

YEMEN

Table 1 **2017**

Population, million	28.3
GDP, current US\$ billion	16.5
GDP per capita, current US\$	583
International poverty rate (\$ 19) ^a	82.9
Lower middle-income poverty rate (\$3.2) ^a	94.7
National poverty line ^a	
Gini coefficient ^a	
Life expectancy at birth, years ^b	

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

Notes:

(a) Most recent value (2014), 2011 PPPs.

(b) Most recent WDI value (2015)

The violent conflict has caused a dramatic deterioration of the economic and social conditions in the country. Output has contracted sharply, household incomes are declining, and poverty has dramatically increased with nearly four-fifths of the population living below US\$3.20 a day PPP. Even beyond the increase in poverty, UNOCHA estimates that almost 9 million Yemenis are facing various forms of food insecurity at level 3 or 4 of the internationally agreed standard for measuring food security. Cholera, diphtheria, and other communicable diseases have been ravaging the country.

Recent developments

Since the escalation of violent conflict in March 2015, Yemen's economy has deteriorated sharply. Although official statistics are no longer available, evidence suggests that Yemen's GDP contracted by more than 50 percent cumulatively since 2015 while employment opportunities in the private sector have significantly diminished. Economic activity in agriculture services, and oil and gas production—the largest components of GDP, remains limited due to the ongoing conflict. Furthermore, the commensurate dramatic decrease in government revenues, especially due to the much-reduced oil and gas production, have contributed to the implosion of the formal social safety net and infrequent payment of public salaries. In addition, the conflict has led to increasing inflation and pressure on the exchange rate, which further undermined household income at a time when approximately 40 percent of households reported to have lost their primary income source (according to the 2016 Gallup World Poll). For many, joining a militia or other conflict related economic activities remain the only gainful opportunities.

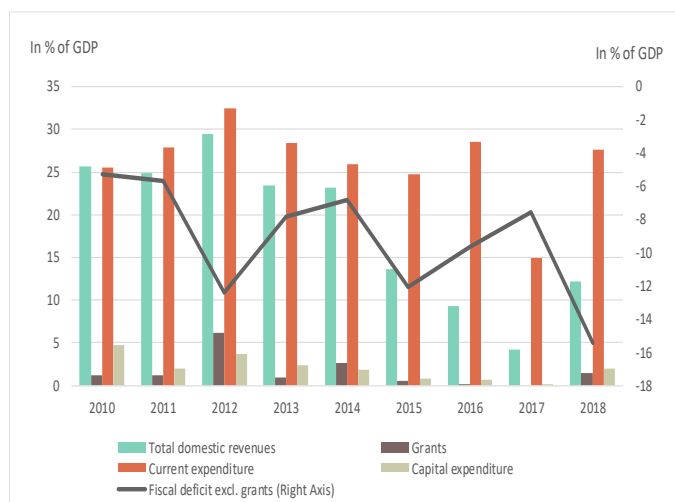
Imports have greatly contracted given the dwindled foreign reserves available to the Central Bank system of Yemen (CBY). Critical food and energy imports are facilitated exclusively through private channels without support from financial trade services offered earlier by the CBY. In addition, limited access to and the turnover

capacity of Yemen's key ports further undermines the flow of key commodities - including food, fuel, and medical supplies - to parts of the country. These hurdles are particularly challenging given that Yemen had previously imported approximately 90 percent of its food.

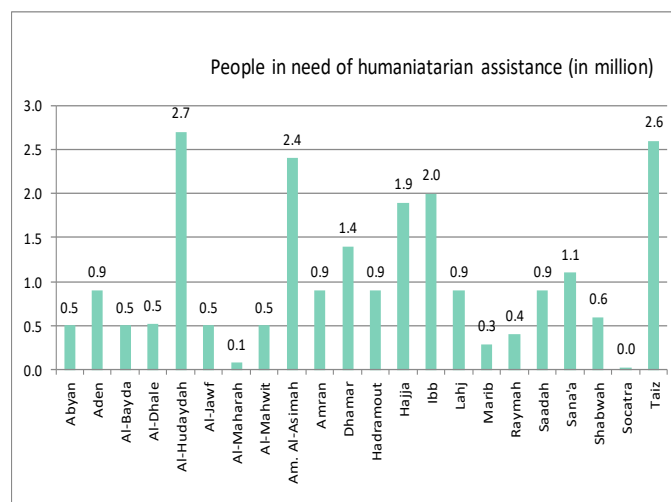
While it is reported that food is available in markets, many Yemenis do not have the purchasing power to buy the required quantities. UN-OCHA estimates that 22 million Yemenis are in need of humanitarian assistance, of which about 9 million are in acute need of assistance to sustain their lives and avoid famine. The advent of cholera, diphtheria, and other infectious diseases in a context of prevailing poor health and malnutrition, has further diminished peoples' welfare and eroded their ability to lead productive lives. The ability of many households to cope is at a breaking point.

The dramatic worsening of conditions has translated into a significant worsening of the incidence of poverty. The poverty rate (with the poverty line at a US\$3.20 PPP) is estimated to have increased since 2014 by nearly 30 percentage points to approximately 80 percent today. Poverty was already on the rise in Yemen prior to the recent conflict, rising nearly 14 percent between 2005 and 2014.

However, the deteriorating socio-economic conditions and worsening poverty rate do not fully describe the suffering of the Yemeni population. Significant damage to vital infrastructure and private residences has contributed to a decline in access to basic services (like water), crippled civilian health and education facili-

FIGURE 1 Yemen / Republic of Yemen / Public Finances


Sources: Yemen Ministry of Finance, Yemen Statistical Office; staff of the IMF and the World Bank.

FIGURE 2 Yemen / People in need of humanitarian assistance (in million)


Sources: 2018 United Nations Humanitarian Response Plan.

ties, and has led to an internal displacement of over 10 percent of the population. The humanitarian response in Yemen continues to support the basic needs of a significant share of the population in difficult circumstances. There are approximately 153 humanitarian partners on the ground—109 national non-government organization (NGOs), 36 international NGOs, and 8 UN agencies. The World Bank supports the most vulnerable groups with approximately US\$1.2 billion through five large emergency operations providing critical health and other services, complementary income opportunities and cash transfers. These programs serve to combat famine and impoverishment while maintaining critical institutional capacity.

However, coverage by humanitarian partners is not uniform across the country, where only 200 out of 322 districts in the country are classified as “relatively accessible” by the humanitarian response. Approximately 51 districts are classified as having “high or extremely high access constraints.” Thus, there are pockets where people in need cannot be reached. Out of the 22 million Yemeni targeted by the humanitarian response, 1.5 million live in districts with high access constraints.

Outlook

Economic prospects in 2018 and beyond will critically depend on rapid improvements of the political and security situation, and ultimately whether an end to the on-going conflict will allow for rebuilding the economy and Yemen’s social fabric. Macroeconomic stabilization is impossible in the current context of fragmented control of key economic institutions between the recognized government in Aden and the *de facto* authority in Sanaa. If violence can be contained by mid-2018, with accompanying improvements in functioning of budgetary and monetary institutions, GDP is projected to begin to recover in 2019, with a projected double-digit GDP recovery growth rate. Restoration of more peaceful conditions will likely allow for resumption of hydrocarbon production, which will help restore government revenues. However, even in this scenario, little of this projected growth is to translate into a substantial poverty reduction. Rather, poverty is projected to remain high at approximately 75 percent in 2018 and 73 percent in 2019. Given the bleak outlook in Yemen, massive foreign assistance would continue to be required for recovery and reconstruction in a post-conflict

period. In particular, foreign assistance would be needed to help restore basic services and rebuild confidence in Yemen’s institutions.

Risks and challenges

The estimated massive increase in absolute poverty in Yemen since 2014 poses a tremendous challenge for peace building. Making peace sustainable in Yemen will require diversifying the economy, making employment more productive, designing fiscal and other policies, which will support investment to create jobs and income for the large share of Yemenis who were unemployed and excluded even before the conflict. The war has severely aggravated centrifugal forces in Yemen, and an inclusive governance model will be essential to mitigate these forces. Leveraging support for recovery and reconstruction to improve economic and social inclusiveness could help with the prevention of relapse after a period of reduced conflict.

TABLE 2 Yemen / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	-37.1	-34.3	-13.8	-0.5	17.9	16.3
Private Consumption	-29.3	-27.5	-8.9	-0.8	6.6	3.4
Government Consumption	-26.0	-23.0	-37.1	26.1	0.7	12.7
Gross Fixed Capital Investment	-85.2	-39.6	9.3	220.2	33.8	15.2
Exports, Goods and Services	-68.1	-78.5	43.2	196.8	81.4	55.4
Imports, Goods and Services	-45.1	-20.5	-1.1	55.9	12.1	10.1
Real GDP growth, at constant factor prices	-37.6	-35.0	-13.6	0.5	19.4	17.8
Agriculture	-34.9	-31.4	-15.0	-5.0	11.0	9.0
Industry	-43.1	-43.4	-9.6	1.0	22.1	25.8
Services	-34.9	-31.4	-15.0	3.3	22.2	17.3
Inflation (Consumer Price Index)	61.4	-20.3	4.9	23.0	20.0	7.5
Current Account Balance (% of GDP)	-6.5	-5.2	-1.0	-6.5	-3.8	0.3
Fiscal Balance (% of GDP)	-11.5	-16.5	-7.6	-14.0	-8.6	-2.7
Debt (% of GDP)	72.7	128.0	141.8	130.9	98.5	84.7
Primary Balance (% of GDP)	-3.4	-7.3	-7.2	-7.7	-1.9	1.7
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	50.0	76.3	82.9	83.9	78.9	73.6
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	79.7	92.2	94.7	95.1	92.9	90.5
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	93.5	98.2	99.0	99.1	98.4	97.8

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

Notes: e = estimate, f = forecast.

(a) Calculations based on 2014-HBS. Nowcast: 2016 - 2017. Forecast are from 2018 to 2020.

(b) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.

