

Country Risk Summary

Yemen

December 2008

Yemen: Risk Assessment						
	Sovereign Risk	Currency Risk	Banking sector Risk	Political Risk	Economic structure Risk	Country Risk
December 2008	CCC	B	CCC	CC	CCC	CCC

Sovereign Risk

Stable: Yemen is expected to return wide fiscal and current-account deficits during the outlook period, forcing it to source increased finance from the local banking sector and from its Arab neighbours. However, should this prove insufficient, the government may have to either run down its foreign-exchange reserves faster than currently envisaged, or even seek support from the IMF.

Currency Risk

Negative: As part of its anti-inflation strategy, the Central Bank of Yemen will oversee a cautious depreciation of the Yemeni rial. However, declining oil production and prices could lead to increased downward pressure on the rial.

Banking sector Risk

Stable: We have downgraded the banking sector Risk rating, to CCC, reflecting the effect on the domestic economy of a sharp fall in oil prices, the impact of the credit crunch, and banks' rising exposure to the fragile state finances.



Political Risk

Yemen is a politically divided country, facing serious security threats that could endanger national cohesion. These include attacks by militants linked to al-Qaida, as well as rising secessionist sentiment in the south.

Economic structure Risk

The heavy dependence of Yemen's finances on the petroleum sector is a major structural risk, given the decline in oil production and oil prices, and the weak state of the private sector. Rapid population growth is also a concern.

SOURCE: Country Risk Service, Economic Intelligence Unit