

YEMEN



# ECONOMIC MONITOR

Confronting Escalating  
Challenges

Fall 2024





# Yemen Economic Monitor

Confronting Escalating Challenges

Fall 2024

Global Practice for Macroeconomics, Trade & Investment

Middle East and North Africa Region

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# ACRONYMS

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ACAPS	Assessment Capacities Project	IPC	Integrated Food Security Phase Classification
ACLED	Armed Conflict Location and Event Data Project	IRG	Internationally Recognized Government
AML	Anti-Money Laundering	LCU	Local Currency Unit
CBY	Central Bank of Yemen	MENA	Middle East and North Africa
CCY	Cash Consortium of Yemen	MICS	Multiple Indicator Cluster Survey
CFT	Combating the Financing of Terrorism	MOF	Ministry of Finance
FX	Foreign Exchange	SWIFT	Society for Worldwide Interbank Financial Telecommunication
GDP	Gross Domestic Product	UN	United Nations
GEP	Global Economic Prospects	UNDP	United Nations Development Programme
HCI	Human Capital Index	UNICEF	United Nations Children's Fund
HDI	Human Development Index	WB	World Bank
IBY	International Bank of Yemen	WFP	World Food Programme
IMF	International Monetary Fund	YER	Yemeni Rial
IOM	International Organization for Migration		

# PREFACE

**T**he *Yemen Economic Monitor* provides an update on key economic developments and policies over the past six months.\* It also presents findings from recent World Bank 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 group of experts from different global practices of the World Bank. The team included Omar Al-Aqel (Private Sector Specialist) and Alia Jane Aghajanian (Senior Economist). The *Yemen Economic Monitor* has been completed under the guidance of Eric Le Borgne (Practice Manager), Željko Bogetić (Lead Economist),

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\* The analysis presented in this edition reflects the situation as of the end of August 2024. Events occurring after this cutoff date are not included.



# EXECUTIVE SUMMARY

**A**mid the continued blockade of the Internationally Recognized Government (IRG)'s oil exports by the Houthis and the escalating conflict in the Middle East and Red Sea, Yemen faces an increasingly grim reality. The modest cease-fire related 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 the government's commitment to peace, reconstruction, and reforms.

**Yemen's humanitarian crisis remains deeply rooted in its prolonged conflict and the fragmentation of its political and economic systems, further exacerbated by the broader regional conflict (Chapter 1).** Since the conflict began in 2015, Yemen's real GDP per capita has plummeted by 54 percent, pushing most of the population into poverty and severely eroding human capital. The conflict has split the country 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 United Nations (UN)-sponsored truce in 2022 was short-lived, as eco-

nomie contraction resumed in 2023 and 2024, driven by the Houthi blockade on IRG oil exports and escalating conflict in the Middle East and Red Sea. As of end-August 2024, the ACLED Dashboard for Red Sea Attacks recorded around 373 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 over 60 percent.

**The oil blockade has intensified economic difficulties for the IRG, while the Houthi escalation in the Red Sea since November 2023 has further eroded peace prospects.** According to the Ministry of Finance in Aden, IRG revenues (excluding grants) fell by 42 percent in the first half 2024, following a sharp 50 percent drop in 2023. Meanwhile, fiscal expenditures continued to rise, although at a slower pace. The suspension of IRG oil exports, coupled with a heavy reliance on imports, has exacerbated external pressures, causing the Yemeni Rial (YER) to depreciate in the Aden market from 1,619 per US dollar in January 2024 to 1,917 by the end of August. In addition, rising tensions between the Houthis and IRG over the regulation and supervision of the banking sector in early 2024 have raised concerns about the sector's future, complicating the business environment. While regional and UN mediation has helped ease some tensions, the situation remains fragile.

**In this context, 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 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 also grappling with acute and chronic health conditions, and symptoms of mental health disorders, reinforcing a vicious cycle of poverty and eroding human capital.

**Yemen's economic outlook is clouded by uncertainty, shaped by the ongoing regional conflict and persistent internal tensions (Chapter 2).** The economy is projected to contract by 1.0 percent in real terms in 2024, following a 2.0 percent decline in 2023. The outlook for 2025 also remains grim, with significant downside risks stemming from the poten-

tial escalation of attacks in the Red Sea. In this volatile environment, the prospects for resuming oil exports and restoring unrestricted internal transport, trade, and finance appear remote. Escalating political tensions further risk deepening the fragmentation between Houthi-controlled and IRG-controlled areas, widening economic and financial disparities, and worsening the social and humanitarian crisis. Renewed discord over the banking sector, in particular, could pose significant risks to finance and humanitarian aid.

**Despite these formidable challenges, there remains a glimmer of hope for peace.** A sustained peace agreement could yield a significant economic, social, and financial dividend for all Yemeni actors against the current reality of conflict and decline. According to World Bank analysis, a durable truce and peace agreement could pave the way for swift economic recovery, supported by external assistance, reconstruction efforts, and post-conflict reforms. However, realizing this potential depends on achieving a comprehensive and lasting peace agreement.

# RECENT ECONOMIC DEVELOPMENTS

## The Economic and Social Context

**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.** Between 2015 and 2023, the country experienced a staggering 54 percent contraction in real GDP per capita (Figure 1.1). Nominal GDP per capita, estimated at just US\$541 in 2023, has regressed to its 2001 level, meaning the conflict has wiped out over 20 years of economic progress. As a result, most Yemenis now live in poverty<sup>1</sup> and half of the population faces food insecurity, as evidenced by the November 2023–October 2024 Integrated Food Security Phase Classification (IPC). According to the Multiple Indicator Cluster Survey (MICS) 2023/24, Yemen suffers from some of the highest rates of wasting (17 percent), stunting (49 percent), and being underweight (41 percent) compared to other MENA countries and the poorest countries experiencing similar levels of food insecurity.<sup>2</sup> In addition, data from the World Bank's Human Capital Project (2021) indicates that the mortality rate of youths aged 15-24 is 21.5 per 1,000, up from 12.5 in 2014

and considerably higher than the regional average (Figure 1.2).<sup>3</sup>

**The depletion of the country's already limited human capital will leave a long and scarring legacy, further compounding the nation's challenges.** This is evidenced by the country's declining score on the Human Development Index (HDI), where Yemen ranked 186 out of 191 countries in 2022, down from 160 out of 188 in 2014 (Figure 1.3).<sup>4</sup> Among the HDI components, life expectancy at birth has declined since the onset of the conflict, standing at 63.7 years on average in 2022 compared to 67.4 years in 2014.<sup>5</sup> Furthermore, a child who starts school at age four

<sup>1</sup> Before the crisis, poverty already affected almost half of Yemen's population (49 percent in 2014). The latest and best available modelled estimate indicates that at least 74 percent of the population is poor (World Bank, 2017).

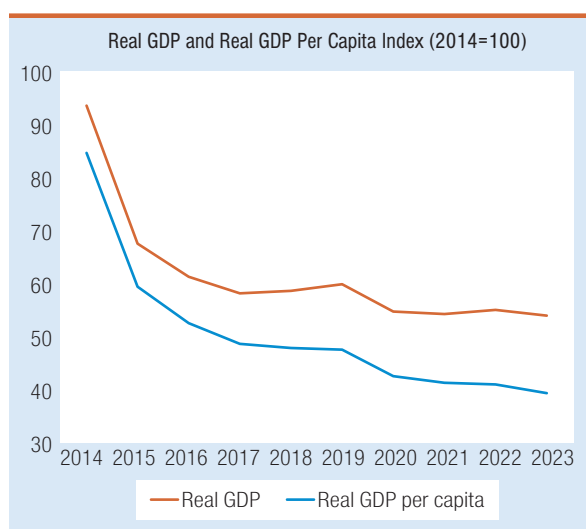
<sup>2</sup> CSO and UNICEF 2024

<sup>3</sup> [Human Capital Index](#)

<sup>4</sup> <https://hdr.undp.org/content/human-development-report-2023-24>

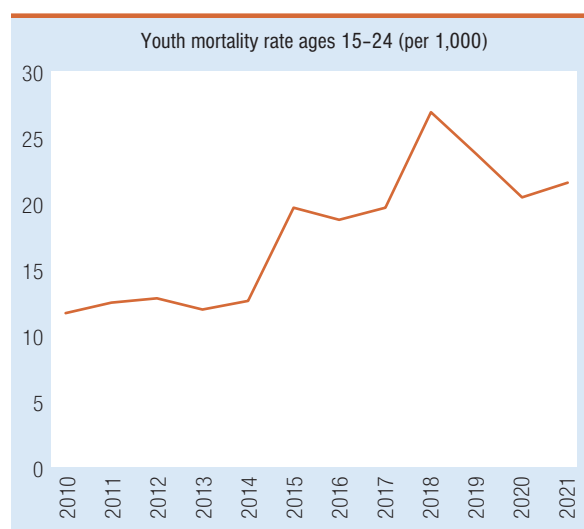
<sup>5</sup> [Life expectancy at birth, total \(years\) – Yemen, Rep.](#)

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



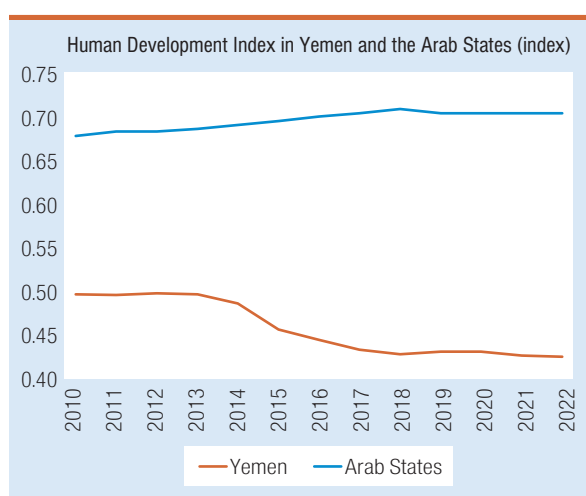
Source: WB and IMF Staff Calculations.

**FIGURE 1.2 • Youth Mortality Rose Dramatically with the Conflict**



Source: World Bank Human Capital Project.

**FIGURE 1.3 • Resulting in a Sharp Decline in Human Capital**



Source: United Nations Development Program.

can expect to complete 7.9 years of school by their 18<sup>th</sup> birthday, the 7<sup>th</sup> worst level in the world. With the health system on the verge of collapse and the education system in severe crisis according to UNICEF, the prospects for human capital remain dire.<sup>6</sup> The Human Capital Index (HCI) further underscores this, projecting 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.<sup>7</sup>

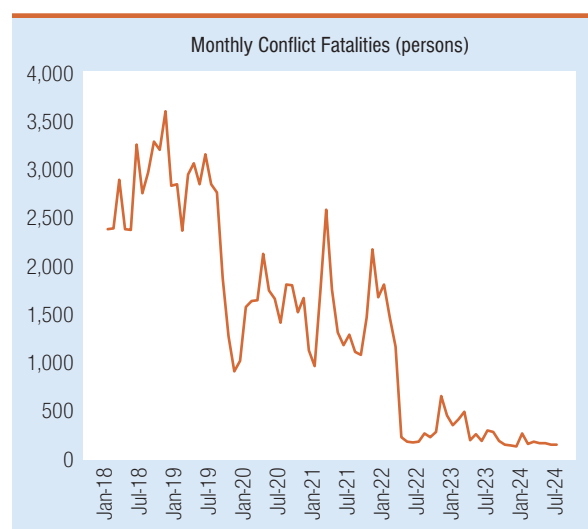
**Living conditions for most Yemenis are becoming increasingly dire.** In July 2024, 62 percent of households reported inadequate food consumption, representing a dramatic increase of 24 percent in IRG-controlled areas and 30 percent in Houthi-controlled areas since last year. In some governorates, severe food deprivation more than doubled (WFP 2024).<sup>8</sup> This is due to further depreciation of the 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, with enduring destructive effects on safety, health, and the social fabric (World Bank 2024). 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, deepening the humanitarian crisis. Going forward, some analyses have indicated that if the conflict persists until 2030, Yemen's human development will regress by

<sup>6</sup> <https://www.unicef.org/yemen/education>

<sup>7</sup> Human Capital Country Brief, Yemen, World Bank

<sup>8</sup> World Food Programme Yemen External Situation Report, July 2024

**FIGURE 1.4 • Fatalities Remained Low during 2023 and 2024**



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

40 years, effectively erasing progress made over one and a half generations (Moyer et al., 2019; UNDP and ESCWA, 2023).<sup>9</sup>

**The collapse and depletion of Yemen’s assets and stock of capital has significantly lowered its potential output, creating long-term barriers to recovery.** Beyond the sharp decline in annual economic activity, the conflict has caused a severe reduction in the country’s stock of assets. Human capital, one of the most critical resources for a country, has diminished since the conflict began in 2014, as reflected in the decline of key HCI components. Human development has also regressed by 14 percent, as indicated by the drop in the HDI.<sup>10</sup> Years of conflict have also devastated Yemen’s physical capital. According to the World Bank’s Yemen Dynamic Needs Assessment Phase 3, damage in 16 assessed cities as of January 2020 is estimated between US\$6.8 to 8.3 billion—equivalent to 36-44 percent of 2023 GDP.<sup>11</sup> The housing sector has been hit hardest, accounting for over 74 percent of total damages, followed by health and power. Damages in water and sanitation, transport, and education are also estimated in the hundreds of millions. The continued depletion of Yemen’s assets—whether human, physical, natural capital, or institutions—will make the path to recovery and sustainable development increasingly difficult and constrained.

**The economy has faced renewed challenges since the expiration of the formal UN-sponsored truce in October 2022.** Although an informal truce has remained in place—evidenced by the low level of conflict fatalities since then (Figure 1.4)—Yemen’s economy contracted again in 2023. This downturn is primarily attributed to the ongoing Houthi blockade on IRG’s oil exports,<sup>12</sup> which has exacerbated IRG’s fiscal and monetary challenges (Table 1.1). Furthermore, since October 2023, the escalation of the conflict in the Middle East and related direct Houthi involvement in the Red Sea, has further undermined Yemen’s economic and social conditions. Uncertainty, hostile actions, and widespread protests have also intensified since the onset of the conflict (Figure 1.5).<sup>13</sup>

**The escalation of the Middle East conflict and direct Houthi involvement has resulted in a significant regional shock that continues to affect the region and beyond.** As of end-August 2024, the ACLED Dashboard for Red Sea Attacks recorded around 373 incidents of violence linked to Houthi actions in the Red Sea, including 182 attacks on commercial ships (Figure 1.6). As a result, as of July 2024, the volume of traffic through the strategic Suez Canal and Bab El-Mandeb Strait—carrying 30 percent

<sup>9</sup> [Human Development Report 2023/2024](#)

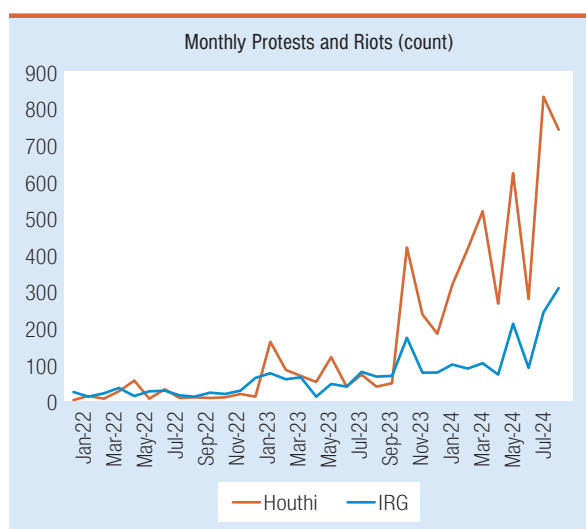
<sup>10</sup> The Human Capital Index (HCI) quantifies the economic value of a country’s human capital, reflecting the potential productivity of its population through indicators related to health, education, and survival rates. It helps evaluate how effectively countries are developing their human capital. In contrast, the Human Development Index (HDI) provides a more comprehensive perspective on human development by measuring a country’s progress across three key dimensions: health, education, and standard of living.

<sup>11</sup> [World Bank Yemen Dynamic Needs Assessment: Phase 3 \(2020 Update\)](#)

<sup>12</sup> The Houthis 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 Houthis demand that the Yemeni government pay the salaries of civil servants in Houthi-controlled areas: <https://www.mei.edu/publications/houthis-embargo-yemens-oil-exports>.

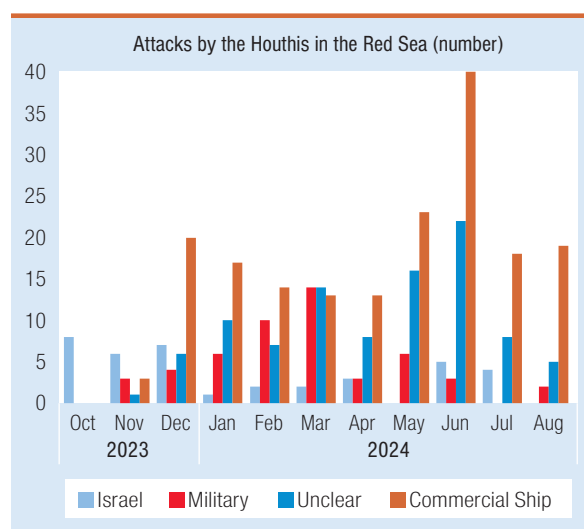
<sup>13</sup> It is noteworthy that these protests began around the onset of the crisis in the Middle East and have been concentrated in Houthi-controlled areas.

**FIGURE 1.5 • Rising Protests and Riots Signaled Growing Unrest**



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

**FIGURE 1.6 • Houthi Attacks in the Red Sea Escalated**



Source: ACLED

of world container shipping—has dropped by over 60 percent, while the alternative route via the Cape of Good Hope route has witnessed a 100 percent increase in navigation, giving rise to sharply higher freight rates (World Bank MENA FCV Economic Series Brief <sup>14</sup>) (Figure 1.7).

**At the same time, Yemen continues to face deep structural challenges.** The conflict has intensified the country's fragmentation into two distinct economic zones, each governed by its unique set of institutions. These include competing monetary authorities with their respective exchange rate and policies, resulting in increasing disparities.<sup>15</sup> Houthi-controlled areas are home to some 70 percent of the population, while IRG-controlled areas hold the country's oil and gas resources.<sup>16</sup> 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—mainly trade and agriculture—continues to be severely constrained by the conflict conditions, along with interruptions in essential service delivery, acute input shortages, double taxation, widespread corruption, market distortions from uncoordinated policies, and the multiplicity of Yemen's institutions.<sup>17</sup> While remittances and aid help alleviate social conditions, these flows, too, are affected by conflict conditions.<sup>18</sup>

**Critically, Yemen remains one of the most vulnerable countries to climate change impacts, with attendant consequences on the wellbeing of its people, especially the poor.**<sup>19</sup> During July and August 2024, Yemen experienced exception-

<sup>14</sup> World Bank MENA FCV Economic Series Brief – April 2024

<sup>15</sup> 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 \(sanaacenter.org\)](#).

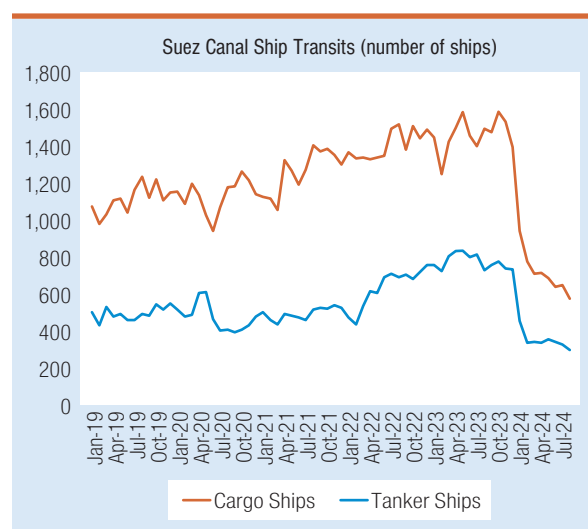
<sup>16</sup> [Yemen: Population Estimates – Humanitarian Data Exchange \(humdata.org\)](#)

<sup>17</sup> In 2023, Yemen was ranked 176<sup>th</sup> out of 180 countries on the Corruption Perceptions Index with a score of 16 out of 100, according to [Transparency International](#).

<sup>18</sup> Other factors have also negatively influenced remittances. The IOM's 2023 report on "[Migration, Environment, and Climate Change in Yemen](#)" highlights that a "reduction in migrant working incomes, limited employment space in Saudi Arabia, and an overvalued exchange rate in areas controlled by the Houthis have resulted in decreased remittances and reduced household net gains. Furthermore, there is a growing trend of migrants relocating their dependents to Saudi Arabia when possible."

<sup>19</sup> Forthcoming World Bank Yemen Country Climate and Development Report (CCDR), 2024.

**FIGURE 1.7 • Traffic through the Suez Canal Collapsed**



Source: IMF Port Watch

ally heavy seasonal rains that led to severe floods and landslides, causing widespread devastation across the country. According to the United Nations-International Organization for Migration (UN-IOM), the severe floods and landslides, affected nearly 562,000 individuals—approximately 1.6 percent of Yemen's 2024 population.<sup>20</sup> The floods severely damaged critical infrastructure, including roads, water and electricity systems, and health facilities. The floods caused 122 deaths and 167 injuries, heavily damaging or destroying shelters, basic facilities, housing, agriculture, and livestock.<sup>21</sup>

## Recent Economic Developments

### Real Sector

**In 2024, Yemen's economy has been negatively impacted by the ongoing Houthi blockade on IRG's oil exports, escalating tensions in the Red Sea, and domestic unrest.** Oil-sector activity, predominantly located in IRG-controlled areas, is estimated to have stagnated. Meanwhile, the non-oil sector faces mounting challenges due to economic fragmentation, exchange rate depreciation, and reliance on imports, among other factors. Additionally, escalating tensions between the Houthis and IRG over

control of the banking sector in the first half of 2024 have raised concerns about the sector's future and created uncertainties for the business environment (see section on financial sector developments). In Houthi-controlled areas, the economy is particularly strained by liquidity shortages, with restrictions on cash withdrawals and limited availability of funds stifling local consumption and business operations. In IRG-controlled areas, electricity blackouts, worsened by fuel shortages, disrupt essential services, leaving many areas with only a few hours of power each day, significantly limiting production capacity, particularly in industrial and agricultural sectors.<sup>22</sup>

**Despite these challenges, positive developments in the transport sector have improved the operating environment.** The reopening of the Al-Houban-Taiz road in mid-2024 represents a significant step toward reducing the blockade on Taiz, improving national connectivity, including between major cities such as Sana'a and Ibb.<sup>23</sup> The restored road has drastically reduced travel time, transforming what was once a dangerous and several-hours detour into a journey of mere minutes. This improvement not only enhances safety and saves lives but also results in substantial savings on fuel and vehicle operating

<sup>20</sup> [IOM Appeals for US\\$13.3 Million to Help Hundreds of Thousands Affected by Yemen Floods | International Organization for Migration](#)

<sup>21</sup> [Yemen Humanitarian Update: Issue 6, August/September 2024 – Yemen | ReliefWeb](#)

<sup>22</sup> [The Yemen Review Quarterly: April-June 2024– Sana'a Center for Strategic Studies \(sanaacenter.org\)](#)

<sup>23</sup> The reopening of the Taiz road has far-reaching national benefits that extend well beyond local or city-level advantages. This road not only provides access to Taiz city but also serves as a critical link to the entire governorate, enabling individuals to visit family and engage in various economic activities. Thus, the impact of reopening this road should not be limited to the Ibb and Taiz governorates. As a strategic national asset, its benefits stretch across the country. By facilitating the movement of people and goods, the road plays a crucial role in bolstering Aden's function as a key port for the import of essential goods, including food. Viewing the road from a national perspective underscores its importance for broader economic and social connectivity, making it a vital piece of infrastructure for Yemen's national resilience and development.



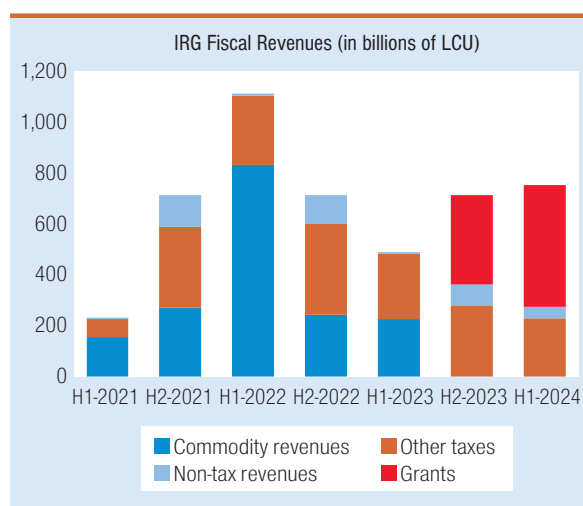
costs, thereby boosting economic activity, and improving the quality of life for residents.<sup>24</sup> Furthermore, a key agreement between the Houthis and the IRG led to the resumption of Yemenia Airways flights between Sana'a and Jordan (Amman), to be expanded to Egypt (Cairo) and India, which is expected to ease travel restrictions for Yemeni people and facilitate trade, access to health and medical services, and movement. Lastly, the inauguration of Al-Makha Airport in April 2024 could potentially enhance transport links in Taiz—an IRG-controlled area, improving access for humanitarian aid and goods. However, there remains limited publicly available information about its operations, including which entities utilize the facility and whether the new airport complies with international aviation safety standards.

## Fiscal Developments<sup>25</sup>

**The IRG's domestic revenues continued to decline in the first half of 2024, although this was partially offset by an increase in grants, leading to a rise in total revenues including grants.** According to data from the Ministry of Finance in Aden, the IRG's fiscal revenues, excluding grants, fell by 42 percent in H1-2024 compared to same period last year. This decline was primarily due to a collapse in oil revenues, alongside reductions in almost all tax revenues, particularly customs revenues, which fell by 34.5 percent. The decline in customs revenues was largely attributed to the conflict-induced shift in import activity from the port of Aden to Red Sea ports under Houthi control. Nevertheless, non-tax revenues and grants offered some relief to the IRG's fiscal situation. Grants increased significantly, bolstered by direct budget support from Saudi Arabia, with disbursements totaling US\$550 million (3.5 percent of GDP) in the first half of 2024. As a result, when grants are included, total revenues rose by 39 percent in nominal terms (Figure 1.8).

**Meanwhile, the IRG's fiscal expenditures continued to rise, though at a slower pace than the increase in total revenues including grants, but above inflation.** Fiscal expenditures grew by 12.8 percent in H1-2024 compared to the same period last year, driven by increases across most expenditure components, except for goods and services, which

**FIGURE 1.8 • IRG Fiscal Revenues Excluding Grants Declined**



Source: MOF and WB staff calculations.

declined by 11 percent (Figure 1.9). Transfers saw a notable rise of 25 percent, accounting for more than a third of the IRG's total expenditures. This high level of subsidies, particularly in the electricity sector, is largely due to below-cost recovery tariffs and limited collection rates. Interest payments also surged by 71 percent, reflecting mounting pressure from debt servicing. Spending on wages and compensation, which accounts for 40 percent of total expenditures, increased by 10 percent, underscoring the challenges of managing the public sector wage bill. Although capital expenditures rose by 16 percent, they remained low, constituting just 2 percent of total expenditures, raising concerns about the country's physical capital stock—either deteriorating rapidly due to insufficient maintenance or being damaged by the conflict.

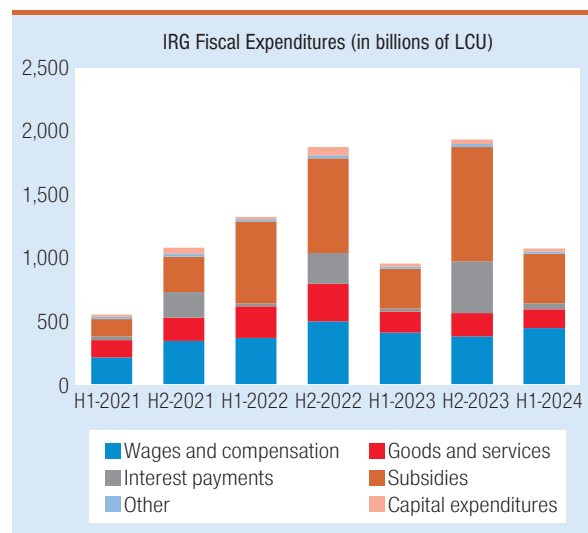
**Donor support, combined with a slower growth of expenditures relative to revenues, contributed to a decrease in the IRG's fiscal deficit.** Overall, the IRG's fiscal deficit contracted by half during H1-2024 when compared to H1-2023. The

<sup>24</sup> [Houthi opening of Taiz road raises hopes of end to blockades | Arab News](#)

<sup>25</sup> The following figures only reflect the fiscal position of IRG and do not encompass areas controlled by Houthis, which is understood to operate a balanced cash-based budget system.



**FIGURE 1.9 • IRG Fiscal Expenditures Increased**



Source: MOF; WB and IMF staff calculations.

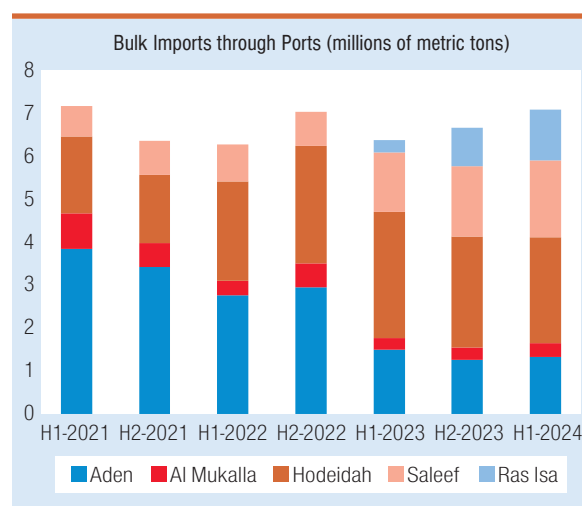
budget deficit was covered primarily by increased domestic financing through CBY-Aden. However, it is essential to highlight that this figure does not include arrears to public contractors. On an accrual basis, the fiscal deficit is expected to be significantly wider. On the other hand, in contrast to the rest of the country, Houthi-controlled areas, which include some of Yemen's major commercial and financial centers, are understood to operate under a balanced, and cash-based, public budget system. Yet, no information is available on public finances in the Houthi-controlled areas.

## External Sector Developments<sup>26</sup>

### Pressure on the trade balance intensified in the first half of 2024, driven by a significant rise in imports alongside only a modest recovery in exports.

According to ACAPS data, despite the escalation of the Red Sea crisis, the volume of imports—primarily food, fuel, construction materials, and containers—grew by 11 percent year-on-year during H1-2024 (Figure 1.10). The diversion of imports to Red Sea ports has stabilized, with 77 percent of these imports passing through Houthi-controlled ports in H1-2024, unchanged from H2-2023 but marking a significant shift from the pre-2022 truce period, when nearly 60 percent of imports were processed through IRG ports

**FIGURE 1.10 • 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.

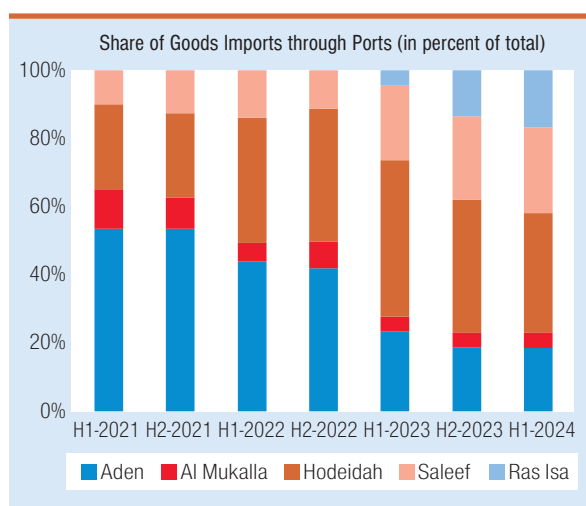
(Figure 1.11). Exports, meanwhile, showed modest recovery, increasing by 3.7 percent in H1-2024, after sharp contractions of 82.1 percent in H1-2023 and 43.3 percent in H2-2023 due to the oil blockade.

**A sharp decline in humanitarian funding contrasted with increased Saudi budget support and stable remittance inflows.** As of September 9, 2024, only 27.9 percent of the UN's Yemen Humanitarian Response Plan had been funded, totaling US\$755.4 million—a significant drop from US\$1.8 billion in 2023 and US\$2.3 billion in 2022. Domestic tensions, particularly in the banking sector, have been followed by escalating violence from the Houthis in the first half of the year. Since May 2024, there was a notable increase in hostile actions towards the Yemeni UN staff and NGO employees. Houthi security forces have arrested and forcibly disappeared dozens of individuals, including at least 13 United Nations staff members and numerous NGO employees operating in Houthi-controlled areas, according to Human Rights Watch.<sup>27</sup> These actions have further complicated aid delivery. Despite these

<sup>26</sup> Note that the following figures reflect external accounts for the whole of Yemen.

<sup>27</sup> <https://www.hrw.org/news/2024/06/26/yemen-houthis-disappear-dozens-un-civil-society-staff>

**FIGURE 1.11 • The Shift towards Houthi 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.

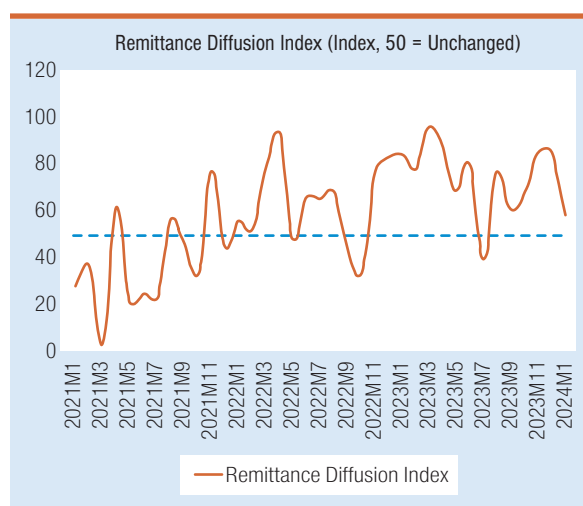
challenges, Saudi Arabia provided critical budget support in H1-2024 to ease fiscal pressures, as described above. Remittance inflows appeared resilient, with the Remittance Diffusion Index remaining above the 50-point threshold throughout 2024, playing a crucial role in bolstering household consumption and sustaining overall economic activity (Figure 1.12).<sup>28</sup>

**Yemen's gross international reserves continued to decline, reflecting the deteriorating political environment and ongoing economic vulnerabilities.** As of May 2024, reserves stood at US\$1,394 million—equivalent to less than 1.5 months of imports—down from US\$1,626 million at the end of 2023, marking a 14.9 percent decrease (Figure 1.13). This decline, despite Saudi budget support and stable remittance inflows, underscores the persistent economic challenges, particularly in boosting exports, reducing reliance on food imports, and attracting foreign financing amid a worsening environment.

## Monetary Policy and Inflation

**The first five months of 2024 saw a significant slowdown in the monetary financing of the IRG's fiscal deficit, helping contain inflation.** Data from CBY-Aden shows that net domestic claims on

**FIGURE 1.12 • Remittance Inflows Remained Resilient**



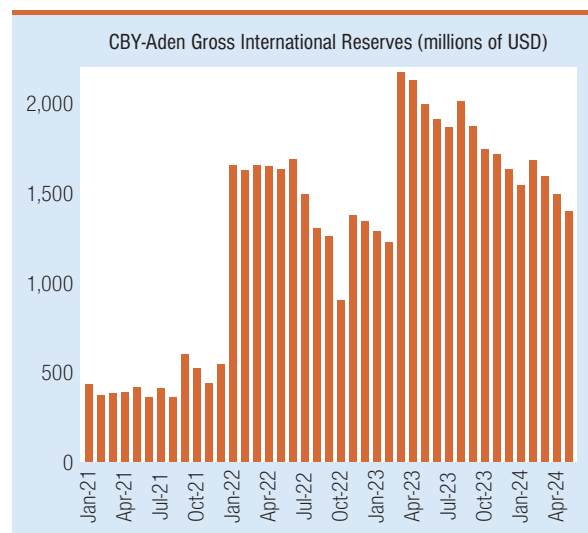
Source: Yemeni authorities, Cash Consortium of Yemen, and IMF estimates

government increased by only 1.6 percent in nominal terms during the first five months of 2024, a substantial deceleration from the 24.6 percent growth observed the previous year (Figure 1.14). This slowdown could be attributed to the increased budget support from Saudi Arabia, reducing the need for CBY to resort to unconventional policies to cover its financial expenses. Concurrently, currency in circulation grew by just 1.1 percent over the same period, compared to a 4.8 percent annual increase in 2023 (Figure 1.15). The slight rise in monetary financing was offset by CBY's foreign exchange (FX) auctions, which helped absorb the excess liquidity. This sterilization effort highlights the central bank's commitment to maintaining monetary stability. Indeed, while monetary financing may provide short-term fiscal relief, its uncontrolled continuation can escalate inflation risks and undermine overall economic stability.

**In Houthi-controlled areas, the ban on newly issued banknotes by CBY-Aden serves as**

<sup>28</sup> The Remittance Diffusion Index (RDI) tracks changes in remittance inflows, where 50 indicates no change, values above 50 signal an increase, and values below 50 indicate a decrease. It is computed by the International Monetary Fund using data from Yemeni authorities and Cash Consortium of Yemen (CCY).

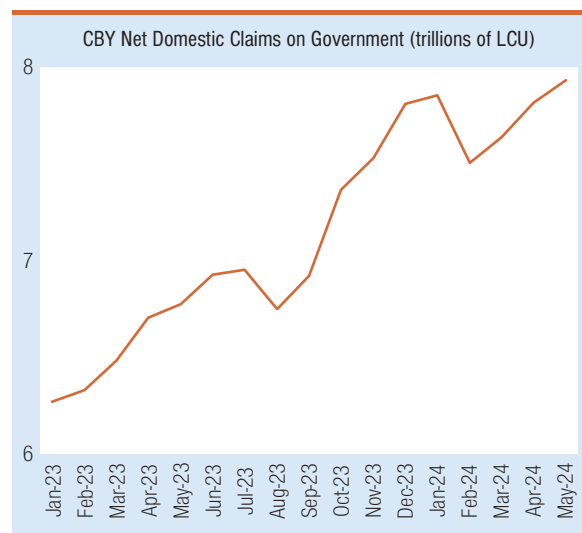
**FIGURE 1.13 • Foreign Reserves Continued to Fall**



Source: : CBY-Aden and WB staff calculations

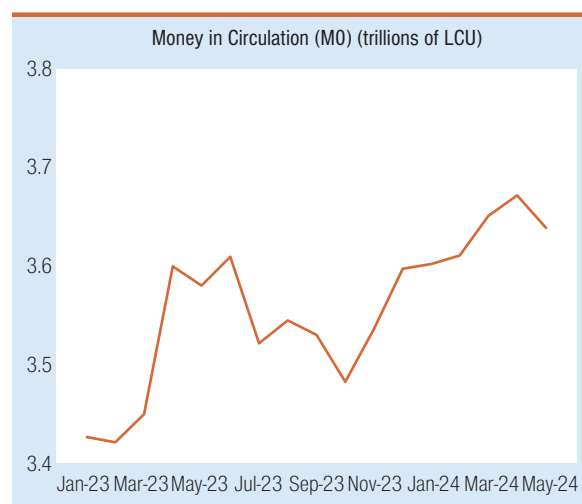
**a means of regulating money supply while price caps on food commodities further help to control inflation.** Implemented on December 18, 2019, a directive from the Sana'a-based central bank prohibited the use of new Yemeni rial banknotes issued in Aden, allowing only for the circulation of older banknotes. 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 (see Figure 1.17) 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 Houthis to attempt issuing their own rial banknotes, which culminated in a significant development on March 30, 2024, when the CBY-Sana'a introduced a new 100-YER coin for circulation in their territories (the increase in the money supply in Houthi-controlled areas following this introduction is so far minimal as 100-YER coins only account for one percent of money supply [M0]). This measure is therefore not expected to meaningfully impact inflationary conditions in Houthi-controlled areas. Additionally, in efforts to combat food inflation, the Houthis continue to impose price caps on

**FIGURE 1.14 • IRG Slowed Fiscal Monetization**



Source: : CBY-Aden and WB staff calculations

**FIGURE 1.15 • Currency in Circulation Growth Deceased**



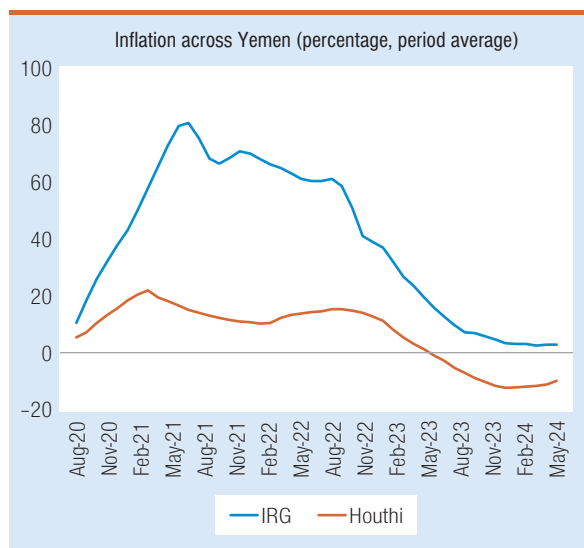
Source: CBY-Aden and WB staff calculations.

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.<sup>29</sup>

**Data from January to July 2024 indicates a general easing of inflation rates.** The average

<sup>29</sup> Yemen Food Supply Chain Update, ACAPS, August 2023

**FIGURE 1.16 • Inflation Rates Eased Sharply**

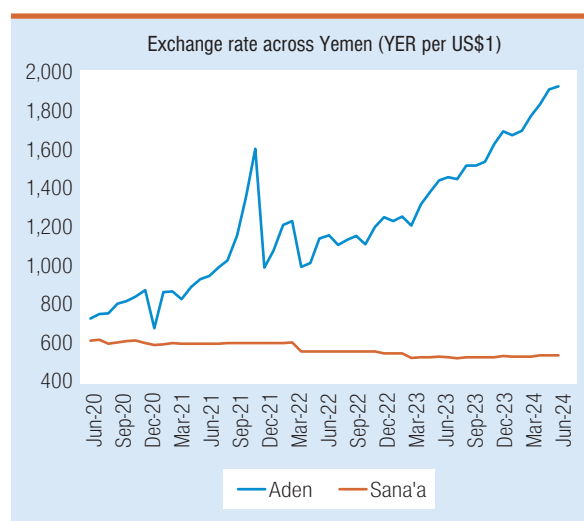


Source: : REACH JMMI and WB staff calculations.

inflation rate decreased from 0.9 percent in 2023 to a deflationary rate of 1.6 percent during the first half of 2024.<sup>30</sup> In IRG-controlled areas, inflation rates slowed significantly to 3.1 percent from 10.3 percent the previous year (Figure 1.16), mostly due to reduced domestic demand and slower growth in fiscal expenditures and monetary financing. However, this slowdown in inflation is surprising given the ongoing strong currency depreciation. Indeed, the current account deficit, exacerbated by halted oil exports and high import levels, placed additional pressure on the Yemeni rial (YER) in the Aden market, where it continued to depreciate, reaching an all-time high. The rate climbed from YER 1,619.5 per USD in January 2024 to YER 1,917 per USD by the end of August (Figure 1.17). Conversely, in the Sana'a market, the YER stabilized, and deflation persisted. The exchange rate in Sana'a remained relatively stable, moving from YER 529 per USD to YER 538 per USD during the same period. Houthi-controlled regions recorded a deflation rate of 9.6 percent, continuing the trend from the 11.8 percent deflation observed in the previous year.

**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

**FIGURE 1.17 • Exchange Rates Continued to Diverge**



Source: Telegram Exchange Market Group and WB Staff calculations.

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, when taken together, 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. Deflation, in particular, can trigger significant adjustments in consumption and investment behaviors with 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 diminish profit margins and make new investments less attractive.

## Financial Sector

**The first half of 2024 saw escalating tensions between the Houthis and the IRG over the**

<sup>30</sup> The national inflation rate is determined by calculating the simple average inflation rate between Aden and Sana'a.

### **regulation and supervision of the banking sector.**

On April 2, 2024, CBY-Aden issued a directive requiring banks operating in Sana'a to relocate their headquarters to Aden within two months, citing AML/CFT compliance concerns among others. This move was sparked by CBY-Sana'a's introduction of a new 100-riyal coin in March 2024, replacing damaged 100-YER banknotes. Further decisions in June 2024 deepened the divide, with CBY-Aden prohibiting dealings with unlicensed entities, wallets, and electronic payment services (Directive No. 282) and suspending remittance networks that were not part of the Unified Network for Money (Directive No. 23). CBY-Aden also canceled the circulation of banknotes printed before 2016, which were used exclusively in Houthi-controlled areas, and encouraged traders to exchange these for new banknotes printed after 2017 by CBY-Aden.

**These tit-for-tat measures threatened Yemen's economic, financial, and social stability while deepening the country's political and economic fragmentation.** Banks attempting to relocate faced technical challenges and the risk of retaliatory measures from the Houthis. Conversely, banks that refused relocation were at risk of being cut off from SWIFT, jeopardizing formal financial flows in and out of Yemen, a lifeline for the economy and the Yemeni people. The financial viability of smaller banks was particularly at risk. Transfers through Aden-based banks and money exchangers may have helped alleviate some of the negative impacts. By June 2024, several private banks resisted relocation, leading CBY-Aden to issue directives against six of them. Subsequently, CBY-Sana'a countered with a directive banning cooperation with 13 Aden-headquartered banks.

**These directives escalated tensions until July 23, 2024, when the UN announced that the IRG and the Houthis had agreed to de-escalate by reversing recent measures against banks and refraining from making similar decisions in the future.** The UN also indicated plans to convene a meeting between both sides to address broader economic and humanitarian issues in line with an agreed roadmap.<sup>31</sup> This agreement followed a dire warning from the World Food Programme (WFP) about a looming liquidity crisis and threat of hunger in Yemen,

underscoring the fragile state of the country's economy.<sup>32</sup>

### **More broadly, in Yemen, confidence in the formal financial sector continues to be limited.**

Prior to the conflict, the provision of credit by banks was primarily focused on government debt instruments denominated in the local currency. These instruments have been in a state of technical default since the beginning of the conflict. The ongoing economic crisis and the increase in non-performing loans among banks established before the conflict have further eroded confidence in the banking sector. In contrast, non-bank financial service providers, especially money exchangers, have experienced a rise in trust, regardless of their location. This shift is evident in the decrease of local currency deposits in commercial banks, which dropped from 15.1 percent of GDP in 2014 to 8.6 percent by the end of 2022. Nevertheless, there was a slight recovery to 9.4 percent of GDP in 2023, following the introduction of new banks in Aden.

**Money exchangers, with their strong liquidity position, more than offset the banking sector's negative net foreign assets.** Money shops typically maintain net foreign assets that outstrip their foreign liabilities, as they are the main beneficiaries of remittances and because they actively hedge against fluctuations in the local currency. The World Bank analyzed the financial statements of ten of the largest money exchangers in Aden, which showed that the liquidity-focused business model of money exchangers grants them a significant advantage over banks in Yemen's predominantly cash-based economy. As a result, money exchangers have become pivotal in providing the economy with access to foreign-currency liquidity. Despite this, they have not replaced conventional banks as facilitators of trade payments for key commodities like wheat and rice because they do not have access to correspondent banking or SWIFT,

<sup>31</sup> <https://osesgy.unmissions.org/statement-office-un-special-envoy-yemen>

<sup>32</sup> <https://english.aawsat.com/arab-world/5036519-un-warns-profound-liquidity-crisis-yemen%E2%80%99s-houthi-controlled-areas>

which is a requirement to buy from the international market.

**In March 2023, Houthi authorities enacted a law, effective immediately, banning interest-based banking transactions, despite resistance and proposed amendments from their legal committee.** Since then, banks have shifted most savings deposits to current accounts and ceased paying interest. This has deprived banks from interest income for the past months, while increasing their liabilities, putting additional pressure on their balance sheets. This situation poses a severe threat to the health of the banking system in Houthi-controlled areas. Without the ability to generate interest income, banks may struggle to maintain profitability and solvency, and rely only on non-interest-income such as trade facilitation and exchange rate fluctuation. Additionally, due to liquidity constraints, banks have been unable to withdraw their holdings or reserves.

**The law has disproportionately affected commercial banks, which hold a larger share of government securities compared to Islamic**

**banks.** The World Bank conducted a stress test based on public information available until December 2023.<sup>33</sup> The test revealed that large traditional and state-owned banks are particularly vulnerable to asset write-downs that may result from implementing the anti-usury law. A write-down of more than 15 percent of the value of sovereign debt holdings would deplete the capital buffers of the country's largest banks, such as the International Bank of Yemen (IBY), CAC Bank, and the National Bank of Yemen.<sup>34</sup> In early September, IBY, the largest private bank holding public debt, issued a statement attributing its liquidity crisis to factors beyond its control, while affirming that it is working with the CBY in Sana'a to find urgent solutions. It is worth noting that, due to their limited public debt ownership, most Islamic and non-state-owned banks' capital buffers would withstand the asset shock.

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<sup>33</sup> Fitch Connect

<sup>34</sup> World Bank Yemen Financial Sector Diagnostic report 2024 (forthcoming)

**TABLE 1.1 • Selected Economic Indicators (2019-2023)**

	2019	2020	2021	2022	2023
<b>Real Sector</b> <i>(Annual percentage change)</i>					
Real GDP	2.1	-8.5	-1.0	1.5	-2.0
Real GDP per Capita	-0.4	-10.7	-3.2	-0.6	-4.2
<b>Money and Prices</b> <i>(Annual percentage change, unless stated otherwise)</i>					
Consumer Prices (period average)	15.7	21.7	31.5	29.5	0.9
Aden	22.6	30.5	59.8	36.4	10.3
Sana'a	11.4	15.6	9.4	21.6	-11.8
Base Money	3,485	3,948	4,491	4,689	4,919
Exchange rate (YER per US\$1, average)					
Aden	607	778	1,029	1,112	1,368
Sana'a	565	601	598	570	533
Exchange rate (YER per US\$1, eop)					
Aden	607	677	989	1,197	1,532
Sana'a	580	591	600	560	528
<b>IRG's Finances</b> <i>(In percent of GDP)</i>					
Total Revenues and grants	7.3	6.2	7.3	9.5	6.0
Commodity Revenues	3.6	2.2	2.5	4.8	1.2
Taxes on International Trade	0.8	0.8	1.0	0.9	0.7
Other Taxes	1.9	2.0	2.6	2.2	2.0
Non-Tax Revenues	0.6	1.1	0.7	0.6	0.4
Grants	0.4	0.1	0.6	1.1	1.6
Total Expenditures	13.2	10.6	8.2	12.2	12.1
Current Expenditures	12.5	10.3	7.8	12.0	11.9
Capital Expenditures	0.7	0.3	0.4	0.2	0.3
Overall Fiscal Balance	-5.9	-4.5	-0.9	-2.7	-6.1
Financing	5.9	4.5	0.9	2.7	6.1
External (net)	-0.1	-0.3	-0.2	-0.4	-0.7
Domestic	6.0	4.8	1.1	3.1	6.8
General Government Debt	103.5	104.8	93.6	77.9	100.4
External	41.1	44.4	46.0	38.6	53.2
Domestic	62.3	60.4	47.6	39.3	47.2
<b>External sector</b> <i>(In percent of GDP)</i>					
Current Account Balance	-4.2	-15.6	-14.2	-17.7	-20.3
Capital Account Balance	0.0	0.0	0.0	0.0	0.0
Financial Account Balance (excl. reserves)	-2.1	0.3	-3.2	-0.9	-4.8
Net Errors and Omissions	-1.8	12.6	14.7	15.2	17.3
<b>Other memo items</b>					
GDP nominal in US\$ (millions)	21,888	20,220	19,394	23,534	18,806
Gross Reserves in US\$ (millions)	1,654	970	1,688	1,307	1,638

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





# OUTLOOK AND RISKS

## Outlook

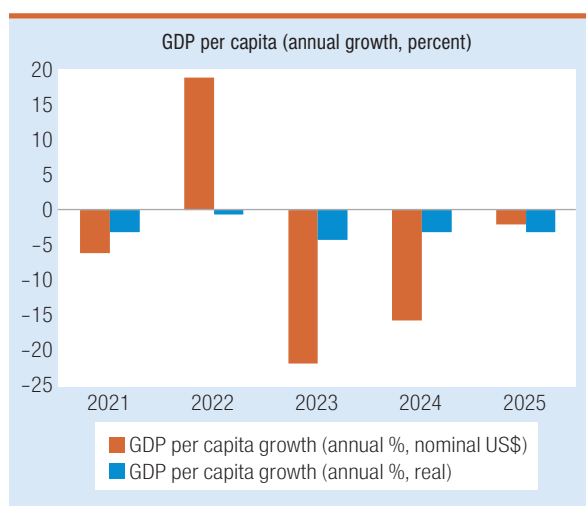
**The macroeconomic outlook for the Middle East and North Africa region remains highly uncertain due to the ongoing conflict** (World Bank October 2024 MENA Economic Update). Economic activity in the region is expected to pick up to 2.5 percent in 2024, following a slowdown to 1.9 percent in 2023. Growth is projected to decelerate more sharply in developing oil importers, where the conflict exacerbates existing vulnerabilities. The heightened uncertainty has led to a downward revision of the region's 2024 economic outlook since the June Global Economic Prospects (GEP) report, with growth forecasts reduced by 0.3 percentage points from 2.8 percent.

**The impact of the conflict has varied across MENA economies, largely depending on their economic linkages and proximity to conflict zones.** The limited integration of Palestinian and Israeli markets with the broader MENA region has helped shield the region from more severe spillover effects. Key channels of impact include tourism (notably in Jordan and Lebanon) and disruptions in maritime traffic through the Suez Canal (Egypt). Between February

and July 2024, the number of ships passing through the Suez Canal and Bab El-Mandeb decreased by 54 percent and 64 percent, respectively, compared to the first 10 months of 2023. However, these disruptions have, so far, not led to significant consumer price increases.

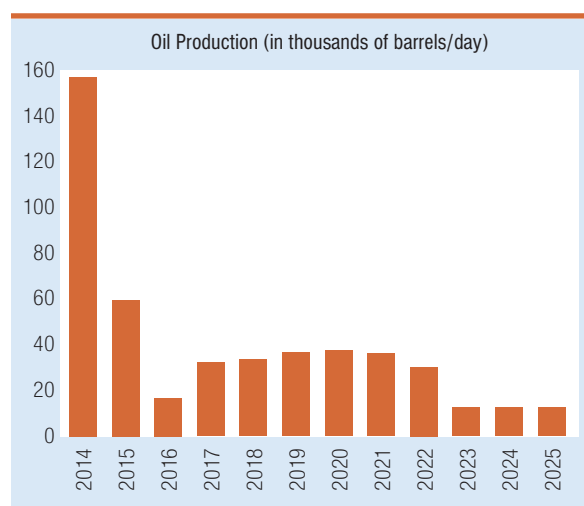
**Ongoing domestic tensions, compounded by the conflict in the Middle East, have further strained Yemen's economic growth. As a result, the economy is expected to deteriorate further in 2024.** National GDP is projected to contract by 1.0 percent in real terms, following a 2.0 percent decline in 2023. Concurrently, real GDP per capita is expected to decrease by 3.2 percent. However, the nominal GDP per capita decline is projected to be even more pronounced, at 15.8 percent (Figure 2.1). Oil production is estimated to remain stagnant after a sharp 59.4 percent drop in 2023, assuming the current conflict conditions continue and preclude oil exports in IRG-controlled areas from resuming (Figure 2.2). 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

**FIGURE 2.1 • GDP Per Capita is Expected to Continue Decreasing**



Source: Yemeni authorities; WB and IMF staff estimations.

**FIGURE 2.2 • Oil Production is Expected to Stagnate**



Source: Yemeni authorities; WB and IMF staff calculations.

on the YER. 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 3.5 percent in 2024, despite the decline in revenues excluding grants.

**The macroeconomic outlook for 2025 is also 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 to expanded operations of Yemenia Airways under the UN-mediated agreement. However, without significant clear prospects for peace and security, increased revenues and exports, public finances and external accounts will continue to be under stress. Inflation is expected to rise further, driven by currency depreciation in the IRG-controlled area.

## Risks

**Significant downside risks could further destabilize Yemen's economy.** This is mainly attributed to the potential further escalation of 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, conflict premiums, and insurance costs. These risks are already materializing, as seen by recent Israeli airstrikes on Hodeida port, which will have severe adverse effects on imports—a crucial lifeline for Yemen.<sup>35</sup> An escalation of tensions in the Red Sea could also trigger additional sanctions on the Houthis, adversely impacting aid flows and remittances. Yemenis have already been struggling to get the aid they need, in part due to low humanitarian funding. The risks regarding food insecurity are alarming, exacerbated by the suspension of aid and food distribution by the WFP in Houthi-controlled areas in late 2023. On the domestic front, tensions as those seen in 2024 within the banking sector could

<sup>35</sup> In September and October 2024, military tensions between the Houthis and Israel escalated significantly. The conflict began with a series of Houthi aerial drone and missile attacks, mainly targeting southern Israel and the coastal city of Eilat. In retaliation, Israel launched precision airstrikes on Houthi-controlled areas, [focusing on the strategic port city of Hodeida](#). Key targets included military and energy infrastructure critical to Houthi operations, such as a power plant and seaports in Hodeida and Ras Issa.

reemerge, posing serious threats to the economy by disrupting humanitarian aid, essential imports, remittances, and key sources of livelihood. Such developments would further exacerbate Yemen's already severe economic and social challenges.

**However, if a lasting truce or peace agreement is achieved, Yemen could experience large and sustained growth within months. This peace dividend could result in large economic, social, and financial gains for all actors in Yemen.** 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 from a low base, resulting in lower costs and increased employment and incomes. With post-

conflict reforms and additional external financial assistance and reconstruction efforts supported by development partners, 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.<sup>36</sup>

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<sup>36</sup> World Bank. (2023). Yemen Country Economic Memorandum: Glimmers of Hope in Dark Times. Washington, D.C: World Bank.







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