YEMEN ECONOMIC MONITOR

Persistent Fragility amid Rising Risks

Spring 2025

PROSPERITY
Middle East and North Africa
THE WORLD BANK

Yemen Economic Monitor

Persistent Fragility amid Rising Risks

Spring 2025

Global Practice for Macroeconomics, Trade & Investment

Middle East and North Africa Region

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ACRONYMS

ACAPS	Assessment Capacities Project
ACLED	Armed Conflict Location and Event Data Project
AML	Anti-Money Laundering
CBY	Central Bank of Yemen
CCY	Cash Consortium of Yemen
CCDR	Country Climate and Development Report
CEM	Country Economic Memorandum
CFT	Combating the Financing of Terrorism
FTO	Foreign Terrorist Organization
FX	Foreign Exchange
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GEP	Global Economic Prospects
HCI	Human Capital Index
HDI	Human Development Index
IBY	International Bank of Yemen
IMF	International Monetary Fund
IOM	International Organization for Migration
IPC	Integrated Food Security Phase Classification
IRG	Internationally Recognized Government
JMMI	Joint Market Monitoring Initiative
LCU	Local Currency Unit
MENA	Middle East and North Africa
MICS	Multiple Indicator Cluster Survey
MOF	Ministry of Finance
OCHA	Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
SWIFT	Society for Worldwide Interbank Financial Telecom
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children’s Fund
USAID	United States Agency for International Development
WB	World Bank
WFP	World Food Programme
YER	Yemeni Rial

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 Macroeconomics, Trade, and Investment (MTI) team. This issue was prepared by Yasmine Osman (Country Economist) and Mohammad Al Akkaoui (Economist), supported by a team of experts from different global practices of the World Bank. The team included Omar Al-Aqel (Private Sector Specialist) and Alia Aghajanian (Senior Economist). The *Yemen Economic Monitor* has been completed under the guidance of Eric Le Borgne (Practice Manager), Željko Bogetić (Lead Economist), and Dina Abu-Ghaida (Country Manager). Nabeel Darweesh (External Affairs Officer) is the lead on communications, outreach, and publishing.

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 mid-March 2025. Events occurring after this cutoff date are not included.

EXECUTIVE SUMMARY

While domestic tensions persist, with the Houthi movement continuing to blockade the Internationally Recognized Government (IRG) oil exports, Yemen also faces growing external risks. Ceasefire agreements in the Middle East in January 2025 had raised hopes for greater regional stability. However, renewed military tensions in the Red Sea since mid-March have undermined this fragile progress. In parallel, the U.S. designation of the Houthi movement as a Foreign Terrorist Organization (FTO) has introduced new compliance requirements, which are already affecting Yemen's banking sector. Meanwhile, growing concerns over the detentions of humanitarian staff by the Houthi movement have led several donors to scale back or redirect assistance. These shifts risk deepening Yemen's already severe economic and social challenges. Two-thirds of the population have inadequate food consumption, and poverty is widespread. Against this backdrop, the outlook remains bleak. Yemen's future hinges on its ability to secure lasting peace, rebuild, and implement critical reforms to strengthen state institutions and restore both domestic and international business confidence—essential for attracting investment and fostering growth.

Deepening Economic Fragmentation

Yemen's humanitarian crisis is deeply rooted in its prolonged conflict and the fragmentation of its political and economic systems, further exacerbated in 2024 by broader regional instability (Chapter 1). Since the war began in 2015, Yemen's real GDP per capita has plummeted by 58 percent, pushing most of the population into poverty and severely eroding human capital. The country has split into two distinct economic zones, each with its own institutions and competing monetary authorities, leading to widening disparities. A brief period of stability following the UN-sponsored truce in 2022 was short-lived, as economic contraction resumed in 2023 and 2024, driven by the Houthi blockade on IRG oil exports and 454 violent incidents linked to Houthi actions in the Red Sea in 2024. By late December 2024, maritime traffic through the strategic Suez Canal and Bab El-Mandeb Strait had plummeted by three-fourths compared to historical levels, compounding economic challenges.

Intensifying Economic Pressures and Worsening Humanitarian Conditions

In 2024, stalled peace discussions and the continued oil blockade intensified economic hardships for the IRG (Chapter 2). IRG revenues (excluding grants) fell to 2.5 percent of GDP, from 4.6 percent of GDP in 2023. However, Saudi budget support and spending reductions helped narrow the fiscal deficit. The suspension of IRG oil exports, combined with heavy reliance on imports, worsened external imbalances, leading to a sharp depreciation of the Yemeni Rial (YER) in Aden—from YER 1,540 per US dollar in early January 2024 to YER 2,065 per US dollar by year-end—fueling inflation beyond 30 percent and further eroding household purchasing power. Meanwhile, rising tensions between the Houthi movement and IRG over banking sector regulations in early 2024 further complicated the business environment. While regional and UN mediation efforts helped ease some tensions, the situation remains fragile.

Meanwhile, living conditions for most Yemenis deteriorated further in 2024. A growing share of households reported inadequate food consumption, driven by rising food prices in IRG-controlled areas and disrupted aid deliveries in Houthi-led regions. One in four Yemenis faces the compounding effects of food insecurity and climate-related hazards, often in areas already deeply affected by conflict. A decade of conflict-driven compounded shocks has severely eroded household resilience. With traditional coping mechanisms—such as selling assets—largely exhausted, many families are now resorting to destructive coping strategies that will have long-term consequences for future generations.

Grim Economic Outlook for 2025

The economic outlook for 2025 remains bleak, with further deterioration expected as domestic conditions worsen and external challenges intensify (Chapter 3). In IRG-controlled areas, the ongoing Houthi blockade on oil exports, coupled with the absence of a clear path to lasting peace, is expected to continue to be a strain on public finances and external accounts. Inflation is projected to remain elevated, driven by further currency depreciation in Aden, eroding purchasing power and dampening consumption. Fuel shortages are also likely to persist, leading to electricity blackouts and reduced power supply, which will severely disrupt essential services and constrain production. In Houthi-controlled areas, acute liquidity shortages are expected to continue, with restrictions on cash withdrawals and limited access to funds likely stifling local consumption and business activity. Externally, the FTO designation has introduced new compliance requirements that are already affecting Yemen's banking sector. Ongoing military tensions in the Red Sea and reductions in donor and UN aid are expected to further compound pressures on the country's already fragile social and economic conditions.

The Path Forward: Lasting Peace and Economic Stabilization

Yemen's future depends on its ability to achieve lasting peace, rebuild, and implement critical reforms (Chapter 4). This chapter argues that lasting peace could yield substantial economic and social benefits. A credible commitment to peace by all domestic actors would likely be met with scaled-up financing, technical assistance, and other support from Yemen's international partners, helping to accelerate economic recovery and restore essential social services. To maximize the benefits of lasting peace, Yemen needs a clear strategy. In the short term, efforts should focus on stabilizing the economic environment and restoring core state functions. In the medium term, the priority must be economic recovery, including macro stabilization and productivity enhancements. Sustained development over the long term requires structural reforms that address systemic challenges, including the enhancement of trade competitiveness, strengthening financial infrastructure, and enhancing data transparency. Without lasting peace and meaningful reforms, Yemen's economic and humanitarian crisis will only deepen. However, with decisive action and international support, the country can chart a path toward recovery, stability, and inclusive growth.

1

THE ECONOMIC AND SOCIAL CONTEXT

The war in Yemen has inflicted massive human, economic, and social costs on the country and its people. Yemen's GDP contracted by 43 percent in real terms between 2015 and 2024.[2] With the country's rapid population growth, per capita real GDP declined even more sharply, by an estimated 58 percent over the same period (Figure 1.1). Inflation further compounded these issues, causing nominal GDP per capita to drop from US$1,430 in 2014 to just US$433 in 2024—a staggering 70 percent decrease. This has pushed Yemen from being the 40th poorest country in the world before the conflict to the 3rd poorest by 2024 in terms of nominal GDP per capita (Figure 1.2).[3]

These economic losses have devastating human consequences. Poverty, which already affected 49 percent of the population before the conflict, has worsened significantly. While it is difficult to estimate poverty today, some projections indicate that at least 74 percent of Yemen's population now lives in extreme poverty, based on the national poverty line.[4] Today, approximately 19.5 million people—including 15 million women and children—require humanitarian assistance, and half face food insecurity.[5] Malnutrition rates are alarming, with 17 percent of children experiencing wasting, 49 percent suffering from stunted growth, and 41 percent being underweight—some of the highest rates in the Middle East and North Africa (MENA) region and among countries facing similar food insecurity levels around the world.[6]

The war has also imposed long-lasting impacts on Yemen's physical stock of capital, significantly lowering its potential output and creating long-term barriers to recovery. Years of conflict have not only led to the direct destruction of

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2 World Bank calculations based on IMF estimates for GDP.

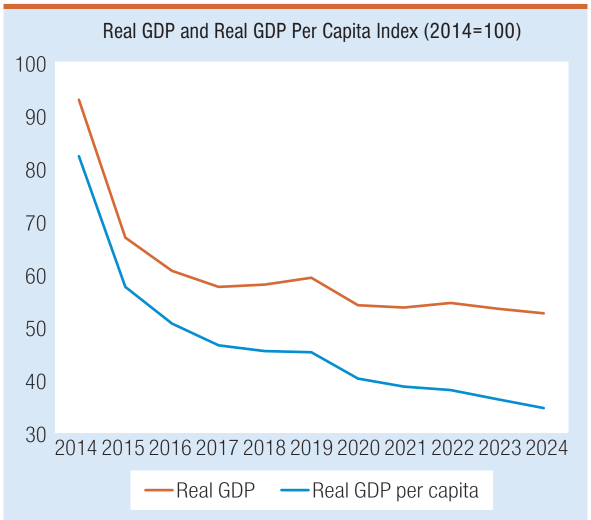
3 The UN Population Division recently released the 2024 Revision, which increases Yemen's estimated population by approximately 5 million. This revision reflects updated estimates of fertility and mortality, along with adjustments for migration. The data is available here: UN Population Division.

4 Yemen Poverty and Equity Assessment: Living in Dire Conditions (English). Washington, D.C.: World Bank Group.

5 Yemen Humanitarian Needs and Response plan issued January 2025.

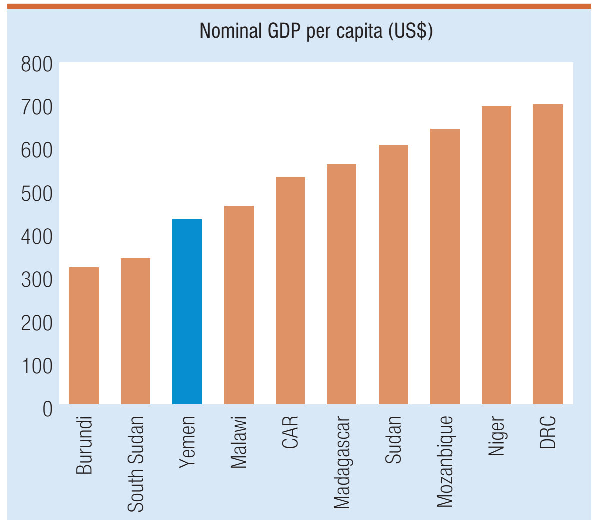
6 2023/24 Multiple Indicator Cluster Survey (MICS), CSO and UNICEF, 2024.

FIGURE 1.1 • The Conflict Led to a Sharp Decline in Economic Activity



Source: WB and IMF Staff Calculations.

FIGURE 1.2 • Yemen Is One of the Ten Poorest Countries in the World



Source: WB (March 2025 for Yemen) and IMF WEO (October 2024 for others).

infrastructure but also accelerated its depreciation due to the lack of maintenance resources. According to the World Bank's *Yemen Dynamic Needs Assessment Phase 3*, damage in 16 assessed cities as of January 2020 is estimated at US$6.8 to 8.3 billion—equivalent to 39–47 percent of 2024 GDP.[7] The housing sector has been hit hardest, accounting for over 74 percent of total damages, followed by health and power. Damage to water and sanitation, transport, and education infrastructure is also estimated in the hundreds of millions. Overall, the conflict damaged or destroyed more than one-third of the country's homes, schools, hospitals, and water and sanitation facilities, further weakening Yemen's already sluggish productivity.[8] Recovery and reconstruction needs in the assessed sectors and locations are projected between US$20 and US$25 billion over five years.

Yemen's human capital, one of its most critical resources, has suffered deeply from the prolonged conflict. The country's quality-adjusted stock of human capital has been eroded by reduced access to education, deteriorating health services, conflict-related deaths, and permanent outmigration. Human Capital Index (HCI) shows that a child born in 2020 will only be 37 percent as productive in adulthood as they would have been with access to comprehensive healthcare and a complete education.[9] Overall, education and health outcomes have sharply declined. One out of every four children of basic school age are out of school.[10] In 2023, the neonatal mortality was estimated at 21 per 1,000 live births while the infant mortality rate, often used as an indicator of the health status of a country, was 35 per 1,000 live births. Yemen's Human Development Index score has dropped to 0.424 in 2022, placing the country 186th out of 193 countries and territories compared to 160th out of 188 in 2014 (Figure 1.3).[11,12]

The ongoing conflict has further deepened Yemen's economic fragmentation, dividing the country into two distinct economic zones, each governed by its own institutions and policies.

7 World Bank Yemen Dynamic Needs Assessment: Phase 3 (2020 Update).

8 World Bank 2020b.

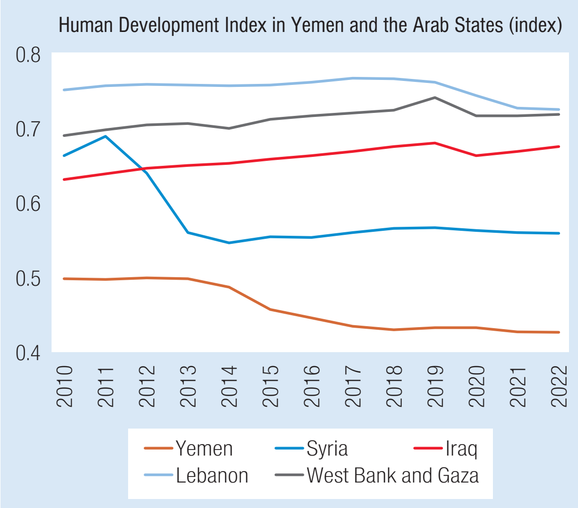
9 Human Capital Country Brief, Yemen, World Bank.

10 https://www.unicef.org/yemen/documents/yemen-mics-multiple-indicator-cluster-survey.

11 Human Development Report, United Nations, New York (2015; 2023–24).

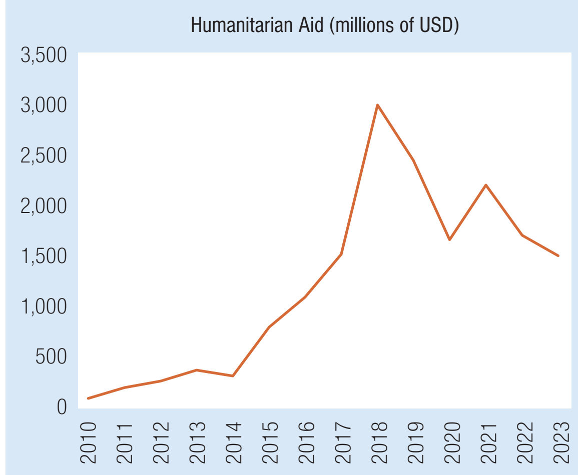
12 The Human Capital Index (HCI) quantifies the economic value of a country's human capital, reflecting the potential productivity of its population through indicators related to health, education, and survival rates. It helps evaluate how effectively countries are developing their human capital. In contrast, the Human Development Index (HDI) measures a country's progress across three key dimensions: health, education, and standard of living.

FIGURE 1.3 • Human Capital Declined Sharply during the Conflict



Source: United Nations Development Program.

FIGURE 1.4 • Humanitarian Funding to Yemen Has Declined Significantly



Source: OECD.

Houthi-controlled areas are home to approximately 70 percent of the population, while areas controlled by the IRG hold Yemen's oil and gas resources.[13] In 2016, the IRG relocated the Central Bank of Yemen (CBY) headquarters to Aden. However, CBY-Aden has struggled to secure sufficient foreign exchange liquidity due to the sharp decline in oil and gas exports. These challenges have been compounded by limited access to external financing, difficulties faced by domestic banks, and the absence of an enabling environment for effective monetary policy implementation. Meanwhile, Houthi-controlled Sana'a has remained the country's banking and trading center. Its larger population has attracted greater remittance inflows and aid-agency payments executed through the formal banking system. However, in recent years, humanitarian funding to Yemen has declined significantly, leaving the population in an increasingly dire situation (Figure 1.4).[14] The risks of food insecurity are especially severe, exacerbated by the suspension of aid and food distribution by the World Food Programme (WFP) in Houthi-controlled areas since late 2023 and the pause of USAID funded programs in early 2025.

The growing economic fragmentation between Houthi- and IRG-controlled areas poses a serious threat to Yemen's already fragile economy. Divergent and uncoordinated monetary policies have led to stark disparities in the value of the YER between Aden and Sana'a, creating market distortions that complicate policymaking and deter investment.[15] In Houthi-controlled areas, reports indicate a reduction in local currency liquidity, while the country overall continues to suffer from declining foreign currency reserves. This economic fragmentation is deepening, driven by ongoing political tensions between the Houthi movement and the IRG, further entrenching financial and institutional fragmentation. This division

[13] Yemen: Population Estimates – Humanitarian Data Exchange (humdata.org).

[14] While external factors such as a shift in attention to other global crises and conflicts contribute to the decline in funding, the EU reports that access restrictions and bureaucratic hurdles are common, especially in Houthi-controlled areas. Here, the movement of national female aid workers has increasingly been limited, significantly hampering access to assistance for women and children. Additionally, delays in independent assessments, monitoring, and interference in contracts challenge aid delivery. Insecurity and political fragmentation in IRG-controlled areas further exacerbate the situation, with targeted attacks on political figures and threats to humanitarian workers. Recurrent power cuts and fuel shortages also threaten stability.

[15] The currency has different values depending on the banknote's date of printing: Yemen Economic Bulletin: Widening Exchange Rate Disparity Between New and Old Banknotes – Sana'a Center For Strategic Studies (sanaacenter.org).

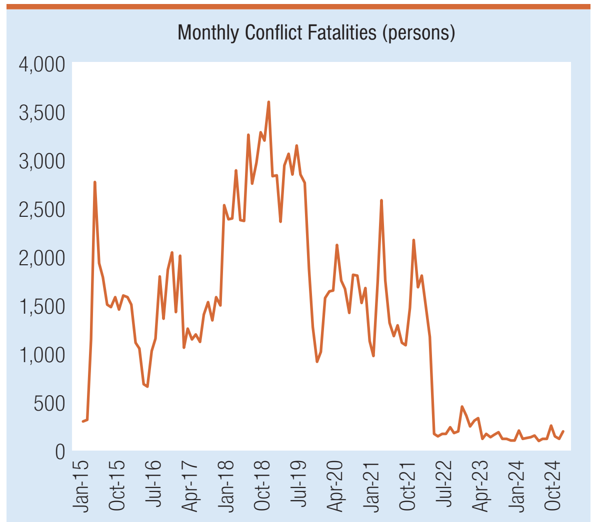
further exacerbates the already dire social and humanitarian crisis. The potential for renewed economic escalation remains a serious concern, as demonstrated by disputes between March and July 2024 over control and regulation of the banking and transport sectors.[16]

The economy has further deteriorated since the expiration of the UN-brokered truce in late 2022. While 2022 initially showed signs of improvement—bolstered by the April 2022 truce, which temporarily halted hostilities, reduced conflict-related fatalities, and stimulated economic activity (Figure 1.5)—this progress was short-lived.[17] The truce expired in October 2022 without a permanent political settlement, and despite an informal ceasefire, economic conditions worsened. The downturn was exacerbated by the Houthi-imposed blockade on IRG oil exports since October 2022 and the ban on Marib LPG sales in Houthi-controlled areas since May 2023.[18]

At the same time, Yemen continues to face deep structural challenges. Growth prospects in the oil sector depend on durable peace, financial and technical resources to restart oil production, and Yemen's ability to attract foreign investment, especially given its aging oil fields. Non-oil activity—primarily trade and agriculture—remains severely constrained by the conflict conditions, compounded by interruptions in essential service delivery, acute input shortages, double taxation, widespread corruption, market distortions stemming from uncoordinated policies, and the multiplicity of Yemen's institutions.[19] While remittances and aid help alleviate social conditions, these flows, too, are affected by conflict conditions.

Living conditions for most Yemenis are becoming increasingly dire. An estimated 63 percent of the population now faces inadequate food consumption, due to the lack of purchasing power across Yemen, further depreciation of the YER in IRG-controlled areas, and reduced humanitarian food assistance.[20] Those with poor food consumption are also grappling with compounding vulnerabilities, including exposure to climate hazards and conflict, higher levels of acute and chronic health conditions, and symptoms of mental health disorders. Phone surveys reveal that many households

FIGURE 1.5 • Fatalities Remained Low since 2022



Source: Armed Conflict Location and Event Data Project (ACLED).

exhausted their resilience, and have resorted to extreme measures, with 19 percent turning to child labor or engaging in high-risk work, with enduring destructive effects on safety, health, and the social fabric.[21] These coping strategies reinforce a vicious cycle of poverty and continuing erosion of human capital, deepening the humanitarian crisis. On the other hand, there is also evidence of households turning to subsistence agriculture as an alternative coping strategy (Box 1.1). Further investment in domestic agriculture would still be needed to move households away from subsistence farming to more sustainable livelihood options.

16 See Chapter 2 – financial sector section.

17 Yemen Economic Monitor, "Peace on the Horizon?", World Bank, October 2024.

18 The Houthi movement imposed an embargo on IRG oil exports in October 2022 through three drone attacks on Yemeni oil exports in the months following the expiration of the UN-sponsored truce. The Houthi movement demands that the Yemeni government pay the salaries of civil servants in Houthi-controlled areas: https://www.mei.edu/publications/houthis-embargo-yemens-oil-exports.

19 In 2024, Yemen was ranked 173rd out of 180 countries on the Corruption Perceptions Index with a score of 13 out of 100 down from 16 the preceding year, according to Transparency International.

20 Yemen Humanitarian Needs Overview 2024, OCHA, issued in January 2024.

21 World Bank 2024.

BOX 1.1. COPING THROUGH AGRICULTURE AMIDST A DESTRUCTIVE CONFLICT

Yemen's conflict has severely disrupted agriculture, causing land and crop losses and damaging critical infrastructure. Even before the conflict, the sector was in decline. In the 1970s and 1980s, labor migration from northern Yemen to neighboring oil-producing countries led to the neglect of farmland.[a] The discovery of oil further shifted focus toward food imports over domestic agriculture. Persistent challenges—including droughts, urbanization, political instability, and weak policies—further hindered agricultural activity.[b]

Recent satellite imagery and machine learning analysis reveal a significant expansion in cropland between 2018 and 2022, with increases of 10–40 percent in some areas.[c] Approximately 70 percent of agricultural land is now used for cereal, 20 percent for qat, and 10 percent for fruits and vegetables. While increased rainfall likely played a role, several other factors contributed, including the movement of households to rural areas in search of safety and livelihoods, and efforts by local authorities to boost domestic food production. Much of the expansion appears linked to increased cereal cultivation; however, the growth of qat cultivation over the past decade also played a role (Yemen CEM, 2023). Although qat cultivation generates income, its widespread production reduces food availability, places additional strain on already scarce water resources, and undermines long-term agricultural productivity due to its low nutritional value and associated health risks.

A notable shift in urban-to-rural displacement and migration has also emerged, as households seek safety, stability, and improved living conditions in the face of conflict and deteriorating urban economies.[d] This shift has likely contributed to higher employment in agriculture, with rural areas offering more stable subsistence opportunities. Agriculture has become a vital source of income and food security, particularly for rural populations, as households increasingly rely on farming to supplement underfunded social protection programs.[e] It serves as a buffer against economic disruptions, providing stability and resilience for vulnerable communities. To sustain this safety net, further investment in agricultural infrastructure—potentially through existing public works programs—will be essential.

Source: Yemen Agricultural Production Potential for Food Nutrition and Security (World Bank, forthcoming).

[a] Al-Eryani, Aiman. 2021. "To Avoid Past Mistakes, Invest in Yemen's Agricultural Sector." Yemen Policy Center. June 24. www.yemenpolicy.org/yemens-agricultural-sector-a-history-of-neglect-and-lost-potential/.

[b] FAO. 2021. Yemen – Shocks, agricultural livelihoods and food security. Monitoring report, December 2021. Rome. https://openknowledge.fao.org/server/api/core/bitstreams/bb5d8102-28c8-4faf-b025-fa48e256f807/content.

[c] World Bank report, forthcoming. The study utilized high-resolution satellite imagery from sources like Sentinel-2 and MODIS to cover large spatial scales and local areas. Ground truth data essential for training and validating the models—was sourced from existing datasets showing specific field locations and crop types and annotated by Yemeni agricultural experts with GIS experience. The analysis employed two primary approaches: the Dynamic World (DW) dataset for baseline estimates and the Normalized Difference Vegetation Index (NDVI) within a static DW-derived cropland mask to assess vegetation health.

[d] While there has not been a systematic analysis of the place of origin of the internally displaced persons, many of them have fled governorates that are relatively more urban, such as Taiz and Hodeidah, according to data collected as part of UNHCR's Protection Monitoring Activities in 2024. Moreover, most conflict events have been recorded in cities and urban areas according to ACLED's conflict event data.

[e] Gansey, Romeo Jacky; Aghajanian, Alia Jane. Monitoring Food Insecurity and Employment in Yemen: Results from the Yemen Mobile Phone Survey Monitoring – Round I (English). Washington, D.C.: World Bank Group. https://documents1.worldbank.org/curated/en/099082223171029962/pdf/P179194042dc4400709c080a81b92fd61b8.pdf.

Yemen remains highly vulnerable countries to climate change impacts, with major consequences for the wellbeing of its people, especially the poor. The Yemen Country Climate and Development Report (CCDR) provides valuable insights into the complex nexus of development, conflict, and climate change in Yemen (Box 1.2).

BOX 1.2. YEMEN'S VULNERABILITY TO CLIMATE CHANGE: LESSONS FROM THE CCDR

Yemen faces a complex interplay of development, conflict, and climate change. The ongoing conflict has led to a humanitarian crisis affecting 80 percent of households, limiting access to basic services and exacerbating vulnerabilities. Climate change intensifies issues such as water scarcity and food insecurity, necessitating a coordinated approach that integrates development needs with climate action. Approximately 50 percent of Yemen's population is exposed to significant climate hazards, including extreme heat, drought, or flooding. Moreover, a quarter of the population suffers from the compounding effects of food insecurity and exposure to climate hazards, and many of them live in districts that have experienced significant conflict events. Under pessimistic climate scenarios, Yemen's annual GDP could decline by 3.9 percent by 2040 due to decreased agricultural productivity and infrastructure damage. Conversely, optimistic scenarios with increased precipitation could lead to a 1.5 percent annual GDP growth. However, frequent intense precipitation and longer dry periods pose significant challenges without proper policies and investments in adaptation.

Targeted support is essential for helping communities adapt to emerging risks and shocks. Projected climate shifts, particularly increased precipitation, offer opportunities to reduce the gap between supply and demand. Investments in water management, soil conservation, and climate-smart agriculture could increase yields by up to 13.5 percent from 2041 to 2050, bolstering food security and nutrition. The fisheries sector faces growing threats from climate change, including the risk of fish stock declines of up to 23 percent, underscoring the need for sustainable fishing practices and stronger coastal management. Increasing climate-related disasters pose risks to urban areas and infrastructure, making robust disaster risk management strategies essential. Yemen has significant potential for renewable energy development, which is crucial for reliable electricity and economic development. Integrating climate resilience into public health planning is vital, since climate change exacerbates health challenges, potentially costing over US$5 billion in excess health costs by 2050. Strengthening the private sector and developing innovative financing mechanisms are necessary to overcome the obstacles Yemen faces in accessing climate finance. Engaging diverse stakeholders, including local communities, women, and youth, is essential for effective climate actions and sustainable development.

The CCDR's recommendations are framed around five higher-level objectives: developing spatially targeted, scalable, and people-centered area-based approaches to build resilience and reduce multidimensional poverty; improving water and food security and building a resilient fisheries sector amid uncertainty; promoting disaster risk management and climate-resilient power service provision centered around renewable energy; fostering adaptive human development by advancing health and human capital, prioritizing women and vulnerable groups; and scaling up innovative climate finance and empowering the private sector through people-centered approaches.

Source: World Bank Yemen Country Climate and Development Report (CCDR), 2024.

2

RECENT ECONOMIC DEVELOPMENTS[22]

Real Sector

In 2024, Yemen's economy remained severely impacted by the ongoing Houthi blockade on IRG's oil exports and deepening economic fragmentation. Real GDP is estimated to have contracted by 1.5 percent, after a 2.0 percent decline in 2023 (Table 2.1). Oil-sector activity stagnated after a sharp 60 percent drop in 2023, as the Houthi movement continued to block IRG oil exports. Meanwhile, the non-oil sector remained under pressure, grappling with worsening economic conditions and further fragmentation. Notably, tensions between the Houthi movement and the IRG over control of the banking sector in the first half of 2024 increased concerns about financial stability and created further uncertainty for businesses. In April, CBY-Aden issued a mandate requiring banks in Sana'a to relocate to Aden or face disconnection from SWIFT, exacerbating tensions between the two parties. The situation remained tense until July 23, when both sides agreed to de-escalate by reversing recent measures against banks and expanding Yemenia Airways' international flights. This agreement followed a warning from the World Food Programme about an imminent liquidity crisis and rising hunger in Houthi-controlled areas.

Houthi-controlled areas continued to experience severe strain, compounded by security challenges. Liquidity shortages, cash withdrawal restrictions, reduced access to funding, and limited civil servant salary payments suppressed local consumption and constrained business operations.[23,24] Escalating military tensions with Israel, including airstrikes targeting a port and a power plant in Hodeida, further disrupted economic activity.[25] In addition, growing security concerns, including detainment of

[22] This chapter examines economic development throughout 2024.

[23] https://sanaacenter.org/the-yemen-review/oct-dec-2024/24105.

[24] According to the January 2025 *FAO Yemen Market and Trade Bulletin*, income sources vary significantly between IRG- and Houthi-controlled areas. In IRG areas, 35 percent of households rely on government salaries. In contrast, in Houthi-controlled areas, 54 percent depend on casual labor, 18 percent on food aid, and only 3 percent on government salaries, reflecting the halt in public sector wage payments.

[25] IDF confirms launching strikes on Houthi-controlled port, power plants in Yemen | The Times of Israel.

a number of United Nations (UN) personnel, led to a scaling back of UN operations in these areas.[26]

IRG-controlled areas faced sharp currency depreciation and persistent supply-side constraints, limiting production and dampening consumption. The depreciation of the Aden exchange rate—coupled with a heavy reliance on imports—drove up consumer prices and production costs, weakened demand, eroded competitiveness, and disrupted supply chains. In principle, currency depreciation should boost exports and curb imports by making locally produced goods more competitive. However, in Yemen's FCV context, self-correcting market mechanisms are absent, as domestic firms remained severely constrained by the conflict, limiting their capacity to expand production. As a result, rather than improving competitiveness, the depreciation of the Aden exchange rate further exacerbated economic challenges. Additionally, electricity blackouts, worsened by fuel shortages, severely impacted essential services, leaving many areas with only a few hours of power per day. This significantly constrained production capacity, particularly in the industrial and agricultural sectors.[27] Moreover, irregular public sector salary payments further dampened aggregate demand.[28]

The Middle East conflict, fueled by direct Houthi involvement, has further deepened instability in Yemen and the broader region.[29] By the end of 2024, about a year after the onset of the crisis, the ACLED Dashboard for Red Sea Attacks recorded approximately 454 violent incidents linked to Houthi actions in the Red Sea, including 201 attacks on commercial ships (Figure 2.1). Consequently, vessel traffic through the strategic Suez Canal and Bab El-Mandeb Strait—which used to carry 30 percent of world container traffic—plummeted by three-fourths, forcing ships to detour around the Cape of Good Hope, where navigation volumes surged by over 50 percent (Figure 2.2). The disruption of maritime transportation in the Red Sea has driven up global shipping costs, with the sharpest increases observed on routes directly affected by the hostilities. However, the impact of higher freight rates on inflation has been muted

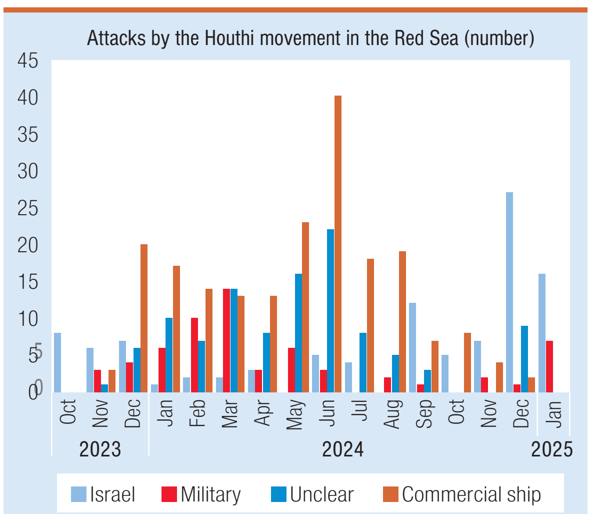
[26] UN is cutting back on Yemen activities after crackdown by Houthi rebels on humanitarian staff | AP News.

[27] The Yemen Review Quarterly: April-June 2024 – Sana'a Center for Strategic Studies (sanaacenter.org).

[28] Yemen Key Message Update: Emergency (IPC Phase 4) outcomes persist in areas with flooding, pause in aid, November 2024 – Yemen | ReliefWeb.

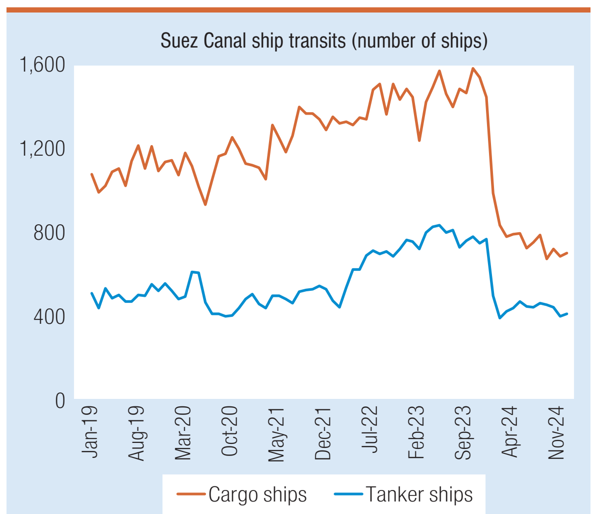
[29] For a recent, detailed analysis of multiple regional and global impacts of the Red Sea Shipping crisis that started with the Houthi movement's blockade of commercial shipping through the Red Sea in late 2023, see World Bank MENA Prosperity Economic Monitoring Brief No. 2 "The Deepening Red Sea Shipping Crisis: Impacts and Outlook" (February 2025).

FIGURE 2.1 • Houthi Attacks in the Red Sea Persisted



Sources: ACLED.

FIGURE 2.2 • Traffic through the Suez Canal Collapsed



Sources: IMF Port Watch.

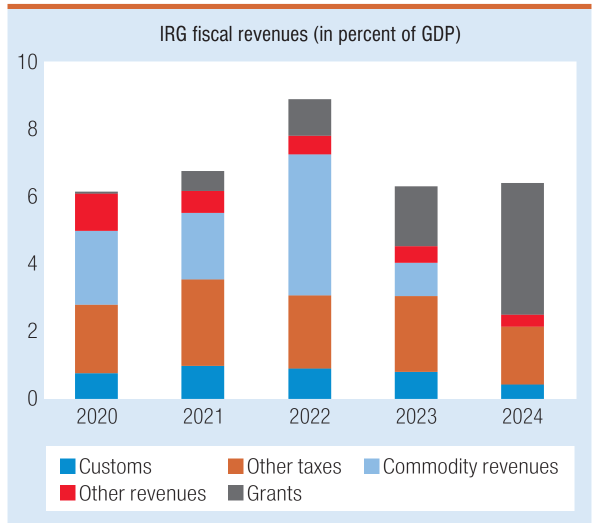
so far, partly due to subdued global demand, lower commodity prices, and adequate inventory levels. In Houthi-controlled areas, rising protests following the onset of the Middle East crisis have further intensified political, economic, and social volatility (Figure 2.3).

Fiscal Developments[30]

A significant increase in grants partially offset the continued decline in the IRG's fiscal revenues in 2024.[31] The IRG's fiscal revenues, excluding grants, fell from 4.6 percent of GDP in 2023 to 2.5 percent of GDP in 2024. This drop was primarily driven by reduced hydrocarbon revenues and weaker customs revenues, which reflected a slight contraction in imports and continued trade diversion away from the port of Aden. However, grants provided some fiscal relief, rising significantly, from 1.8 percent of GDP in 2023 to 3.9 percent of GDP in 2024, bolstered by direct budget support from Saudi Arabia in the amount of US$750 million. This increase in grants helped offset revenue losses, keeping total revenues broadly stable at around 6.4 percent of GDP in 2024 (Figure 2.4).

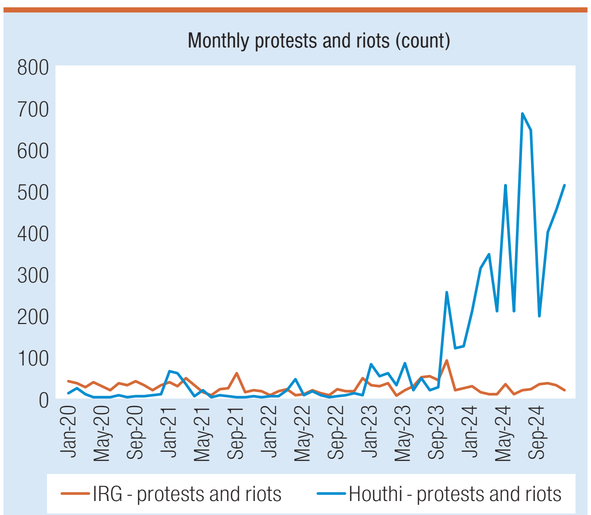
The IRG reduced expenditures in 2024, reallocating limited resources to address evolving priorities amid persistent constraints. Total fiscal expenditures declined from 13.6 percent of GDP in 2023 to 8.9 percent in 2024, driven by cuts across all expenditure categories, particularly electricity subsidies, goods and services, and transfers (Figure 2.5). However, wages, compensation, and

FIGURE 2.4 • IRG Fiscal Revenues Excluding Grants Declined



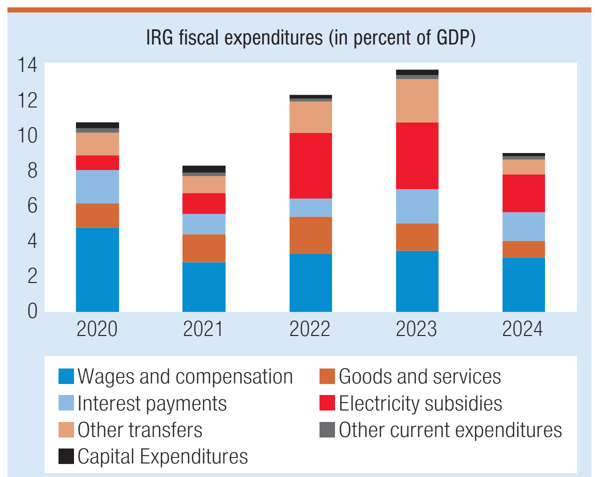
Source: MOF and WB staff calculations.

FIGURE 2.3 • Rising Protests and Riots Signaled Growing Unrest



Source: Armed Conflict Location and Event Data Project (ACLED).

FIGURE 2.5 • The IRG Reduced Fiscal Expenditures



Source: MOF; WB and IMF staff calculations.

30 The following figures only reflect the fiscal position of IRG and do not encompass areas controlled by Houthi movement, which is understood to operate a balanced cash-based budget system.

31 Ministry of Finance in Aden and World Bank calculations.

interest payments saw relatively smaller reductions. Capital expenditures remained broadly stagnant at 0.2 percent of GDP. As noted in the previous monitor, the persistently low level of capital spending—accounting for just 2 percent of total expenditures—raises concerns about the country's physical capital stock, which is either deteriorating rapidly due to insufficient maintenance or being damaged by the ongoing conflict. Despite these exceptional challenges, the IRG has made significant efforts to ensure the continued payment of state employees' salaries in areas under its control and to maintain the functioning of essential government institutions and services.

Both donor support and reduced expenditures contributed to the narrowing of the IRG's fiscal deficit. On a cash basis, the IRG's fiscal deficit declined from 7.2 percent of GDP in 2023 to 2.5 percent in 2024. However, this improvement, primarily driven by enhanced grant inflows and consolidated fiscal expenditures does not include arrears to public contractors; on an accrual basis, the deficit would be significantly wider. In contrast, Houthi-controlled areas—which include some of Yemen's major commercial and financial centers—are reported to operate under a balanced, cash-based public budget system, although no official data on their public finances is available. To mitigate fiscal pressures, the Houthi movement has introduced a draft law establishing a temporary, exceptional mechanism for public sector salary payments—entailing tiered salary reductions and the mobilization of additional funds from special sources such as the Teacher's Fund and other independent institutions.[32]

External Sector Developments[33]

Despite currency deprecation, pressure on the trade balance intensified in IRG-controlled areas. Although the trade deficit is estimated to have narrowed slightly to approximately US$12.3 billion (from 13.0 billion in 2023), its share of GDP remained elevated at 70 percent in 2024. Exports remained broadly stable despite the weaker currency, as Yemen's fragile and conflict-affected environment continues to limit production capacity. The slight reduction in the trade deficit, primarily driven by lower nominal imports, reflected a decline in international commodity prices—including food—despite an increase in import volumes. Despite escalating tensions in the Red Sea in 2024, Yemen's overall trade volumes were not significantly disrupted, according to ACAPS (Figure 2.6). However, imports continued to be heavily diverted toward Red Sea ports, a pattern established after the 2022 truce. ACAPS data indicate that 75 percent of imports by volume passed through Red Sea ports in 2024, consistent with last year's levels but representing a significant shift compared to the pre-truce period, when nearly 60 percent of imports were processed through IRG ports (Figure 2.7).

The current account deficit has widened, as ongoing security challenges have led to a decline in humanitarian and development assistance. Yemen's current account deficit is estimated to have expanded to US$3.2 billion (18.0 percent of GDP) in 2024, up from US$2.7 billion (16 percent of GDP) in 2023 (Figure 2.8). This deterioration reflects an estimated decline in Official Development Assistance (ODA) from approximately US$4.2 billion in 2023 to US$2.8 billion in 2024. The scaling back of aid operations in Houthi-controlled areas—driven by escalating Houthi violence targeting UN and NGO personnel since May 2024, as well as operational disruptions— contributed to the decline. Notably, the Yemen Humanitarian Response Plan for 2024, reported by OCHA, required US$2.7 billion in total funding, yet only US$1.5 billion was secured, leaving 45 percent of needs unmet.[34] The shortfall in humanitarian and development aid was partly mitigated by increased Saudi budget support. However, remittance inflows have reportedly decreased, likely due to tighter regulations in remittance-sending countries.[35]

Yemen's gross international reserves declined, driven by reduced aid inflows, remittances

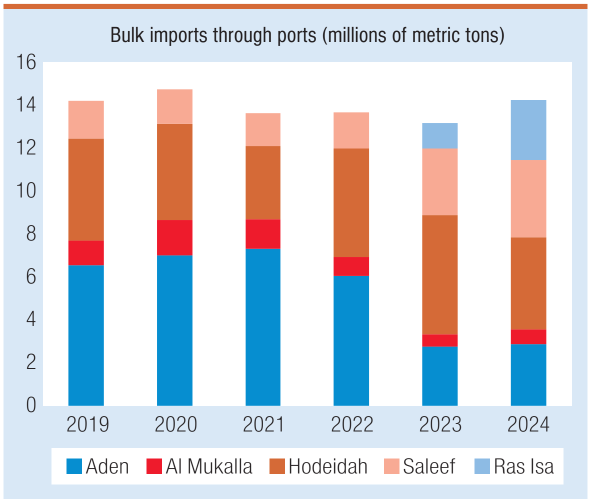
32 The Economy – The Yemen Review, October-December 2024 – Sana'a Center for Strategic Studies.

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

34 https://fts.unocha.org/plans/1193/summary.

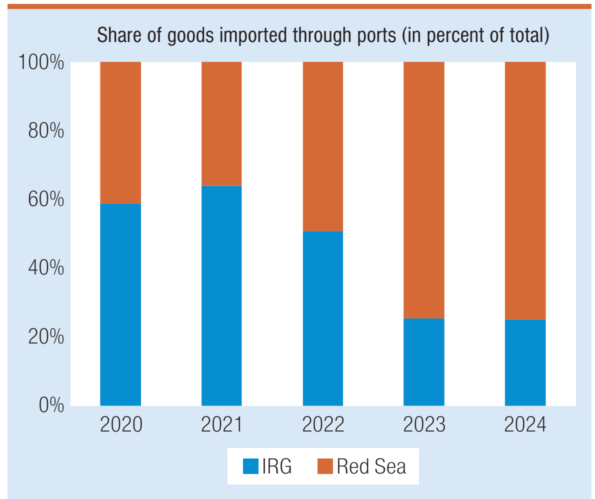
35 Joint Monitoring Report by ACAPS.

FIGURE 2.6 • Imports Increased despite Red Sea Escalation



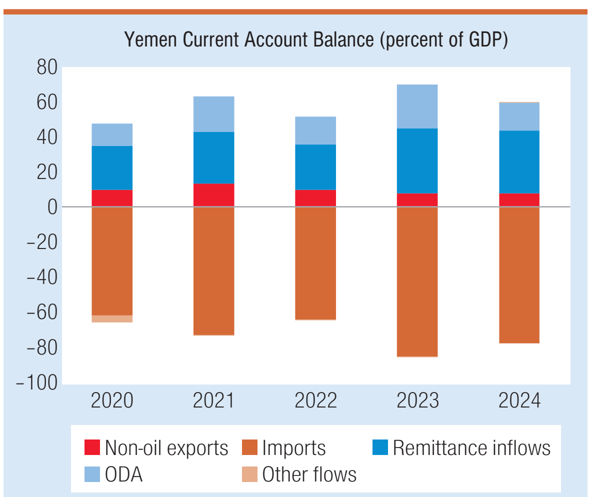
Source: ACAPS – YETI.
Note: IRG-controlled ports (green shades): Aden and Al Mukalla; Houthi controlled ports (orange shades): Hodeidah, Ras Isa and Saleef.

FIGURE 2.7 • The Shift Toward Houthi-Run Ports Stabilized



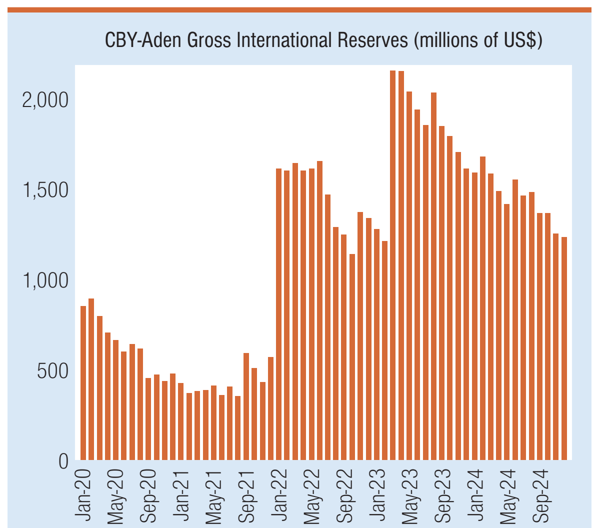
Source: ACAPS – YETI.
Note: IRG-controlled ports (green shades): Aden and Al Mukalla; Houthi controlled ports (orange shades): Hodeidah, Ras Isa and Saleef.

FIGURE 2.8 • The Current Account Has Continued Expanding



Source: UN-Comtrade, OECD Development Assistance Committee, and WB staff calculations.

FIGURE 2.9 • Foreign Reserves Continued to Fall



Source: CBY – Aden and WB staff calculations.

and ongoing challenges in boosting exports while limiting imports. Total gross foreign currency reserves fell to approximately US$1.3 billion at end-2024 (equivalent to 1.1 month of imports), down from US$1.6 billion at end-2023 (1.4 months of imports) (Figure 2.9). This decline highlights persistent economic pressures, particularly the difficulty in expanding exports, reducing dependence on food imports, and attracting foreign financing amid a deteriorating economic environment. In particular, Yemen has one of the least diversified export bases among MENA countries (see Box 2.1).

Monetary Policy and Inflation

In 2024, monetary financing of the IRG's fiscal deficit experienced a notable slowdown. Net domestic claims on government increased by only

BOX 2.1. EXPORT DIVERSIFICATION IN YEMEN

Yemen is one of the least diversified economies in the MENA region. In 2023, manufacturing exports accounted for only 11 percent of total exports, while the three most exported products made up 71 percent of total exports, significantly higher than the 24 percent in emerging markets and developing economies (EMDEs). Similarly, the top three trading partners accounted for three-fourths of total exports, compared to an average of 56 percent in EMDEs. Moreover, Yemen's manufacturing export concentration index is the highest in MENA after Djibouti, underscoring the country's heavy reliance on a narrow export base.

FIGURE A • Manufacturing Exports in Total Exports (2023)

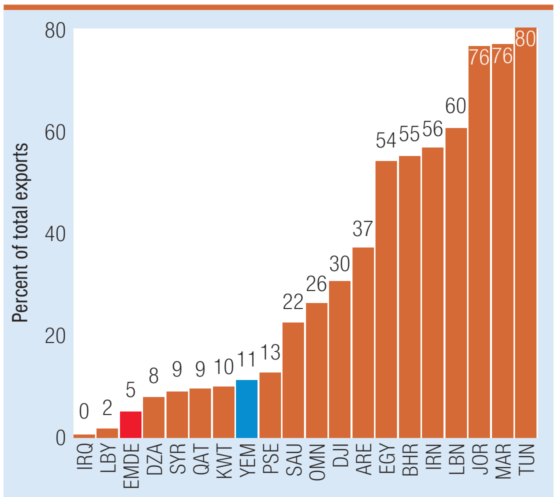


FIGURE B • Index of Concentration of Manufacturing Exports

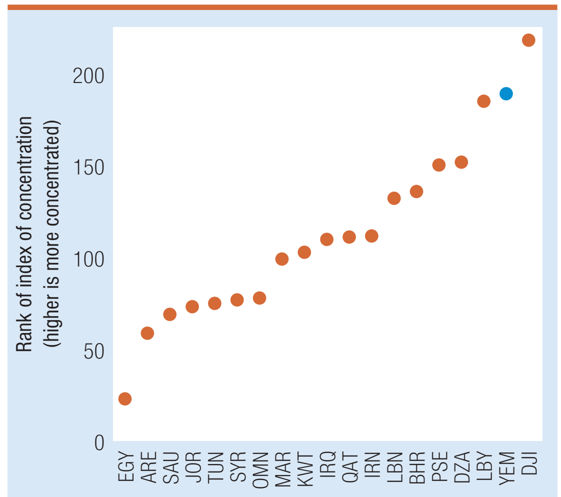


FIGURE C • Top 3 Exported Products as a Share of Total Exports

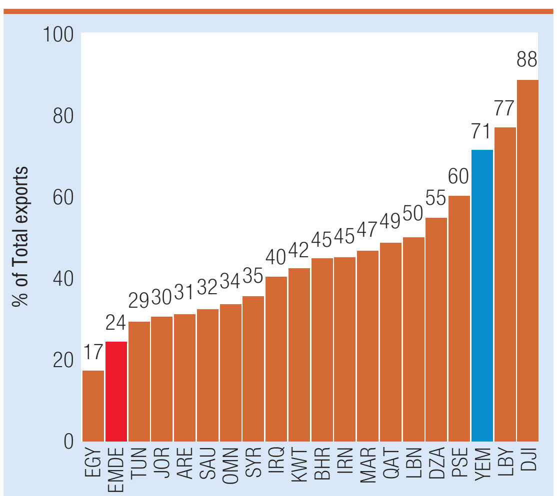
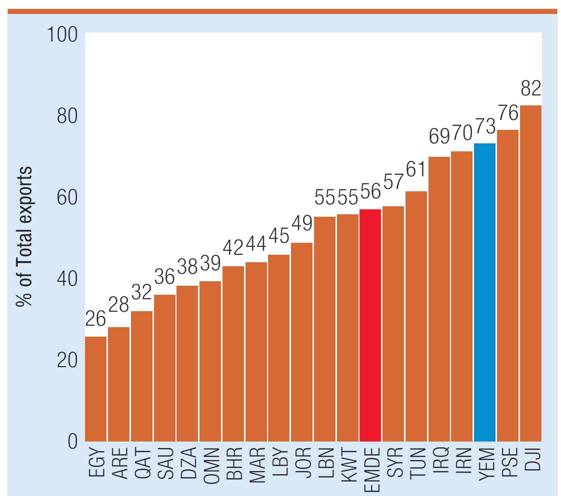


FIGURE D • Top 3 Export Partners as a Share of Total Exports



Source: World Bank staff calculations based on data from BACI (from the Centre d'Etudes Prospectives et d'Informations Internationales) and World Development Indicators (World Bank).

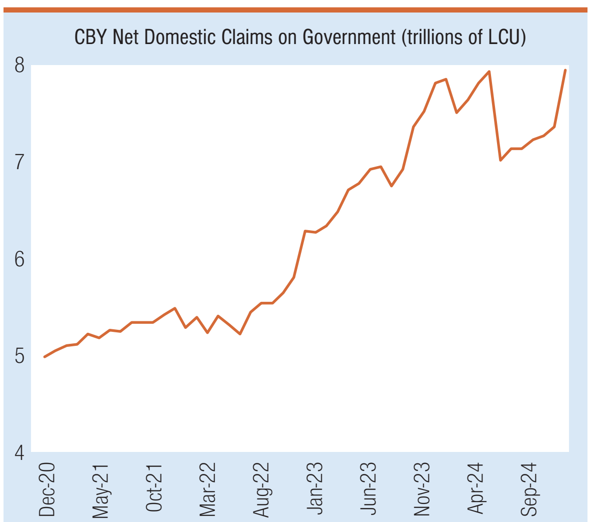
1.8 percent in nominal terms during 2024, representing a deceleration relative the 24.6 percent growth in the previous year (Figure 2.10).[36] This deceleration is largely attributable to the increased budget support from Saudi Arabia which reduced the need for CBY to rely on unconventional measures to finance its expenses. Concurrently, currency in circulation growth stagnated over the same period, compared to a 4.8 percent annual increase in 2023 (Figure 2.11). The steady level of monetary financing was fully offset by CBY-Aden's proactive foreign exchange auctions, which absorbed excess liquidity and anchored monetary conditions. This sterilization effort underscores the central bank's commitment to maintaining monetary stability. Nevertheless, any sudden pickup in monetary financing could reignite inflationary pressures and destabilize broader macroeconomic conditions, highlighting the need for continued policy discipline.

In Houthi-controlled areas, the ban on newly issued banknotes by CBY-Aden serves as a means of regulating money supply while price caps on food commodities further help to control inflation. Implemented on December 18, 2019, a directive from the Sana'a based central bank prohibited the use of new YER banknotes issued in Aden, allowing only for the circulation of older banknotes. This led to effectively severing monetary policy between the two regions and to the emergence of two distinct exchange rates: the exchange rate of old banknotes steadily appreciated, while that of the new banknotes depreciated reflecting their diverging supplies, with the former being mostly fixed at the 2016 nominal level and the latter still expanding, sometimes briskly. Shortages of old rial banknotes in Houthi-controlled areas followed, prompting the Houthi movement to attempt issuing its own rial banknotes, which culminated in the CBY-Sana'a introduction of a new 100-YER coin for circulation in their territories on March 30, 2024. However, the coins' impact on money supply was minimal, because 100-YER coins only account for one percent of money supply, thus having no meaningful effect on inflationary conditions in Houthi-controlled areas. Additionally, in efforts to combat food inflation, the Houthi movement continues to impose price caps on essential food items to safeguard household affordability. However, this strategy places pressure on vendors and traders, increasing the risk of shortages of imported goods in local markets.[37]

Inflation in IRG-controlled areas reportedly increased during 2024 despite a depressed economy. Inflation surged from 6.8 percent in 2023

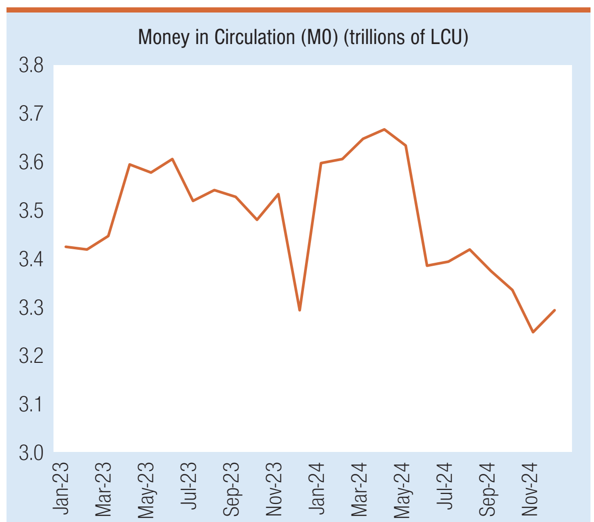
[36] According to data from the Central Bank of Yemen in Aden.
[37] Yemen Food Supply Chain Update, ACAPS, August 2023.

FIGURE 2.10 • Monetary Financing Experienced a Slowdown



Source: CBY-Aden and WB staff calculations.

FIGURE 2.11 • Currency in Circulation Growth Decreased



Source: CBY – Aden and WB staff calculations.

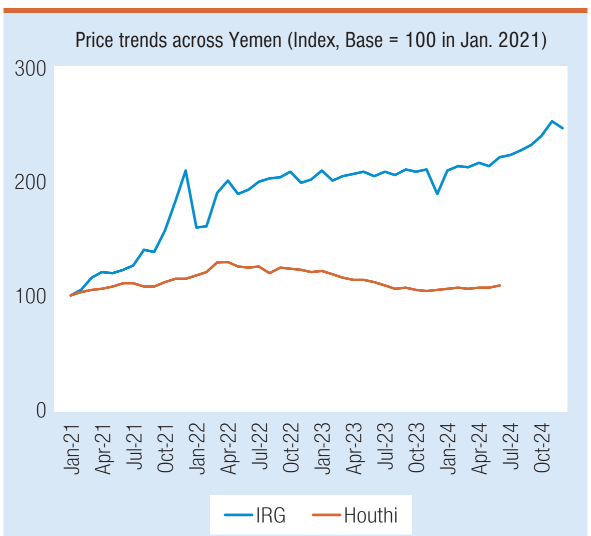
to an average of 9.7 percent in 2024 (Figure 2.12).[38] In particular, end-of-period data indicate a sharp acceleration in inflation during the last quarter of the year, reaching 15 percent in October and rising further to 20 percent and 30 percent year-on-year in November and December, respectively. These trends have contributed to markedly higher inflation projections for 2024 (Table 2.1). This increase occurred amid weak domestic demand, lower fiscal expenditures, and reduced monetary financing, primarily driven by the sharp currency depreciation. The current account deficit—exacerbated by halted oil exports, high import levels and reduced foreign aid—placed additional pressure on the YER in the Aden market, where it continued to depreciate, reaching an all-time high. The rate climbed from YER 1,536 per US dollar in early January 2024 to YER 2,062 per US dollar by year-end (Figure 2.13). Meanwhile, the exchange rate in Sana'a moved only slightly from YER 529 per US dollar to YER 537 per US dollar during the same period. This rate is nearly fixed by the CBY-Sana'a and does not reflect underlying market dynamics.[39] Inflation data for Houthi-controlled areas became unavailable after July due to reporting challenges, leaving only partial insights for the year. However, available data until June indicates significant deflation in the first half of 2024. Given extensive price controls and limited data availability, drawing definitive conclusions for these areas remains difficult.

Although data for a comprehensive analysis of the economy in Houthi-controlled areas remains limited, certain trends suggest that the situation might be worse than it appears. While increasing revenues from the diversion of trade to Houthi-controlled ports might fuel some activity, other indicators point to potential economic distress. These include deflation, a shrinking money supply, financial sector repression, price controls, and shortages, which suggest an increasingly barter-based economy, and therefore a sharp drop in the ease of transacting for both firms and consumers, leading to a fall in economic activity. Specifically, deflation can trigger significant adjustments in consumption and investment behaviors that have adverse impacts on the economy. Households, anticipating further price declines, may postpone spending on non-essential goods and services, leading to decreased overall consumption. Simultaneously, businesses may reduce investment due to lower expected returns and uncertainty about future price levels, as falling prices

38 According to JMMI data and World Bank staff calculations.

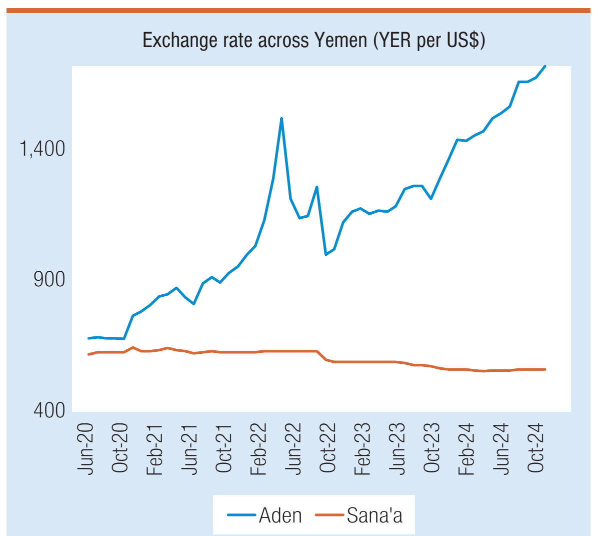
39 https://sanaacenter.org/the-yemen-review/april-june-2024/22888.

FIGURE 2.12 • Inflation Rose in IRG-Controlled Areas



Source: REACH JMMI and WB staff calculations.

FIGURE 2.13 • Exchange Rates Continued to Diverge



Sources: Telegram Exchange Market Group and WB Staff calculations.

diminish profit margins and make new investments less attractive.

Financial Sector

A wave of international sanctions in late 2024 further isolated Houthi financial networks and intensified domestic banking stress in the north. U.S. sanctions in October targeted arms-smuggling routes spanning Yemen, Iran, and Oman, followed by renewed UN measures in November and additional U.S. sanctions on entities involved in illicit Iranian oil trade. Furthermore, in December, Canada designated the Houthi movement as a terrorist group, compounding their financial isolation. Domestically, liquidity pressures deepened—particularly at the Internal Bank of Yemen (IBY), the largest private holder of public debt—which began struggling to meet short-term liabilities. In response, the Houthi movement enacted the Law on the *Temporary Exceptional Mechanism* to support salary payments and small depositors, aiming to inject liquidity and ease banking sector strains in Sana'a.[40]

In IRG-controlled areas, the CBY in Aden faced rising political and economic pressure amid a worsening currency crisis. In November 2024, allegations of large-scale hard currency smuggling through Aden International Airport triggered public outcry, despite firm denials from CBY-Aden. To strengthen oversight, the CBY launched several reforms in December, including an electronic licensing system for money exchange companies and the rollout of the International Bank Account Number (IBAN) system.[41] These efforts are meant to curb speculation, improve financial transparency, and align with international standards. However, the Houthi movement blocked IBAN implementation in areas under its control, further entrenching financial sector fragmentation.

40 https://moit.gov.ye/ar/sdwr-qanwn-bshan-alalyt-alastthnayyt-almwqtt-ldm-fatwrt-mrtbat-mwzfy-aldwlt-whl-mshklt-sghar.

41 IBAN is an internationally standardized method for identifying bank accounts, designed to streamline cross-border transactions and minimize errors. Preparations for the IBAN system began last April, including consultations with local banks, with CBY-Aden acknowledging support from the United States Agency for International Development (USAID).

TABLE 1.1 • Selected Economic Indicators (2020-2024)

	2020	2021	2022	2023	2024
Real Sector	*(Annual percentage change)*				
Real GDP	(8.5)	(1.0)	1.5	(2.0)	(1.5)
Real GDP per Capita	(11.1)	(3.7)	(1.4)	(4.9)	(4.4)
Money and Prices	*(Annual percentage change, unless stated otherwise)*				
Consumer Prices	21.7	31.5	29.5	0.9	30.4
Base Money	13.3	13.7	4.4	(10.0)	6.9
Exchange rate (YER per US$, average)					
Aden	782	1,036	1,125	1,376	1,823
Sana'a	604	600	573	536	535
Exchange rate (YER per US$, eop)					
Aden	680	999	1,200	1,540	2,065
Sana'a	585	601	561	529	537
IRG's Finances[a]	*(In percent of GDP)*				
Total Revenues and grants	6.2	6.8	8.9	6.3	6.4
Commodity Revenues	2.2	2.0	4.2	1.0	–
Taxes on International Trade	0.8	1.0	0.9	0.8	0.4
Other Taxes	2.0	2.6	2.2	2.3	1.7
Grants	0.1	0.6	1.1	1.8	3.9
Other Revenues	1.1	0.7	0.6	0.5	0.4
Total Expenditures	10.6	8.2	12.2	13.6	8.9
Current Expenditures	10.3	7.8	12.0	13.3	8.7
Capital Expenditures	0.3	0.4	0.2	0.3	0.2
Overall Fiscal Balance	(4.5)	(1.4)	(3.2)	(7.2)	(2.5)
Financing	4.5	1.4	3.2	7.2	2.5
External (net)	(0.3)	(0.2)	(0.4)	(0.7)	(0.6)
Domestic	4.8	1.6	3.6	8.0	3.1
General Government Debt	104.8	93.6	77.9	112.4	94.8
External	44.4	46.0	38.6	59.6	51.0
Domestic	60.4	47.6	39.3	52.8	43.9
External sector[b]	*(In percent of GDP)*				
Current Account Balance	(18.3)	(9.9)	(13.5)	(16.0)	(18.0)
Capital Account Balance	0	0	0	0	0
Financial Account Balance (excl. reserves)	0.3	(3.2)	(0.9)	(5.4)	(0.1)
Net Errors and Omissions	22.0	3.0	14.2	8.6	15.7
Other memo items					
GDP nominal in US$ (millions)	20,220	19,394	3,534	16,794	17,580
Gross Reserves in US$ (millions)	970	1,688	1,307	1,638	1,250

Source: 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.

3

OUTLOOK AND RISKS[42]

Outlook

The macroeconomic outlook for the MENA region remains challenging, with considerable uncertainty clouding economic forecasts.[43] Growth in the region has been sluggish, but it is expected to pick up in 2025. In 2024, MENA's economy grew by a modest 1.9 percent, roughly mirroring the pace of 2023. Real GDP is projected to increase to 2.6 percent in 2025. The region's oil exporters are likely to benefit from a gradual rise in oil production, while oil importers could see gains from strong private consumption and easing inflation. However, these forecasts are subject to significant uncertainty. Risks stemming from global policy uncertainty, subdued global demand, volatility in oil markets, and regional fragility could undermine the expected recovery. A decline in global demand could reduce oil export revenues, putting pressure on the fiscal and external accounts of oil exporters. Conversely, while oil importers may benefit from lower oil prices, a decline in remittances, combined with declining consumer confidence and investor sentiment, could lead to capital outflows, straining their external balances. The trajectory of global trade policy will be a key determinant of whether these forecasts materialize.

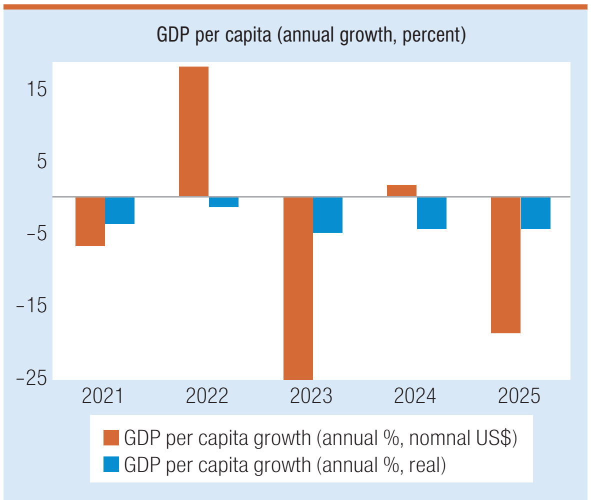
In Yemen, the economic outlook for 2025 also remains bleak, with both domestic and external challenges expected to deepen the country's economic distress. Real GDP is projected to contract by 1.5 percent, while the decline in nominal GDP per capita is expected to be even more severe, at 19 percent (Figure 3.1). The combination of internal instability and growing external pressures threatens to further undermine economic activity and living conditions.

Domestic economic conditions are expected to remain fragile. In IRG-controlled areas, the ongoing Houthi blockade on oil exports, coupled with the absence of a clear path to lasting peace and security, is expected to keep public finances and external accounts under significant strain. Oil production is projected to remain stagnant in 2025 for a second consecutive year, assuming the current conflict

[42] This section covers the economic outlook and forecasts for 2025.

[43] World Bank's April 2025 MENA Economic Update.

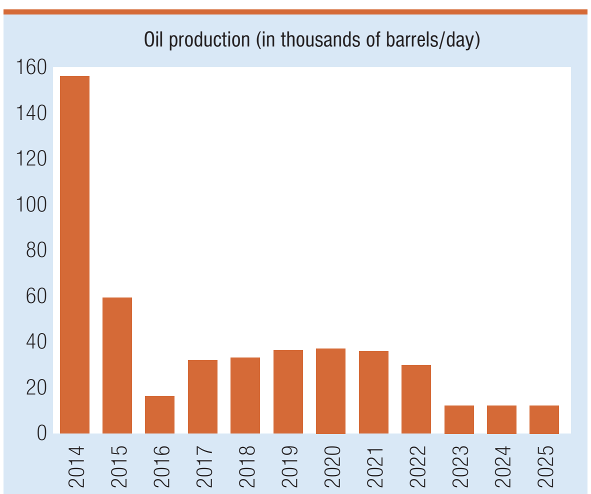
FIGURE 3.1 • GDP Per Capita Is Expected to Continue Decreasing



Source: Yemeni authorities; WB and IMF staff estimations.

conditions continue, thereby precluding oil exports in IRG-controlled areas from resuming (Figure 3.2). Inflation is likely to persist, driven by currency depreciation in the Aden market, eroding purchasing power and dampening household consumption. At the same time, fuel shortages are also expected to continue, leading to electricity blackouts and limited power supply, which will disrupt essential services and constrain production capacity. In Houthi-controlled areas, acute liquidity shortages are expected to continue, with

FIGURE 3.2 • Oil Production Is Expected to Stagnate



Source: Yemeni authorities; WB and IMF staff calculations.

restrictions on cash withdrawals and limited access to funds stifling both local consumption and business activity. The economic divide between the two zones is likely to widen further as diverging monetary policies drive an increasing disparity between the Aden and Sana'a exchange rates.

The U.S. decision, confirmed on March 4, 2025, to designate the Houthi movement as a FTO is expected to carry implications for Yemen's economy. The designation upgraded the group's prior status as a Specially Designated Global Terrorists (SDGT) and led the Office of Foreign Assets Control (OFAC) to revise its licensing framework.[44] It has introduced new compliance requirements that are already impacting the banking sector. While general licenses have been issued, operational challenges and uncertainty are expected to complicate aid delivery and hinder remittance flows; trade and import activity could also face disruptions (see Box 3.1).

Reductions in donor and UN funding are projected to significantly strain Yemen's precarious economic conditions. These cuts—driven by growing concerns over Houthi detentions of humanitarian staff—are expected to significantly affect the country's economic stability, as aid currently accounts for around 25 percent of the Yemen's GDP. As Yemen's second-largest ODA donor, the U.S. provides over 90 percent of its support as humanitarian aid. In 2023, official U.S. assistance to Yemen totaled US$820 million—nearly one-fifth of Yemen's total ODA (Figure 3.3). Yemen is also the fifth-largest recipient of U.S. aid in the Middle East and sixth among low-income countries.[45]

[44] These amendments include: (1) GL 25A – Authorizes the delivery and offloading of refined petroleum in Yemen until April 4, 2025, provided it was loaded before March 5. However, refined petroleum products are now excluded from permitted imports and exports via Yemeni ports and airports; (2) GL 23A – Revokes prior authorization for telecommunications transactions, now limiting them to activities within Yemen involving the Houthis; (3) GL 22A – Authorizes transactions related to agricultural commodities, medicine, and medical devices; (4) GL 24A – Permits noncommercial, personal remittances; (5) GL 28A – Allows activities related to third-country diplomatic missions.

[45] https://foreignassistance.gov/cd/yemen/2023/disbursements/0.

BOX 3.1. IMPACTS OF FTO DESIGNATION ON YEMEN'S ECONOMY

The U.S. designation of the Houthi movement as a FTO is already impacting Yemen's banking sector, particularly in Houthi-controlled areas. In January 2025, the Yemen Kuwait Bank (YKB) was sanctioned by the U.S. Treasury for allegedly facilitating financial activities linked to the Houthi movement.[a] On April 17, the IBY became the second major bank in Sana'a to be sanctioned, with measures also applying to its leadership over similar allegations. Since January, over US$30 million held by UN agencies and local implementing partners in IBY accounts has been frozen, with recovery now seen as unlikely. Concurrently, shortages of U.S. dollars and old Yemeni rial notes are becoming more acute in Houthi-controlled areas, while the Central Bank in Sana'a has imposed new currency controls to curb speculation. In response to these challenges, some residents and businesses in northern Yemen are exploring alternative financial solutions, including decentralized finance (DeFi), to navigate banking restrictions. In addition, the CBY in Aden has encouraged banks headquartered in Sana'a to relocate to IRG-controlled areas as a mitigation measure. As of March 15, eight banks have informed the CBY in Aden of plans to relocate, citing operational challenges.[b] Several institutions have begun the relocation process, though approvals are still pending. In turn, the CBY in Sana'a has required these banks to settle all local liabilities before moving.

While general licenses have been issued, operational challenges and uncertainty are expected to complicate aid delivery and hinder remittance flows. Although general licenses allow for key activities, legal and operational uncertainties could delay or complicate aid deliver. Depending on how implementation evolves, the impact could range from tighter operating conditions to more severe disruptions. In a worst-case scenario, delays in payment processing for essentials such as rent and utilities could affect implementing partners' operations. Past aid cuts—such as the World Food Programme's 2020 reductions that increased food insecurity by 15 percent—illustrate the risks. Remittances, accounting for 38.6 percent of GDP in 2024, may also be affected. While personal transfers are generally allowed under the licencing regime, compliance risks may divert flows to informal channels, reducing transparency and oversight. In addition, the overall uncertainty may discourage diaspora investment and constrain external inflows.

Trade and import activity could also face disruptions, particularly for essential goods. Yemen's dependence on food and fuel imports makes it vulnerable to supply shocks. Importers, banks, and shipping companies may incur higher insurance premiums, compliance costs, and logistical delays. Hodeida—the country's busiest port—is particularly at risk, with banks potentially refusing to process transactions linked to it. Although rerouting through Aden and Mukalla is possible, such shifts could raise transports costs, lead to delays, and subject goods to double taxation. However, they may increase customs revenues for the IRG, especially on oil imports, as new U.S. fuel sanctions—effective April 4,2025 —ban petroleum deliveries via Houthi-controlled ports.[c] On April 28, the U.S. sanctioned several shipping firms accused of transporting oil for the Houthis, targeting both smuggling routes and informal financial channels. In response, the Houthi movement may impose additional road taxes, further burdening businesses and households. They could also block fuel deliveries from IRG-controlled ports, potentially triggering shortages similar to those experienced during the 2017–18 closures of Hodeida and Ras Issa ports.

Source: World Bank.

[a] On January 17, 2025, the U.S. sanctioned YKB for allegedly facilitating financial activities linked to the Houthi movement: https://ofac.treasury.gov/recent-actions/20250117.

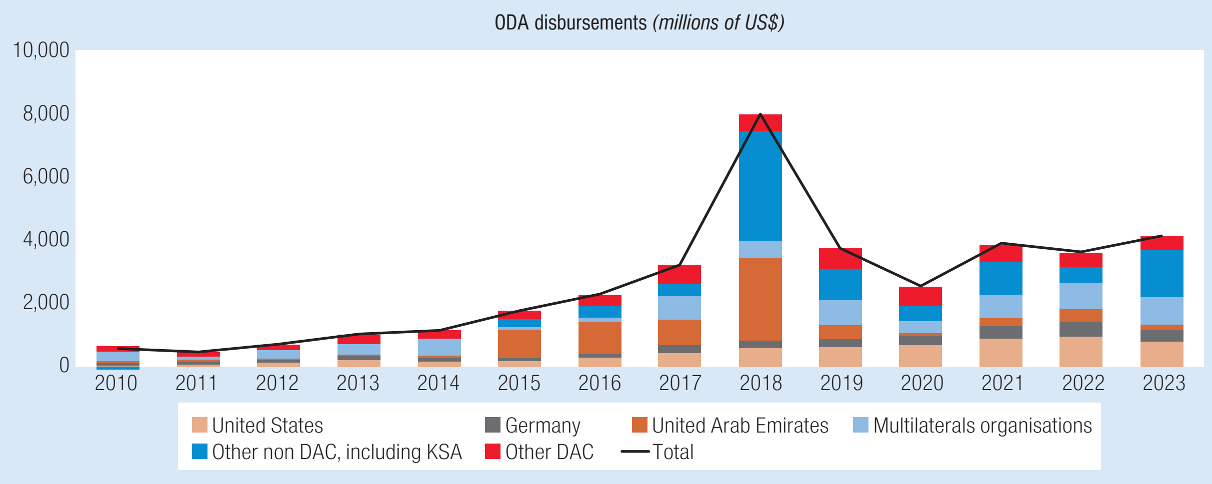
[b] https://english.cby-ye.com/news/187.

[c] Past disruptions—such as the Hodeida offensive in 2018, conflict-induced port disruptions from 2019 to 2022, and the end of the UN-sponsored truce in 2022—redirected oil and fuel imports toward IRG-controlled ports. Specifically, during such events, oil imports through Houthi-controlled Red Sea ports declined by 36.5 percent, while imports at IRG-controlled ports increased correspondingly.

Risks

Risks remain heavily tilted to the downside, with the potential to further destabilize Yemen's fragile economy. Regional military escalation could disrupt trade routes, drive up shipping costs, and impair port operations, particularly in Houthi-controlled areas. The broader impact may include increased supply shortages, rising import costs, and further declines in economic activity. The effects of the FTO designation could prove more significant than initially anticipated, particularly if they prompt retaliatory actions by the Houthi movement. Meanwhile, a deepening global trade war could exert additional strain on Yemen's import-dependent economy. Lastly, renewed instability in the banking sector—similar to the tensions seen

FIGURE 3.3 • The United States are One of the Largest ODA Donors to Yemen



Source: OECD.

in 2024—could re-emerge, exacerbating already dire economic and social conditions.

Overall, Yemen's future depends on its ability to secure lasting peace, rebuild, and implement critical reforms—overcoming the current crisis and establishing the foundations for a unified, prosperous future for all Yemenis. Achieving a lasting truce or lasting peace agreement could pave the way for rapid economic recovery, driven initially by the recovery of internal transport and trade from a low base, resulting in lower costs and increased employment and incomes. With additional external financial assistance and reconstruction efforts supported by development partners, along with post-conflict reforms, Yemen could achieve accelerated and sustained growth within the short to medium term. This growth would be driven by a swift rebound in domestic transportation, trade, financial inflows, and reconstruction, and recovery of public services. Such efforts are essential for overcoming the current crisis and laying the foundations for a unified and prosperous future for all Yemenis.[46]

The IRG's economic reform plan, announced in December 2024, marks a positive step toward addressing medium-term economic imbalances and reforming the country. The Government's *Plan for Economic Developments and Urgent Priorities* is designed to restore fiscal stability, enhance revenue collection, and lessen Yemen's dependence on external assistance amidst economic shocks, which have been worsened by the Houthi blockade on oil exports.[47] This comprehensive strategy prioritizes strengthening public financial management and reforming the banking sector to foster sustainable growth and improve the delivery of essential services such as electricity. Ultimately, these reforms aim to bolster economic resilience and alleviate the humanitarian consequences of ongoing fiscal pressures. The Government's near-term stabilization efforts are complemented by two distinct economic frameworks, each offering different approaches and timeframes for Yemen's recovery.[48]

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

47 Barran Press 2024; Yemen TV 2024.

48 (1) The AMF economic reform program complements the Government's stabilization efforts with a focus on currency, financial governance, and resilience, ultimately seeking to improve living conditions and address conflict challenges; and (2) further supporting these efforts, ESCWA is developing a nationally owned vision for Yemen's long-term recovery and sustainable development through a technical dialogue platform.

4

UNLOCKING YEMEN'S PEACE DIVIDEND

This chapter outlines three illustrative economic scenarios, drawn from the Yemen Country Economic Memorandum, intended to inform recovery planning and policy dialogue. These are not projections, nor do they represent positions on the current political or security dynamics.

The Economic Advantages of Achieving Lasting Peace in Yemen[49]

Three possible futures

Yemen's future remains uncertain, but scenario analysis can help envision a lasting, peaceful, and prosperous future by assessing the potential economic and social outcomes of achieving peace versus continuing the current conflict. The World Bank's Yemen CEM examines two contrasting scenarios: "lasting peace" and "status quo". The analysis provides a broad sense of the political, international, and macroeconomic context across these scenarios. The "status quo" scenario envisions a continuation of internal violent conflict, punctuated by periods of military inertia, or temporary truces and ceasefires that fall short of a lasting political settlement. In contrast, the "lasting peace" scenario imagines a political breakthrough that leads to the emergence of either a centralized or decentralized state authority, paving the way for recovery. While the CEM does not propose it, a third possibility, the "escalation" scenario involving heightened political or economic tensions, could see the Yemen conflict worsening, further destabilizing the nation. Each scenario carries profound implications for political and macroeconomic stability, investment and consumption patterns, and the level of international aid and grant support—all of which are crucial determinants of Yemen's future growth.[50]

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49 The concept of *Lasting Peace*, drawn from the Yemen Country Economic Memorandum (CEM, July 2023), emphasizes the need to go beyond a formal peace agreement to ensure durable and sustainable peace—one that supports inclusive, broad-based growth once peace is achieved.

50 The growth projections for the "Peace" and "Status quo" scenarios are grounded in the analytical work from the CEM. For detailed information on the assumptions and methodology, please refer to the CEM. The projections for the "Escalation and Intensification" scenario were calculated using the

In a "lasting peace" scenario, Yemen embarks on a transformative journey toward high growth and stability. With a comprehensive settlement achieved and fully implemented in Yemen, the physical and economic barriers dividing the country are dismantled. The free movement of people and goods is restored, leading to the reintegration of Yemen's economic space, with trade, finance, and transport networks recovering across the national territory. International support shifts from short-term emergency aid to a focus on reconstruction, rebuilding key transport routes, restoring critical infrastructure, and providing long-term development assistance. Lasting peace and security attract a surge of public and private sector investments, including increased foreign direct investment (FDI), as lower trade and transport costs create a favorable environment for business. Expanded oil and gas production and exports further fuel economic growth, facilitating fiscal consolidation, and reducing the debt-to-GDP ratio. Over time, external arrears are cleared, debt is restructured, and fiscal space is expanded to support social and infrastructure development. Under this scenario, Yemen's GDP grows steadily, averaging 5 percent annually between 2025 and 2040, fostering greater economic and social stability. Such rapid recoveries have been recorded in many instances of post-war reconstruction when it was underpinned by a durable lasting peace.[51]

If Yemen remains in the current "status quo", the country faces a future of modest-to-moderate-growth. The ongoing conflict, without a political settlement, keeps the country in a state of near constant instability. International support continues to focus primarily on humanitarian relief and basic services, with few reforms needed to foster long-term development. Financing difficulties and the lack of fiscal reforms stifle growth, with limited fiscal space and an impaired banking sector restricting capital expenditures. Public and private sector investment remains stagnant, mostly limited to small and medium-sized local companies, with minimal FDI. This financial constraint results in anemic economic growth of about 2 percent, leaving the economy fragile and vulnerable. With population growth unchanged, per capita growth hovers around or just above zero, failing to lift living standards or alleviate poverty.

In a vision of escalating conflict and intensifying hostilities, Yemen faces a future of sharp economic decline and deepening instability. As political or economic tensions worsen, internal violence could erupt into full-scale conflict, with further fragmentation of the country and involvement from external actors. International development financing and economic aid would shrink dramatically, shifting almost entirely to emergency humanitarian relief, with minimal prospects for long-term development assistance. Public and private sector investment would plummet, restricted to micro and small enterprises providing only the most basic services such as water, energy, and food, with no FDI. A decline in both oil revenues and customs revenues due to reduced imports would further widen the fiscal deficit, pushing the country deeper into debt. GDP growth would contract by an estimated 2 percent annually, and per capita GDP would fall by a staggering 4 percent each year. This downward spiral would not only exacerbate conflict conditions but also heighten the risk of famine, particularly in the most vulnerable areas.

Significant Lasting Peace Dividends vs Steep Costs of War

The comparison of these three pathways underscores the critical importance of lasting peace for Yemen's economic and social recovery, offering substantial economic dividends. The stark contrast between the scenarios emphasizes the immense cost of war under the "escalation" scenario, contrasted with the significant benefits of full "lasting peace." While the status quo scenario provides only marginal potential for growth, the lasting peace and recovery scenario

average real growth rate observed since the conflict began (2017–2023), excluding outliers from the immediate post-conflict years (2015: –28.0 percent and 2016: –9.4 percent).

51 Economic reconstruction in Western, Eastern and Southern Europe following the devastation of the World War II provides an important history lesson. Following hundreds of years of intermittent wars, Germany and France agreed on a durable peace and cement it by a joint project on steel industry, followed by substantially expanded economic, foreign policy, and military collaboration that ultimately led to the Franco-German Treaty Elisee in 1963, and the creation of the European Economic Community on November 1, 1993 in the Maastricht Treaty.

projects an annual average growth rate of 5 percent over the next 15 years, compared to an annual 2 percent decline in the escalation scenario (Figure 4.1).

If the conflict continues until 2040, Yemen's human development could regress by 50 years. Under the "escalation" scenario, real GDP by 2040 would fall back to its 1990 level, erasing five decades of progress. In the status quo scenario, GDP would only return to its pre-war level by 2040, 25 years after the conflict began. However, under the lasting peace and recovery scenario, GDP could recover by 2035. By 2040, the lasting peace scenario projects that Yemen's real GDP could be more than three times that of the escalation scenario and 50 percent higher than the status quo (Figure 4.2).

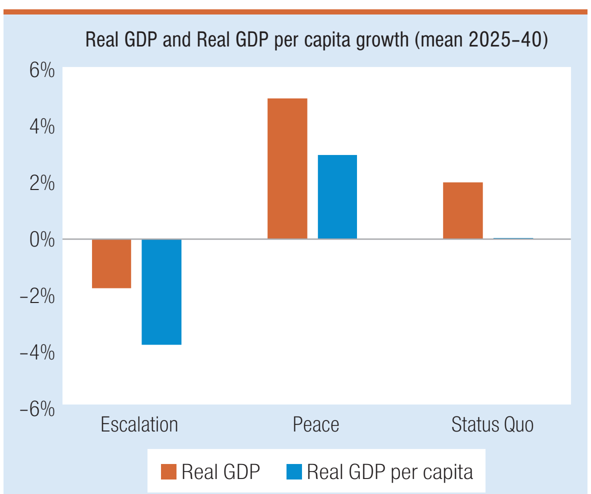
Key Drivers Necessary to Unlock the Lasting Peace Dividend.

While the ultimate solution for attaining peace in Yemen will be political, the conflict also has deep economic roots and dimensions that must be addressed. Recognizing this, the UN has established an economic track within the broader peace process, alongside the military, security, and political roadmaps. Unlocking lasting peace dividends and effectively addressing Yemen's challenges requires a multifaceted approach—one that combines short-term measures to support lasting peace and stabilize the immediate environment, medium-term measures to restart economic growth and rebuild state functions, and long-term strategies to ensure sustained development and resilience.

Peace: A Political Choice

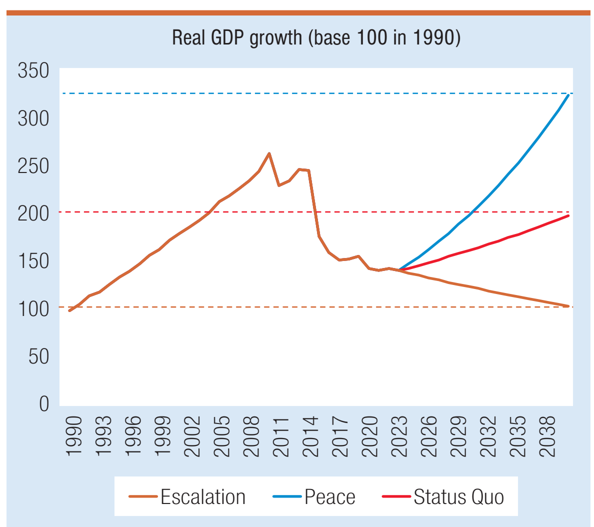
Yemen's prospects for peace and economic recovery ultimately rest on a political choice. As Stefan Dercon argues in *Gambling on Development* (2022), development takeoffs require political elites to make a deliberate commitment—or "gamble"—to prioritize national development over factional control or rent-seeking. Yemen's future hinges on such a gamble: a shift from fragmented authority toward a shared national vision backed by credible institutions. This mirrors the insights of Acemoglu and Robinson (*Why Nations Fail*, 2012), who highlight the centrality of inclusive political and economic institutions in sustaining long-term prosperity. Yemen's current dual system of governance is rooted in exclusionary structures that inhibit recovery and deepen vulnerability. Paul Collier's concept of conflict and governance traps (*The Bottom Billion*, 2007) also applies directly—Yemen's deepening crisis reflects multiple overlapping development traps that cannot be overcome without external sup-

FIGURE 4.1 • Growth Projections Vary across the 3 Scenarios



Sources: World Bank calculations.

FIGURE 4.2 • The Cost of War in Yemen Is Massive



Sources: World Bank calculations.

port and internal reform. Achieving peace in Yemen will thus require more than a cessation of hostilities between Yemeni groups; it demands a coherent institutional framework and a renewed commitment to inclusive governance. Only through such a foundational political transformation can the country unlock its peace dividend and lay the groundwork for lasting development.

Short-Term Measures: Supporting Lasting Peace and Stability

Building a foundation for lasting peace and stability requires that war grievances be addressed and essential state functions be restored. Key actions include 1) early dismantling of all physical transport and trade barriers across Yemeni national territory; 2) refraining from monetary financing of fiscal deficits and working toward unifying the currency and the central banks to reduce economic divergence; and 3) resuming civil service salaries to support livelihoods and reinforce government trust. Enhancing data collection, particularly on public debt, and securing external financing from development partners are essential to managing arrears and sustaining critical services. These measures will foster confidence among Yemenis and international stakeholders. Developing a clear government vision and coordinating both international and local resource use will enhance the effectiveness of the reconstruction process. A plan needs to be agreed upon for the demobilization and disarmament of combatants and their reinsertion and reintegration into the civilian economy and society. This approach will help align efforts and resources to stabilize and rebuild Yemen.

Medium-Term Measures: Jumpstarting the Economy and Rebuilding State Functions

Reconstruction efforts must focus on restoring macroeconomic stability and boosting productivity growth. To this end, enhancing domestic revenue mobilization and improving transparency in public finances will support fiscal health. Addressing energy costs and reducing subsidies are vital for managing public expenditure and promoting sustainability. Additionally, supporting the increase of oil and gas production, and establishing a robust oil and gas revenue management mechanism will be crucial for economic stabilization.

Boosting productivity growth involves facilitating private investment, rehabilitating the education and health systems, and enhancing infrastructure. Strengthening financial access for micro, small, and medium-sized enterprises, facilitating private investments and fostering public-private collaboration will drive economic growth. Reopening and rehabilitating roads will also reduce freight costs and enhance the competitiveness of local businesses. Prioritizing the rehabilitation of the education and health systems will support economic activity and job creation.

Long-Term Measures: Ensuring Sustained Development and Resilience

For long-term resilience, Yemen needs to focus on systemic changes that foster sustained development. Improving trade competitiveness, increasing economic inclusion, and enhancing financial infrastructure are essential for integrating Yemen into the global economy. Promoting financial literacy and inclusion, leveraging digital services, and supporting cross-border finance will contribute to a more robust economic framework.

Strengthening institutional infrastructure and improving data transparency and quality are fundamental for effective governance and policymaking. Addressing the lack of reliable macroeconomic, financial, and sectoral data will enable more informed decisions and better resource management. As Yemen progresses, these long-term strategies will help build a resilient economy, ensuring that lasting peace dividends are not only realized but sustained.

TABLE 4.1 • Yemen's Priorities to Unlock and Sustain Lasting Peace Dividends

	Priority Area	Measure
Short-Term Measures: Supporting Lasting peace and Stability		
1	Civil Service Salaries	Resume civil service salaries to support livelihoods and reinforce government trust.
2	Trade and Transport	Remove all physical transport and trade barriers across Yemen.
3	Monetary Policy	Refrain from monetary financing and work towards unifying the central banks and currency to reduce divergence.
4	Data Collection	Improve data collection, particularly on public debt, to manage arrears and sustain essential services.
5	External Financing	Secure external financing from development partners to address arrears and support reconstruction.
6	Government Vision	Develop a clear government vision and coordinate international and local resource use to enhance reconstruction effectiveness.
7	Demobilization plan	Agree on a plan for the demobilization and disarmament of combatants and their reinsertion and reintegration into society.
Medium-Term Measures: Jumpstarting the Economy and Rebuilding State Functions		
8	Revenue Mobilization and Oil Management	Enhance domestic revenue mobilization, including by increasing oil and gas production and exports, along with establishing a robust natural resource revenue management mechanism.
9	Energy Cost and Subsidy Management	Address energy costs, reduce subsidies, and improve the energy mix with investments in renewable energy.
10	Infrastructure and Road Rehabilitation	Reopen and rehabilitate roads to reduce freight costs and enhance competitiveness.
11	Education and Health Systems	Prioritize the rehabilitation of education and health systems to support economic activity and job creation.
Long-Term Measures: Ensuring Sustained Development and Resilience		
12	Trade Competitiveness and Economic Inclusion	Improve trade competitiveness through trade facilitation and improve economic inclusion by addressing informality.
13	Financial Access and Private Investment	Strengthen financial access for businesses, facilitate private investments, and foster public-private collaboration to boost productivity and economic growth.
14	Institutional Infrastructure and Data Transparency	Strengthen institutional infrastructure and improve data transparency and quality to support effective governance and policymaking.

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