REPUBLIC OF YEMEN

Table 1	2023
Population, million	34.1
GDP, current US$ billion	18.8
GDP per capita, current US$	552.0
School enrollment, primary (% gross)[a]	83.9
Life expectancy at birth, years[a]	63.7
Total GHG emissions (mtCO2e)	25.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2016); Life expectancy (2022).

Amid the continued blockade of the IRG's oil exports by the Houthis and the escalating conflict in the Middle East, Yemen faces an increasingly grim reality. The modest economic rebound in 2022 was short-lived, with 2023 and 2024 witnessing new, sharp declines in GDP per capita. Food insecurity has reached a historic high, and poverty is more severe and widespread. The outlook remains bleak as stalled peace negotiations and regional conflicts continue to hinder immediate prospects for lasting peace and recovery. Yemen's future hinges on resolving these conflicts, securing donor support, and committing to peace, reconstruction, and reforms.

Key conditions and challenges

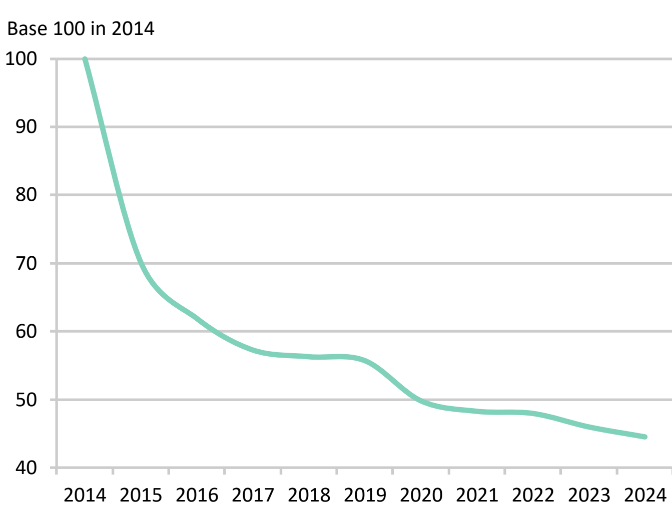
Yemen's humanitarian crisis is deeply rooted in its ongoing conflict and the highly fragmented political and economic landscape that has developed over the years. Since the onset of the conflict in 2015, the country has witnessed a staggering 54 percent contraction in real GDP per capita, plunging most Yemenis into poverty and severely eroding human capital. This is reflected in Yemen's precipitous drop in its score on the Human Development Index, where it ranked 186 out of 192 countries as of 2024. Indicators of wasting, stunting, and being underweight, collected in 2023, are also some of the highest in the world. The conflict has also intensified the country's fragmentation into two distinct economic zones, each governed by its unique set of institutions, resulting in increasing disparities.

Following some economic recovery in 2022 driven by the UN-sponsored truce, Yemen's economy contracted again in 2023 and 2024. The oil blockade has dampened growth and exacerbated IRG's fiscal and monetary challenges. Additionally, since October 2023, the escalation of the conflict in the Middle East and related Houthi involvement in the Red Sea has further undermined Yemen's economic and social conditions. As of end-August 2024, the ACLED Dashboard for Red Sea Attacks recorded around 355 incidents of violence linked to Houthi actions in the Red Sea. As a result, the volume of traffic through the strategic Suez Canal and Bab El-Mandeb Strait—carrying 30 percent of world container shipping—has dropped by half.

At the same time, Yemen continues to face deep structural challenges. Growth prospects in the oil sector depend on durable peace and financial and technical resources to restart oil production. Non-oil activity—mainly trade and agriculture—continues to be severely constrained by the conflict conditions, interruptions in essential service delivery, and acute input shortages. While remittances and aid help alleviate social conditions, these flows, too, are affected by conflict conditions. Critically, Yemen remains one of the most vulnerable countries to climate change impacts.

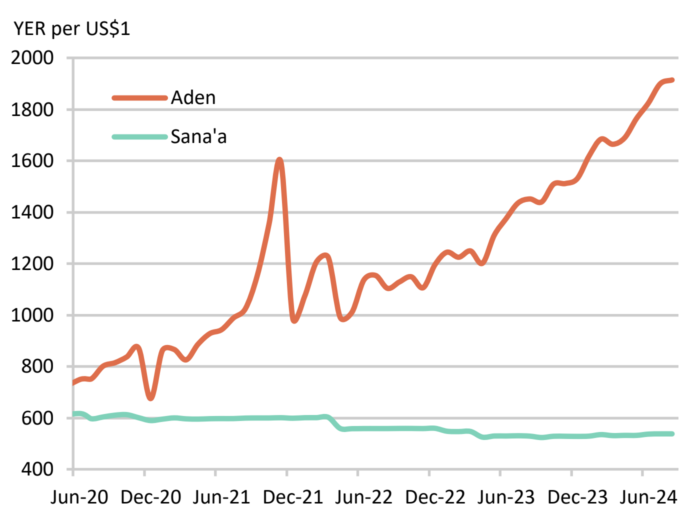
Living conditions for most Yemenis have become increasingly dire. In July 2024, 62 percent of households reported inadequate food consumption, representing a dramatic increase of 24 percent in IRG areas and 30 percent in Houthi areas since last year. In some governorates, severe food deprivation more than doubled. This is due to further depreciation of the Yemeni Riyal (YER) and reduced humanitarian food assistance. Phone surveys reveal that many households have resorted to extreme measures, with 19 percent turning to child labor or engaging in high-risk work. Those with poor food consumption are grappling with compounding vulnerabilities, including higher levels of acute and chronic health conditions, and symptoms of mental health disorders. These factors reinforce a vicious cycle of poverty and eroding human capital.

FIGURE 1 Republic of Yemen / Real GDP per capita



Source: World Bank staff calculations.

FIGURE 2 Republic of Yemen / Exchange rate trend: Sana'a and Aden



Sources: Telegram Exchange Market Group and World Bank staff calculations.

Recent developments

The ongoing Houthi blockade on IRG's oil exports, escalating tensions in the Red Sea, and domestic unrest have negatively impacted Yemen's economy in 2024. Oil-GDP has remained stagnant after a sharp 60 percent drop in 2023. Meanwhile, the non-oil sector faces mounting challenges due to rising uncertainty, hostile actions, and widespread protests. Particularly concerning is the escalating tension between the Houthis and the IRG over the regulation of the banking sector. On April 2, 2024, the CBY-Aden issued a mandate requiring banks in Sana'a to relocate to Aden or risk disconnection from SWIFT. This directive escalated tensions until July 23rd, when the IRG and Houthis agreed to de-escalate by reversing recent actions against banks and expanding Yemenia Airways' international flights. This followed a dire warning from the World Food Programme about a looming liquidity crisis and threat of hunger in Yemen.

The IRG's fiscal revenues, excluding grants, continued to decline in the first half of 2024, although donor support helped decrease the fiscal deficit. According to the Ministry of Finance in Aden, IRG revenues, excluding grants, fell by 42 percent in H1-2024, following a sharp 50 percent drop in 2023. Meanwhile, fiscal expenditures continued to rise. However, external emergency support provided some relief, with Saudi Arabia extending budget support, including disbursements totaling US$550 million in the first half of 2024.

External pressures continued to mount, leading to a depreciation of the YER in the Aden market. The suspension of IRG oil exports, combined with continued dependance on imports, intensified external pressures, causing the YER to depreciate in the Aden market from 1,531 per US dollar at the end of 2023 to 1,915 by August 20, 2024.

Outlook

Overall, the economy is expected to deteriorate further in 2024. National GDP is projected to contract by 1.0 percent in real terms, following a 2.0 percent decline in 2023. Oil-GDP is likely to remain stagnant, assuming the current conflict conditions continue and preclude oil exports in IRG-controlled areas from resuming. The ongoing blockade on IRG oil exports, coupled with persistent dependence on imported goods and services, is expected to widen the current account deficit to 25 percent of GDP, putting additional pressure on the YER. As a result, consumer prices across Yemen are anticipated to rise by 16.3 percent. However, donor support to the IRG and a reduction in expenditures are expected to decrease the IRG's fiscal deficit from 6.1 percent of GDP in 2023 to approximately 3.5 percent in 2024, despite the decline in revenues excluding grants.

The economic outlook for 2025 also remains grim. With stalled peace negotiations and ongoing regional and domestic tensions, our forecast assumes that there is no resumption of oil exports in 2025. Consequently, real GDP is projected to grow at a modest 1.5 percent, reflecting only marginal improvements in the non-oil sector. The services sector, particularly transportation, may see slight gains due expanded operations of Yemenia Airways under the UN-mediated agreement.

Significant downside risks could further destabilize Yemen's economy. This is attributed to the potential escalation of Houthi attacks in the Red Sea. While Yemen's imports and prices have remained relatively stable so far, the ongoing conflict increases risks of broader supply shortages and rising import costs due to increased shipping expenses, war premiums, and insurance costs. On the domestic front, tensions as those seen in 2024 within the banking sector could reemerge, posing serious threats to the economy by disrupting humanitarian aid, essential imports, remittances, and key sources of livelihood.

However, if a lasting truce or peace agreement is achieved, Yemen could experience large and sustained growth within months. Achieving a lasting truce or peace agreement could pave the way for rapid economic recovery, driven initially by the recovery of internal transport and trade, resulting in lower costs and increased employment and incomes. With additional external financial assistance and reconstruction efforts supported by development partners, and post-conflict reforms, Yemen could achieve accelerated and sustained growth within a short to medium time.

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

	2021	2022	2023	2024e	2025f
Real GDP growth, at constant market prices	-1.0	1.5	-2.0	-1.0	1.5
Inflation (consumer price index)[a]	31.5	29.5	0.9	16.3	20.7
Current account balance (% of GDP)	-14.2	-17.7	-20.3	-25.0	-25.7
Fiscal balance (% of GDP)	-0.9	-2.7	-6.1	-3.5	-4.0
Revenues (% of GDP)	7.3	9.5	6.0	7.4	6.6
Debt (% of GDP)	93.6	77.9	100.4	106.4	102.1
Primary balance (% of GDP)	0.2	-1.7	-4.4	-1.6	-2.1
GHG emissions growth (mtCO2e)	-0.1	-2.6	-3.4	-1.5	-0.3
Energy related GHG emissions (% of total)	32.0	31.3	30.3	29.7	29.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Inflation rates refer to end-of-period figures.