory enablement	Revising and adopting the Power Purchase Agreement (PPA) based on recent investment experience, finalizing frameworks for public-private partnerships and independent power producers, updating grid codes, and establishing payment security mechanisms to attract investment and ensure sector stability.
Financial turnaround	Reducing losses, improving billing and collection, and implementing phased tariff reforms with protection measures for vulnerable groups to restore financial health.
Institutional capacity	Establishing dedicated PPP/IPP and planning units, modernizing procurement processes, and enhancing data systems to support effective governance.
Operational measures	Stabilizing energy supply through critical operations and maintenance, as well as improving fuel logistics for reliable service delivery



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