YEMEN

Table 1	2017
Population, million	28.3
GDP, current US$ billion	31.3
GDP per capita, current US$	1105
National poverty line[a]	48.6
Gini index[a]	36.7
School enrollment, primary (% gross)[b]	92.4
Life expectancy at birth, years[b]	65.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2016)

Violent conflict has caused a dramatic deterioration of the economic and social conditions in the country. Output is estimated to have contracted by about 50 percent; household incomes have been declining since 2015, poverty has dramatically increased with an estimated 52 percent of the population living below US$1.90 a day PPP (or 81 percent at an income rate of US$3.20 a day). UNOCHA estimates that 22.2 million people in Yemen—approximately three-quarters of the entire population—are in need of some kind of humanitarian assistance. The risk of massive famine has been latent since 2017, and cholera, diphtheria, and other communicable diseases have been ravaging the country. US$1.8 billion in humanitarian assistance could barely provide relief. Tentative negotiations to end the conflict, which were set to begin in Geneva on September 6, failed to materialize.

Recent developments

Since the escalation of violent conflict in March 2015, the economy has deteriorated sharply the estimated contraction amounts to approximately 50 percent cumulatively. The decline in GDP growth is bottoming out in 2018 with an estimated reduction of 2.6 percent compared to 5.9 percent in 2017. Conflict related adverse economic impacts and distortions show equally negative impact for the supply response and demand side, the latter being much driven by reduced household incomes. Employment opportunities have significantly diminished. Much of the public sector employment failed to provide relief as salaries for public employees were only partly and intermittently paid since Fall 2016. Economic activity in agriculture, traditionally an important source of income for poor households, remained also constrained. Furthermore, the commensurate dramatic decrease in government revenues, especially due to the much reduced oil and gas production, have further contributed to the implosion of the formal social safety nets for the poorer straits of households. Repeated waves of exchange rate devaluations, most recently in August 2018, have further undermined household income. For many, joining a militia or other conflict related economic activities remain the only gainful opportunities. While inflation could be somewhat contained in 2017, partly because of non payments of public salaries, inflation is estimated to have accelerated to over 40 percent. This is largely caused by continuous issuing of new banknotes while monetary policy instruments to contain the effect of money expansion are largely absent given operational constraints of the central banking system in Yemen. The recent sudden decline of the exchange rate—partly a result of ineffective monetary policies and the lack of foreign exchange—fueled price rises further, especially for food (see also UNOCHA reports). It is uncertain at this point whether the ongoing efforts to restore the Central Bank basic functions in Yemen and the recent US$2 billion deposit by KSA to CBY could lead to containing the inflationary pressures.

Fiscal policy has been determined by the conflict conditions. The most recent estimated fiscal data show the level of public revenues collection declining from nearly 24 percent of GDP before the conflict, to an estimated 8 percent of GDP in 2018, with hydrocarbon tax collection being a main source for revenues, amounting to at best 5 percent in 2018 of a much-reduced GDP. Some revenues—uncaptured by the treasury—originate from domestic oil and gas sales, are estimated at around 1 percent of GDP. Public expenditures in 2018 are projected to reach 18-19 percent of GDP leaving an estimated consolidated fiscal deficit of around 11-12 percent of GDP. Financing such a deficit implies accumulating further arrears, or unpaid commitments, including on public sector salaries. Domestic debt rose substantially up to 2017 as result, but the market is now saturated. The shrinking of the state's share in the economy since end 2014, is indicative of the deepening fragmentation, waning capacity and legitimacy of the state.

The country has largely exhausted its foreign reserves. Imports have greatly contracted given the dwindled access to foreign reserves while the Central Bank system of Yemen (CBY) remains largely dysfunctional. Critical food and energy imports are facilitated exclusively through private channels without support through import financing facilities offered earlier by the CBY. The recent deposit of US$2 billion by the Kingdom of Saudi Arabia (KSA) to CBY, plus an oil grant for over US$1 billion, provided to the recognized Government provide for first steps to restore CBY access to foreign reserves and therefore an external payment capacity. . The flow of import and exports is further constrained by the fact that key ports in Yemen are subjected to the conflict at varying degrees, most recently Hodeida due to the intensified fight in the area. These import hurdles are particularly challenging, given that Yemen imports 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 afford an adequate diet. UNOCHA estimates that a total of 22 million Yemenis are in need of humanitarian assistance, of which over 11 million are in acute need of assistance to sustain their lives and avoid famine. Cholera, diphtheria, and other infectious diseases have become rampant in a context where health was already poor and malnutrition was widespread. Significant damage to vital infrastructure has contributed to a decline in access to basic services, crippled civilian health and education facilities, and has led to an internal displacement of over 10 percent of the population. These overlapping deprivations are causing untold stress on the ability of households to lead healthy and productive lives.

The dramatic deterioration 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 32 percentage points to approximately 81 percent today. Poverty was already on the rise in Yemen prior to conflict, rising nearly 14 percentage points between 2005 and 2014. However, this deprivation is not uniformly felt throughout the household. Estimates suggest that in particular women are shouldering an inequitable share of the burden and are experiencing even worse deprivations than the average of the population.

The humanitarian response 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 including 8 UN agencies. The World Bank supports the most vulnerable groups with approximately US$1.3 billion through six large emergency operations providing critical health and other services, complementary income opportunities and cash transfers. These programs serve to combat impoverishment while maintaining critical institutional service 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" 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 ongoing conflict will allow for rebuilding the economy and social fabric. If violence can be contained by late 2018, GDP is projected to begin to recover in 2019, with double-digit GDP growth. Inflation is likely to decline in such a case as supplies will increase. Less conflict might also help to stabilize further the exchange rate and bring back more options for monetary policy. Restoration of more peaceful conditions will allow for resumption of hydrocarbon production, which in turn will help restore government revenues and the balance of payments. However, even in this scenario, little of a such projected growth is to translate into a substantial reduction of poverty. Rather, poverty is projected to remain high at approximately 76 percent in 2019 (with the poverty line at a US$3.20 PPP), or 44 percent of the population living below US$1.90 a day. Given the bleak outlook, massive foreign assistance would continue to be required to fund recovery and reconstruction in a post-conflict period. In particular, foreign assistance would be needed to help restore basic services and rebuild confidence in institutions.

Risks and challenges

The significant increase in absolute poverty in Yemen since 2014 poses a tremendous challenge for peace building, with a prerequisite of large external assistance. In order to make peace more sustainable, fiscal and other policies need to be designed to support increased investment and to create jobs for the large share of Yemenis who were unemployed and excluded before the conflict. Leveraging support for recovery and reconstruction to improve economic and social inclusiveness could help to mitigate the risk of conflicts arising in the future.

TABLE 2 Yemen / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2015	2016	2017	2018 e	2019 f	2020 f
Real GDP growth, at constant market prices	-16.7	-13.6	-5.9	-2.6	14.7	13.0
Private Consumption	-4.8	-7.5	-2.7	-3.1	7.2	4.3
Government Consumption	-25.6	-23.4	-36.7	27.8	2.5	14.9
Gross Fixed Capital Investment	-82.5	-26.3	39.8	174.3	53.0	28.8
Exports, Goods and Services	-65.1	-69.9	-2.9	183.4	84.9	56.5
Imports, Goods and Services	-39.0	-15.1	-0.1	48.9	13.5	10.2
Real GDP growth, at constant factor prices	-17.6	-14.3	-5.8	-2.1	15.6	13.9
Agriculture	-12.5	-10.5	-6.6	-5.0	11.0	9.0
Industry	-27.8	-23.5	-3.6	5.9	26.8	24.6
Services	-12.5	-10.5	-6.6	-5.0	11.0	9.0
Inflation (Consumer Price Index)	12.0	-12.6	24.7	41.8	20.0	7.5
Current Account Balance (% of GDP)	-6.2	-5.1	-4.0	-9.3	-7.4	-4.5
Fiscal Balance (% of GDP)	-8.7	-8.9	-4.7	-10.7	-4.5	-1.4
Debt (% of GDP)	55.2	68.1	74.5	62.5	48.8	40.3
Primary Balance (% of GDP)	-2.6	-3.6	-4.5	-4.5	-1.1	0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	30.4	42.6	48.2	51.9	44.2	36.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.6	75.0	78.5	80.6	75.8	71.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	87.9	91.8	93.2	94.0	92.2	90.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2014-HBS. Actual data: 2014. Nowcast: 2015-2018. Forecast are from 2019 to 2020.
(b) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.