

Yemen

Yemen at a glance: 2009-10

OVERVIEW

Ongoing security problems in Yemen, exacerbated by the activities of militant Islamist groups and continued north-south tensions centred on the distribution of economic resources, could endanger long-term political cohesion. Nevertheless, the Economist Intelligence Unit expects the ruling General People's Congress, led by the president, Ali Abdullah Saleh, to win the parliamentary election in 2009 comfortably. However, this victory could prove hollow should the main opposition bloc follow through on its threat to boycott the poll, and as a result, the government is mulling a postponement of the election. Despite the fact that the security forces have recently stepped up their campaign against al-Qaida in Yemen, the US will remain sceptical of the government's commitment to rooting out militant Islamist elements. The government will seek to liberalise and strengthen the business environment, but progress will be slow, given excessive bureaucracy and the unstable security climate. Political concerns will prevent much-needed fiscal retrenchment. We expect the coming on stream of Yemen's first liquefied natural gas plant in 2009 to boost growth considerably, to an average of around 5.2% in 2009-10, despite slowing domestic demand.

Key changes from last month

Political outlook

- The opposition Joint Meeting Parties coalition has said that it will boycott the parliamentary election in 2009, increasing the possibility that the government will postpone the poll.

Economic policy outlook

- We have made no major revisions to our economic policy outlook.

Economic forecast

- We have revised up our current-account deficit forecast, to an average of 11.3% of GDP in 2009-10, in line with a lowering of our oil price projection and the deteriorating outlook for workers' remittances next year.

December 2008

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December 2008

Yemen

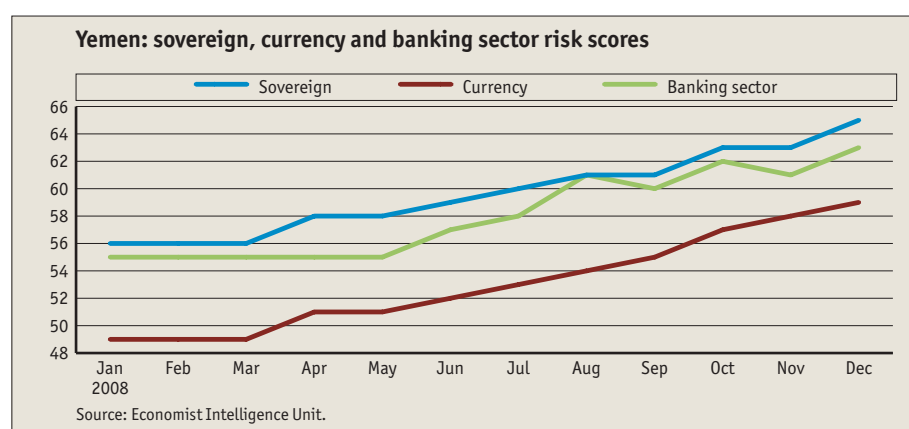
Yemen: risk assessment

	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 riyal. However, declining oil production and prices could lead to increased downward pressure on the riyal.

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.

Robert Powell (analyst); David Butter (consulting editor)

December 8th 2008

Sovereign risk

Yemen: sovereign risk

Rating

December 2008

CCC

Current assessment



Yemen's current and fiscal accounts have been supported in recent years by high levels of oil revenue, as international oil prices have soared. However, rising social and inflationary pressures have driven a commensurate steep increase in fiscal expenditure, and, as a result, the government has been unable to set aside a share of the oil windfall in a stabilisation fund. With the fiscal account estimated to have returned a deficit equivalent to 7.1% of GDP in 2008, and oil prices now falling steeply, the state finances and the current account are set to deteriorate markedly, causing the country's sovereign risk rating to be downgraded to CCC. More positively, however, the external debt stock remains relatively small compared with other similarly rated countries—at an estimated 26% of GDP at end-2008. The debt-service ratio is also relatively benign, reflecting the concessional nature of most of the country's borrowing. The government is under little pressure to settle past arrears on its external debt.

Positive factors

- The start of liquefied natural gas (LNG) exports in May 2009 should support both the fiscal and the current accounts.
- Although the sharp fall in oil prices will hit government revenue, it should lessen the burden on the exchequer of fuel subsidies, which the World Bank estimates will have reached the equivalent of 12% of GDP in 2008.
- With a debt-service ratio estimated at 2.8% in 2008, Yemen's external debt burden remains manageable (although public domestic debt is rising rapidly).
- The disbursement of some US\$5bn in concessional lending and grants in 2007-10, pledged at the London donor conference in November 2006, will take some pressure off the state budget of financing infrastructure projects.

Negative factors

- The recent sharp fall in oil prices has only further highlighted the government's vulnerability to the volatile oil market. The Yemeni government relies on oil sales for some 70% of its revenue, and, without substantial new finds, the country's oil reserves are projected to be exhausted by 2018.
- Despite the unsustainable rate of expenditure growth, political tensions have forced the government to lift outlays on salaries, subsidies and the military.
- The deteriorating global economic situation is likely to undermine Yemeni efforts to accrue greater foreign financial support should it be required, potentially forcing it to turn to the IMF.

Rating outlook

Stable: Yemen will struggle to source sufficient concessional lending from foreign donors to cover its rising fiscal shortfall, and the government does not have access to the international corporate debt markets. As a result, the government will increasingly rely on issuing Treasury bills to local buyers (mainly banks), which is expected to cause the public debt stock (external and domestic) to rise from around 35% of GDP in 2007 to close to 50% of GDP by end-2010.

Currency risk

Yemen: currency risk

Rating

December 2008

B

Current assessment



The Central Bank of Yemen (CBY) maintains tight control over the Yemeni rial, balancing the aims of controlling inflation and protecting investor confidence against the need to diversify the export base. Having encouraged the currency to depreciate by an annual average of around 3% against the US dollar in 2001-06, the CBY has since then loosely pegged the rial to the weakening dollar. This switch in policy has been encouraged by the IMF, which argues that the CBY's prior strategy had contributed to rising inflation, although the recent recovery of the US dollar against most major currencies may cause the CBY to revert to its previous strategy. The decision to peg the rial demonstrates the paucity of monetary policy tools available to the CBY, as the weakness of the banking sector precludes an active interest rate policy. This situation is exacerbated by the fact that the CBY can do little to influence fiscal policy—a serious concern given recent large increases in public-sector pay.

Positive factors

- Although inflation is estimated to have risen sharply in 2008, to an average rate of 18%, the Economist Intelligence Unit expects that fast-declining global commodity prices will allow consumer price growth to drop sharply in 2009, to 7.7%.
- If the rial were to come under sustained pressure, the CBY could call on Yemen's sizeable stock of foreign-exchange reserves (equivalent to an estimated 10 months of import cover in 2007) to defend the currency.

Negative factors

- The worsening of the country's trade position, as oil production declines and oil prices fall, will cause foreign-currency inflows to decline, and result in a large increase in the country's financing need.
- Having risen strongly in recent years, foreign direct investment inflows are likely to fall in 2009-10, as the worsening global economic situation forces firms to rein in their expansion plans, and the Yemen LNG project reaches completion.
- In the past, political tensions have caused a build-up of speculative pressure on the rial. Should the domestic or regional political climate worsen significantly, the CBY's ability to manage the currency could be severely tested.

Rating outlook

Negative: We expect the current-account deficit to widen markedly over the outlook period, causing downward pressure on the rial, and forcing the CBY to draw down its reserves. However, given the present healthy size of its stock of foreign reserves, the CBY should be able to contain the depreciation of the rial, in keeping with its anti-inflation strategy.

Foreign-exchange regime

The Central Bank of Yemen maintains that it operates a free float of the rial, but admits that it does occasionally intervene to smooth fluctuations and support price stability. The exchange rate has remained relatively constant in 2008, at YR200:US\$1.

Banking sector risk

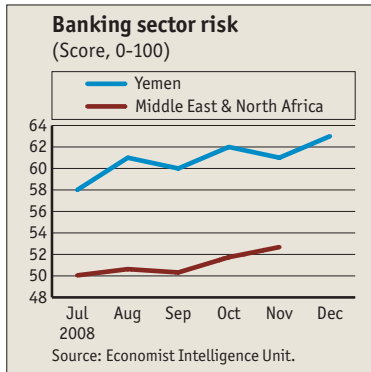
Yemen: banking sector risk

Rating

December 2008

CCC

Current assessment



We have downgraded banking sector risk, to CCC, in the wake of the gathering global economic recession and Yemen's deteriorating fiscal position. With the government's foreign official credit lines likely to dry up amid the global economic gloom, it will increasingly rely on the local banking sector to finance its fiscal deficits, which will not only crowd out private-sector lending, but also increase the sector's exposure to the state's deteriorating finances. Most of the banks already rely on letters of credit and T-bills for the bulk of their income, and most of the population remain without a bank account. As a result, profitability within the sector is limited, with the banks reporting an aggregate profit of just US\$100m in 2007. In addition, although the CBY applies "Basel I" standards (requiring a capital adequacy ratio of 8%) across the banking sector, supervision, especially of the Islamic banks, is relatively weak. The government has asked the General Investment Authority to oversee the modernisation of the sector, in order to improve access to credit for both businesses and individuals, while concurrently promoting microfinance initiatives. This approach is seemingly beginning to have positive results, with credit to the private sector rising by almost 36% in 2007. In March 2008 parliament approved a new law establishing a mandatory insurance agency to protect small depositors in case of bank failure. The IMF has suggested that the authorities should also remove the minimum interest rate for riyal deposits, but little progress has been made.

Positive factors

- The sector's role in the economy has deepened considerably—albeit from a very low base—with deposits rising by 160%, and private-sector credit by 225%, over the past five years (compared with nominal GDP growth of 120%).
- Yemen is not heavily exposed to the global financial turmoil, although this in large part reflects the underdeveloped nature of local banking intermediation, and the financial sector has a strong net foreign-asset position.

Negative factors

- Banking retail outlets are thin on the ground and underdeveloped, with most Yemenis still lacking a bank account. Despite robust growth, credit to the private sector was the equivalent of just 8.4% of GDP at end-2007.
- The ratio of non-performing loans (NPLs) to gross loans is high, at around 23% in 2006—a figure that may have risen in the wake of fast-rising private-sector credit. Mechanisms for contract enforcement are weak, pushing up NPLs and discouraging banks from diversifying their lending beyond a few borrowers.
- Plans to open the Yemen's first national stockmarket by 2011 will almost certainly have to be put on hold, given regional and global economic conditions.

Rating outlook

Stable. The government's efforts to expand the role of banks in the economy will continue to struggle in the face of slow GDP growth and a lack of political will to implement bank privatisation plans. However, given the fragmented state of the market, some consolidation among banks is possible.

Generic risks

The assessment of *political risk* and *economic structure risk* informs our assessment of *sovereign risk*, *currency risk* and *banking sector risk*.

Political risk assessment **Rating: CC**

Yemen is a politically divided country, and several of the more remote governorates are virtually lawless. The government is heavily reliant on patronage to ensure the loyalty of the tribes, but this system is under threat as Yemen's oil reserves gradually run out—a particularly serious development given the present multiplicity of challenges confronting the authorities. In the south, violent protests have raised the spectre of a return to the 1994 north-south civil war, and a threatened opposition boycott of the parliamentary election scheduled for April 2009 has raised tensions further nationwide. Meanwhile, the security forces' inadequacies were highlighted by their failure to quash the long-running rebellion in the northern governorate of Saada, although a peace deal agreed in July has halted the fighting (a lull that is likely to prove temporary). The security services have also stepped up their efforts (with some success) to combat the al-Qaida in Yemen jihadi group, which has launched a series of attacks on foreign interests and oil installations over the past year. Amid this climate of instability, the government will struggle to implement its programme of economic reform—a crucial prerequisite both for stimulating the economy and for consolidating the gains in its global standing that came in the wake of the relatively free and fair presidential election in September 2006.

Economic structure risk assessment **Rating: CCC**

Yemen's oil output—on which it depends for the bulk of its fiscal and foreign-exchange earnings—is declining rapidly. The country's oil reserves are small compared with those of many of its Gulf neighbours, and are expected to run out in around ten years. Given Yemen's low level of economic development—a situation exacerbated by rapid population growth—the country has been unable to accumulate a fund to help it cope with the depletion of its oil reserves (as has been done in other oil-producing states in the wake of surging oil prices). The government has been attempting to diversify the economy away from oil, principally by developing Yemen's natural gas resources. However, ongoing dependence on petroleum exports raises risks in the event of a fall in prices. There have also been efforts to expand the services sector, but the precarious security situation and institutional weaknesses are likely to hinder progress, despite the US\$5bn in financial assistance pledged at a donor conference in London in late 2006.

Country risk

Overall country risk **Rating: CCC**

The country risk rating is derived by taking a simple average of the scores for *sovereign risk*, *currency risk* and *banking sector risk*.

Rating definitions

Sovereign risk

This risk category measures the risk of a build-up in arrears of principal and/or interest on foreign- and/or local-currency debt that is the direct obligation of the sovereign or guaranteed by the sovereign. The *sovereign risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

Currency risk

This risk category measures the risk of a devaluation against the reference currency (usually the US dollar, occasionally the euro) of 25% or more in nominal terms over the next 12-month period. The *currency risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

Banking sector risk

This risk category gauges the risk of a systemic crisis whereby bank(s) holding 10% or more of total bank assets become insolvent and unable to discharge their obligations to depositors and/or creditors. A banking crisis is deemed to occur even if governments restore solvency through large bail-outs and/or nationalisation. A run on banks facing a temporary lack of liquidity rather than underlying solvency problems is not deemed to constitute a crisis, provided that public confidence in the banking system is quickly restored. Banking crises are typically associated with payment difficulties in the corporate or household sectors; bursting of asset price bubbles; currency and/or maturity mismatches. The rating can therefore serve as a proxy for the risk of a systemic crisis in the private sector. The *banking sector risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

Political risk

This risk category evaluates a range of political factors relating to political stability and effectiveness that could affect a country's ability and/or commitment to service its debt obligations and/or cause turbulence in the foreign-exchange market. The *political risk* rating informs the ratings for *sovereign risk*, *currency risk* and *banking sector risk*.

Economic structure risk

This risk category is derived from a series of macroeconomic variables of a structural rather than a cyclical nature. Consequently, the rating for *economic structure risk* will tend to be relatively stable, evolving in line with structural changes in the economy. The *economic structure risk* rating informs the ratings for *sovereign risk*, *currency risk* and *banking sector risk*.

Overall country risk

This risk rating is derived by taking a simple average of the scores for *sovereign risk*, *currency risk* and *banking sector risk*.

Central scenario for 2009-10

Political outlook

Domestic politics Yemen's political cohesion in 2009-10 could be jeopardised by deteriorating security conditions. As living costs remain high and the population continues to grow rapidly, intermittent violent protests are likely, especially in the south. The ability of the president, Ali Abdullah Saleh, to use fiscal measures to placate public anger over low living standards and maintain the web of patronage that has underwritten his rule will continue to be eroded by the steady depletion of the country's oil reserves and falling oil prices, with new gas revenue not expected to offset the losses. Although the sporadic Houthi rebellion in the Saada region in the north of the country has formally ended, local tensions mean that flare-ups are likely, as happened after previous brokered deals. A spate of arrests and the killing of a number of key members of al-Qaida in Yemen (AQY) by the security forces have weakened the jihadi group, but are also likely to provoke further retaliation, along the lines of the attack on the US embassy in September. Given the lack of state control in Yemen's hinterlands, the potential remains for AQY to regroup and step up its campaign once more.

Tensions between the ruling General People's Congress and the main opposition bloc, the Joint Meeting Parties (JMP), are set to worsen. Opposition protests over the electoral process have increasingly turned violent, and the JMP has said it will boycott the legislative election scheduled for April 2009. However, Mr Saleh will be keen to avoid a boycott, as such a move would not only displease the country's Western donors, but could also lead to a spike in violence on election day. As a result, the potential for a postponement of the parliamentary poll is rising (a view reinforced by the decision of parliament in November to suspend the municipal polls for four years), although efforts to find a compromise will continue for the time being.

If the government fails to deal effectively with the grievances underlying the wave of protests that have spread across the country since early 2008, unrest is likely only to further increase over the outlook period. Demonstrations led by former southern soldiers, demanding reinstatement into the armed forces and better pensions (many were forced to retire after the 1994 north-south civil war), drew in other disaffected elements of society—including in the north. In the south, resentment of the northern elite's perceived economic dominance has been further exacerbated by high inflation and the heavy-handed response of the security forces to the demonstrations. This growing southern discontent culminated in November with the formation of the secessionist Provisional Council for the Liberation of the South, led by a southern dissident imprisoned earlier this year for calling for the end of the "northern occupation". Although the group has rejected violent means to achieve its ends, and at this stage a repeat of the 1994 civil war appears highly unlikely, in the longer term new armed secessionist groups may emerge.

The threat from AQY—illustrated by a spate of bombings of security, tourism and oil industry targets—is expected to persist. Although a recent government crackdown will hinder its activities in the short term, given the widespread

disaffection within the country at low living standards and sympathy among parts of the population for the militant Islamists' cause, AQY is unlikely to struggle to find new recruits. Similarly, tensions are set to persist in Saada over the outlook period. Although the Houthi insurgency was brought to a formal end in mid-2008, following a locally mediated deal between Mr Saleh and the leader of the rebels, Abdel-Malik al-Houthi, there is a strong chance of a resumption of violence, as occurred following previous agreements negotiated through Qatari mediators. The promised peace dividend for the area has thus far failed to materialise, and the cessation of conflict was not based on a clear victory for either side—meaning that both retain the capacity to resume it.

International relations

Ongoing militant activity is expected to limit the extent to which Western countries are able or willing to deepen diplomatic and commercial links with Yemen. The authorities' former hesitancy in tackling AQY damaged Yemen's ties with the US, and although the recent crackdown on militant Islamist groups has won US approval, the next US administration will remain wary of Yemen's intentions. This mistrust will be exacerbated by Yemen's reluctance to allow US naval forces within Yemeni waters to assist in combating the surge in piracy in the Gulf of Aden. Instead, Yemen will place greater emphasis on strengthening its ties with its Gulf Arab neighbours, from which it gleans most of its economic support, and it will continue to press for full membership of the Gulf Co-operation Council (although this will remain a distant goal).

Economic policy outlook

Policy trends

Rising public discontent will ensure that the government is slow to implement much-needed fiscal reforms, especially fuel-subsidy reductions, despite the pressing fiscal need. Instead, it will seek to maximise Yemen's remaining hydrocarbons reserves by accelerating the pace of oil and gas exploration, offering more generous contract terms to international oil companies. However, as oil reserves, which currently provide most of its fiscal and export income, are expected to be depleted in 10-15 years, the government will also seek to promote development of the non-oil sector. To support these efforts, at a conference in London in 2006, international donors pledged some US\$5bn (to be disbursed in 2007-10) to finance projects outlined in the government's five-year Development Plan for Poverty Reduction (DPPR). However, if the recent oil price fall is sustained, Yemen is unlikely to be able to afford its share of the projects in the DPPR, forcing it to turn to its international donors once more, especially those in the Gulf.

In 2009-10 the government plans to encourage local private enterprise and attract foreign investors by strengthening the financial sector, increasing the number of microfinance banks, modernising the local commercial courts, reducing red tape and updating investment regulation. These efforts will continue to be hindered, however, by a poorly educated workforce and an unstable security climate, as well as by the increased risk aversion of banks in the wake of the global financial crisis.

Fiscal policy Yemen's fiscal account is set to deteriorate markedly over the outlook period, as oil prices fall steeply from their highs of mid-2008. The fall in oil prices and production is expected to push overall revenue down by some 22% in 2009, despite the coming on stream of Yemen's first liquefied natural gas (LNG) project, known as Yemen LNG. In response, the government has proposed a relatively conservative budget for 2009, and has included a provision to cut back spending further if required. It should be assisted in this by the steep drop in oil prices, which will allow outlays on the fuel subsidy to fall significantly, although the decline in fuel import costs may also reduce the urgency of further subsidy cuts. This will be insufficient to prevent a sharp widening of the fiscal deficit in 2009, from an estimated YR352bn (US\$1.8bn), or 7.1% of GDP, in 2008 to YR747bn (13.7% of GDP)—larger than the Economist Intelligence Unit's previous forecast, owing to a downward revision in our oil price projections.

In 2010 revenue will recover slightly, as oil prices pick up and the second LNG train comes on stream. Nevertheless, political concerns will prevent any major fiscal rationalisation, such as the elimination of the fuel subsidy or a reduction in the public-sector workforce, and, as a result, the fiscal deficit should remain large, at around YR692bn. Financing this deficit may prove challenging. Although the Ministry of Finance can use Treasury-bill sales to the banking sector, local banks will struggle to absorb the entirety of the shortfalls, and thus the government will have to rely increasingly on concessional foreign lending (and, possibly, even assistance from the IMF).

Monetary policy Yemen's financial system is highly underdeveloped, and the economy is largely cash-based. This is expected to limit the direct impact of the global financial crisis on the country. However, it also reduces the efficacy of interest rate adjustments, depriving the Central Bank of Yemen (CBY) of an important monetary policy tool. As a result, the CBY's efforts to manage liquidity will remain primarily focused on the issuance of certificates of deposit and T-bills. Although this policy enjoyed considerable success in 2007, it was challenged by rising inflation in 2008, which halted an earlier fall in the T-bill rate. Over the outlook period, we expect interest rates to remain high, as difficult external conditions and rising government debt constrain the CBY's ability to lower rates.

Economic forecast

International assumptions We forecast that world economic growth (at purchasing power parity rates) will slow sharply in 2009, to just 2%, as the deepening recession in the EU and the US drags down non-OECD growth. Growth is expected to recover to around 3% in 2010, but there remain high downside risks. The gloomy outlook for global demand has led us to lower our forecasts for the price of the benchmark dated Brent Blend, which we project will decline from an estimated average of US\$98.4/barrel in 2008 to an annual average of US\$66.6/b in 2009-10, although there still remains considerable downside risk to this forecast.

Economic growth We estimate that real GDP growth will have slowed to 3.2% in 2008, as falling oil output in several of Yemen's larger oilfields and a slowdown in private consumption growth on the back of a sharp increase in the cost of living have

been only partly offset by continued growth in government spending and sustained investment (as the construction of the new LNG plant nears completion).

In 2009-10 the continued decline in oil production, combined with lower oil prices, will force the government to rein in spending growth markedly, which will in turn help to depress private consumption. Over the same period, investment growth will slow, as work on the LNG facilities winds down and Gulf Arab companies rein in their outward investment plans in the wake of the global financial turmoil. More positively, however, the disbursal of monies pledged at the London donor conference in November 2006 should continue. Overall, we still expect real GDP growth to rise in 2009-10, to an annual average of 5.2%, lifted by increased export volumes as production at Yemen LNG commences in mid-2009.

Inflation We expect inflation to fall steeply over the outlook period, as the prices of foodstuffs and other commodities decline from 2008 levels. With Yemen heavily reliant on imported goods, it suffered from fast-rising global food prices, in particular, in 2008, which we estimate will have pushed consumer price inflation up to an average of 18%. However, the commodity price boom has begun to rapidly unwind, and we now expect the global price of foodstuffs and beverages, for example, to decline by over 25% in 2009 (and remain stable in 2010). With domestic demand also set to be restricted by weak investment and stagnating wages, and the Yemeni riyal likely to remain relatively stable, we expect average inflation to slow to 7.7% in 2009, before rising to its trend rate of around 12% in 2010.

Exchange rates The CBY is expected to allow the Yemeni riyal to depreciate against the US dollar over the outlook period, as it seeks to balance the aims of controlling inflation and protecting investor confidence against the need to maintain the competitiveness of non-oil exports. As inflation moderates and the dollar strengthens, the riyal—which we estimate will have depreciated to around YR200:US\$1 by end-2008—is expected to fall to YR212:US\$1 at end-2010.

External sector We have revised up our forecast for Yemen's current-account deficit, reflecting a lowering of our oil price projections and the deteriorating outlook for workers' remittances inflows. However, with Yemen also importing some 60,000 barrels/day of refined fuel products, and global non-oil commodity prices also set to decline steeply, we expect the import bill to contract by some 10% in 2009, to US\$8.3bn, before remaining largely stable in 2010 as global commodity prices remain relatively stable and the LNG project reaches completion. Despite the start of LNG sales, export revenue is forecast to decline to US\$6.3bn in 2009, as oil prices and production both drop, although earnings should partly rebound the following year, as oil prices begin to recover and the second LNG train comes on stream. As a result, the trade deficit, which we estimate will have reached US\$463m in 2008, is expected to grow to US\$2bn in 2009, or 7.4% of GDP, before narrowing to US\$1.4bn in 2010.

This impact of the trade deficit on the current-account position will be compounded by Yemen's large non-merchandise deficit. However, this is now expected to narrow over the outlook period, as services debits dip, in line with the fall in the import bill in 2009, and income debits decrease as oil firms' profit repatriation declines in the wake of falling oil prices. The country's main non-merchandise inflow, foreign transfers, is likely to stagnate, however, as workers' remittances from abroad slow. We now expect the current-account deficit to widen from an estimated US\$2.6bn (10.3% of GDP) in 2008 to US\$3.5bn in 2009—which, at 13.3% of GDP, would be the largest deficit since 1993. In 2010 the deficit will narrow, however, to US\$2.8bn, as LNG exports are ramped up.

External financing requirement

Yemen's financing requirement is expected to remain large over the outlook period, widening sharply in 2009 before falling slightly in 2010, in line with movements in the current-account deficit. Debt repayments are expected to rise in 2009, led by increasing short-term debt (which accounts for around two-thirds of the whole), although this will fall slightly in 2010 in line with a small dip in the import bill. Overall the gross financing requirement is expected to reach US\$4.2bn (the equivalent of 15.7% of GDP and the country's largest ever financing shortfall) in 2009, narrowing slightly to US\$3.4bn in 2010.

The financing requirement will in part be covered by the concessional lending pledged at the London donor conference and inward investment into the YLNG project and, possibly, several refineries. However, given the scale of the shortfall, and the government's limited recourse for extra foreign borrowing, we believe that the CBY will be forced to draw on its foreign reserves. As a result, we now expect that the country's stock of reserves will decline from an estimated US\$7.8bn in 2008 to US\$5.5bn by end-2010, although, at over six months of import cover, this is still moderately comfortable. Although Yemen is still expected to remain in arrears on a small portion of its external debt, this is not a major concern: according to the CBY, the arrears are owed to just two or three countries that have been unwilling to offer forgiveness terms on a par with the Paris Club of official creditors.

External debt

Yemen's external debt stock is estimated to have increased in 2008, to US\$6.5bn (an estimated 26% of GDP), compared with US\$5.6bn at end-2006, as concessional lending has been stepped up following the London donor conference. Although most of the US\$5bn pledged at or after the conference will come in the form of grants, around 40%—including US\$700m from the Arab Fund for Economic and Social Development—will be disbursed as lending. There were some fears that these pledges would not be fulfilled—as occurred in October 2002, when most of the US\$2.3bn pledged at a similar international conference was never disbursed. On the previous occasion, however, the bulk of the money was pledged by the World Bank, and was dependent on Yemen introducing a range of economic reforms, which it failed to do. This time the lenders are mostly Gulf Arab neighbours or Arab multilateral institutions, whose contributions depend less on Yemeni adherence to strict targets and more on political interests, and disbursement levels have thus far been encouraging. In addition, Yemen has made great

efforts to ease worries about misuse of donor money, highlighting the range of projects that are ready to be implemented once the monies are disbursed.

The disbursement of donor lending for infrastructure projects will see Yemen accumulate greater debt finance over the outlook period. In addition, the widening fiscal deficit will force Yemen to appeal for greater foreign financial largesse, although probably with minimal success. The total debt stock is projected to rise to US\$6.7bn in 2009 and US\$7bn the following year, although it will fall gradually as a proportion of GDP, to 22.5% by end-2010. Most of the concessional lending pledged at the London donor conference has a grace period of several years, and, with the country's IMF debt obligations gradually diminishing, we expect that principal repayments will fall in 2009. In 2010, however, we expect them to rise once more, to US\$231m, as payments finally begin on some of the concessional lending pledged in London. Interest payments will remain relatively low, owing both to the concessional nature of the bulk of Yemen's external debt, and to the fall in global interest rates. Nevertheless, with export earnings depressed by falling oil prices and production, we expect the debt-service ratio (paid) to rise over the outlook period, from an estimated 2.8% in 2008 to 3.5% in 2009-10.

Key risk indicators

(% unless otherwise indicated)	Yemen	Median of CCC-rated	Median of Middle East & North Africa	Median of emerging markets
Largest single goods export (2-digit SITC code)/total goods exports	93.5	40.4	72.7	32.5
Gross public debt/GDP	36.3	43.7	30.8	31.3
Gross external debt/GDP	26.0	40.8	29.2	31.5
Interest & principal arrears (if any)/gross external debt	3.4	13.7	0.0	0.0
Net external debt/exports	-16.3	65.1	6.3	26.0
Primary fiscal balance/GDP required to stabilise public debt/GDP ratio	-1.7	0.7	-0.9	-1.4
Foreign-exchange reserves/gross external financing requirement	261.4	112.8	6.2	85.6
Foreign-exchange reserves/external short-term debt	1,694.9	363.5	363.6	328.6
Foreign-exchange reserves (change over last 6 months)	7.2	14.6	10.3	13.2
Banks' net foreign asset position/total foreign assets	89.7	73.3	28.3	28.5
Bank credit to private sector/GDP (change over last 36 months; percentage points)	0.8	2.3	1.0	3.2
Over last 12 months				
Average real money-market interest rates	-2.0	-1.2	0.4	0.3
Fiscal balance/GDP	-7.1	-3.0	-0.2	-1.0
Interest payments on public debt/government revenue	4.4	6.2	7.4	6.4
US\$ export receipt growth	18.6	9.2	9.4	13.2
Current-account balance/GDP	-10.2	-3.6	7.7	-1.6
Debt-service due/exports	2.8	5.8	5.5	7.2
Interest due/exports	0.8	2.0	1.8	2.4
Average import cover (months)	8.4	3.8	7.3	4.9
Banks' loan-deposit spread (percentage points)	5.0	5.9	3.5	5.2
Change in bank credit to private sector	30.2	17.8	15.7	21.2
Over last 48 months				
Average current-account balance/GDP	-2.9	-2.9	3.6	-0.9
Average GDP growth	3.6	5.6	5.5	5.8
Average inflation rate	15.1	4.7	3.4	5.8
Change in real trade-weighted exchange rate	29.1	2.8	-1.9	9.1

Ratings summary

	Jun 2008	Jul 2008	Aug 2008	Sep 2008	Oct 2008	Nov 2008	Dec 2008
Sovereign risk score ^a	59	60	61	61	63	63	65
Sovereign risk rating	B	B	B	B	CCC	CCC	CCC
Currency risk score	52	53	54	55	57	58	59
Currency risk rating	B	B	B	B	B	B	B
Banking sector risk score	57	58	61	60	62	61	63
Banking sector risk rating	B	B	B	B	B	B	CCC
Political risk score	79	79	79	79	80	80	80
Political risk rating	CC	CC	CC	CC	CC	CC	CC
Economic structure risk score	60	60	60	60	63	65	65
Economic structure risk rating	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Country risk score	56	57	59	59	61	61	62
Country risk rating	B	B	B	B	B	B	CCC

Note. Ratings are derived from scores as follows: 100-89 = D; 92-79 = C; 82-69 = CC; 72-59 = CCC; 62-49 = B; 52-39 = BB; 42-29 = BBB; 32-19 = A; 22-9 = AA; 12-0 = AAA. In boundary areas, the higher or lower rating is assigned at the discretion of the analyst.

^a For the backtesting period (1997-2005) the probability of sovereign default associated with the different score ranges is as follows: 0-10, 0%; >10-20, 0%; >20-30, 0%; >30-40, 0%; >40-50, 1.4%; >50-60, 14.1%; >60-70, 57.9%; >70-80, 90.4%; >80-90, 100%; >90-100, not available.

Quarterly indicators

	2006	2007				2008	
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Exchange rate (YR:US\$)							
Average	198.2	198.6	199.0	199.0	199.2	199.6	199.7
End-period	198.5	198.8	199.1	199.1	199.5	199.7	199.8
Domestic indicators (% change)							
Consumer prices (end-period)	16.5	15.0	5.0	9.1	8.6	24.4	19.3
Money supply M1	26.2	25.4	17.3	8.1	9.9	7.7	10.8
Money supply M2	26.1	30.2	23.0	16.7	17.0	14.3	16.4
Petroleum production ('000 b/d)	387	357	343	333	323	320	307
International liquidity (US\$ m)							
Total reserves	7,544	7,634	7,555	7,609	7,760	8,178	8,272
Foreign-exchange reserves	7,512	7,599	7,521	7,570	7,715	8,129	8,224
Gold, national valuation	33	35	34	39	44	49	49
Assets with BIS-reporting banks	293	298	326	375	415	463	687
Liabilities to BIS-reporting banks	7,694	7,887	7,976	7,848	7,631	7,913	7,828
Liabilities due within 1 year to BIS-reporting banks	230	223	229	274	311	355	372
Commercial banks' foreign assets	1,387	1,398	1,373	1,469	1,395	1,294	1,391
Commercial banks' foreign liabilities	98	89	118	147	139	156	143
Commercial banks' net foreign assets	1,289	1,309	1,255	1,322	1,256	1,138	1,248
IMF credits & loans outstanding	246	229	205	192	169	157	137
Net flow of IMF credits & loans	-15	-18	-25	-18	-24	-5	-1
Banking indicators (YR m)							
Commercial banks' claims on:							
Public sector	211,935	201,229	232,120	250,905	303,269	303,388	323,763
Central government	202,693	192,740	225,847	245,480	296,414	296,252	315,542
Private sector	259,940	281,643	317,168	325,005	352,622	387,410	412,974
Non-financial private sector	259,940	281,643	317,168	325,005	352,622	387,410	412,974

Symbols0, 0.0 *nil or negligible*– *not applicable or not available*

International assumptions summary

(% unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010
Real GDP growth							
World	4.8	4.4	5.0	4.8	3.6	2.0	3.0
OECD	3.2	2.6	3.1	2.6	1.4	-0.1	1.1
EU27	2.4	2.0	3.2	2.9	1.3	-0.3	0.8
Exchange rates							
¥:US\$	108.1	110.1	116.2	117.8	103.6	97.0	96.0
US\$:€	1.24	1.25	1.26	1.37	1.46	1.29	1.30
SDR:US\$	0.68	0.68	0.68	0.65	0.63	0.67	0.66
Financial indicators							
€ 3-month interbank rate	2.1	2.2	3.1	4.3	4.8	4.0	3.6
US\$ 3-month Libor	1.6	3.6	5.2	5.3	2.5	2.4	3.0
Commodity prices							
Oil (Brent; US\$/b)	38.3	54.4	65.4	72.7	98.4	65.0	68.3
Gold (US\$/troy oz)	409.5	445.0	604.5	696.7	863.2	707.5	625.0
Food, feedstuffs & beverages (% change in US\$ terms)	8.5	-0.5	16.1	30.9	30.2	-26.4	0.8
Industrial raw materials (% change in US\$ terms)	21.0	10.2	49.6	11.2	-1.0	-20.4	-0.5

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Economic structure

	2004 ^a	2005 ^a	2006 ^b	2007 ^b	2008 ^b	2009 ^c	2010 ^c
GDP at market prices							
Nominal GDP (US\$ m)	13,811 ^b	15,839 ^b	19,028	20,647	24,965	26,644	30,792
Nominal GDP (YR m)	2,551,993 ^b	3,033,380 ^b	3,749,405	4,107,736	4,987,374	5,434,530	6,483,684
Real GDP (YR m at 1987 prices)	252,641	264,185	272,514	281,944	291,058	305,485	321,977
Expenditure on GDP (% real change)							
GDP	4.0	4.6	3.2	3.5	3.2	5.0	5.4
Private consumption	5.9	5.4 ^b	4.6	4.4	3.4	3.0	3.4
Government consumption	6.3	6.0 ^b	6.2	7.0	7.0	-1.0	1.8
Gross fixed investment	11.4	18.2 ^b	12.5	9.5	7.4	4.0	3.7
Exports of goods & services	-7.9	4.7	-3.0	-3.0	-2.4	12.0	10.6
Imports of goods & services	0.6	14.5	7.6	5.8	4.6	4.0	4.0
Origin of GDP (% real change)							
Agriculture	-0.6	3.3	3.3	1.5	2.4	2.5	2.0
Industry	1.3	-0.9	-0.9	3.5	2.5	8.6	8.4
Manufacturing	6.8	3.0	3.0	5.0	5.2	3.3	5.0
Services	9.7	4.5	4.5	4.0	4.0	3.0	3.8
Ratios, GDP at market prices (%)							
Gross fixed investment/GDP	19.5 ^b	21.2 ^b	23.3	25.6	26.7	27.5	26.7
Exports of goods & services/GDP	36.8 ^b	34.0 ^b	31.6	28.5	28.6	19.6	18.3
Imports of goods & services/GDP	34.2 ^b	34.5 ^b	36.2	39.7	41.7	34.5	29.4
Gross national savings/investment	108.6 ^b	118.3 ^b	104.5	75.5	62.5	52.8	66.5
Ratios, GDP at factor cost (%)							
Agriculture/GDP	11.8	11.1	10.3	10.4	9.6	10.9	10.3
Industry/GDP	45.4	51.8	49.4	48.1	51.3	44.7	47.2
Services/GDP	42.8	37.0	40.3	41.5	39.1	44.4	42.5
Energy indicators							
Petroleum production ('000 b/d)	415	420	384 ^a	339 ^a	307	290	268
Petroleum reserves (m barrels)	4,000	3,860 ^b	3,720	3,580	3,440	3,300	3,160
Population and income							
Population (m)	20.5	21.1	21.7 ^a	22.4 ^a	23.1	23.8	24.5
Population growth (%)	3.0	3.0	3.0 ^a	3.0 ^a	3.0	3.0	3.0
Labour force (m)	5.7 ^b	5.9 ^b	6.1	6.3	6.5	6.7	6.9
GDP per head (US\$ at PPP)	2,041 ^b	2,070 ^b	2,141	2,207	2,293	2,379	2,464

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Public finances

	2004 ^a	2005 ^a	2006 ^a	2007 ^a	2008 ^a	2009 ^b	2010 ^b
Fiscal indicators (YR bn)							
Budget revenue	801.2 ^c	1,121.3 ^c	1,449.2	1,420.7	1,739.5	1,358.7	1,531.3
Budget expenditure	857.9 ^c	1,179.3 ^c	1,404.1	1,669.4	2,091.6	2,105.2	2,223.0
Budget balance	-56.7 ^c	-58.0 ^c	45.1	-248.7	-352.1	-746.5	-691.7
Debt interest payments	44.0 ^c	48.5 ^c	50.0	58.4	77.0	106.0	135.0
Primary balance	-12.7 ^c	-9.5 ^c	95.1	-190.3	-275.1	-640.5	-556.7
Public debt	1,060.8	1,083.2	1,135.2	1,447.5	1,809.5	2,531.5	3,215.1
Fiscal indicators (% of GDP)							
Budget revenue	31.4	37.0	38.7	34.6	34.9	25.0	23.6
Budget expenditure	33.6	38.9	37.4	40.6	41.9	38.7	34.3
Budget balance	-2.2	-1.9	1.2	-6.1	-7.1	-13.7	-10.7
Debt interest payments	1.7	1.6	1.3	1.4	1.5	2.0	2.1
Primary balance	-0.5	-0.3	2.5	-4.6	-5.5	-11.8	-8.6
Public debt	41.6	35.7	30.3	35.2	36.3	46.6	49.6

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual.

Exchange rates, interest rates and prices

	2004 ^a	2005 ^a	2006 ^a	2007 ^a	2008 ^b	2009 ^c	2010 ^c
Exchange rates							
Exchange rate YR:US\$ (av)	184.8	191.5	197.0	199.0	199.8	204.0	210.6
Exchange rate YR:US\$ (end-period)	185.9	195.1	198.5	199.5	200.0	209.0	212.0
Exchange rate ¥:YR (av)	0.59	0.57	0.59	0.59	0.52	0.48	0.46
Exchange rate ¥:YR (end-period)	0.55	0.60	0.60	0.56	0.49	0.46	0.45
Exchange rate YR:€ (av)	229.7	238.6	247.4	272.3	292.2	262.1	273.7
Exchange rate YR:€ (end-period)	251.6	230.1	262.0	291.4	256.0	271.7	276.7
Real effective exchange rate (consumer prices; 1997=100)	125.7 ^b	131.6 ^b	149.9 ^b	155.2 ^b	169.9	180.2	186.5
Interest rates							
Lending interest rate (av; %)	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Deposit interest rate (av; %)	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Money market interest rate (av; %)	13.8	14.8	16.0	16.0	15.6	16.0	16.0
Money market spread over US T-bills (basis points)	1,244	1,162	1,115	1,151	1,391	1,446	1,380
Real money market rate (av; %)	1.2	2.6	-4.2	5.2	-2.1	7.2	3.6
Prices							
Consumer prices (av; % change)	12.5	11.8	20.8	10.0	18.0	7.7	11.8

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Financial sector

	2004 ^a	2005 ^a	2006 ^a	2007 ^a	2008 ^b	2009 ^c	2010 ^c
Money and credit (YR m)							
Stock of domestic credit	179,373	192,737	182,013	443,747	479,247	508,002	537,466
Domestic credit growth (%)	17.6	7.5	-5.6	143.8	8.0	6.0	5.8
Stock of money M1	390,541	442,464	558,461	613,748	644,435	673,435	727,983
Stock of quasi-money	508,239	585,737	738,075	903,192	1,065,767	1,225,632	1,415,604
Stock of money M2	898,780	1,028,201	1,296,536	1,516,940	1,710,202	1,899,067	2,143,588
Stock of money M1 (% change)	12.4	13.3	26.2	9.9	5.0	4.5	8.1
Stock of money M2 (% change)	14.6	14.4	26.1	17.0	12.7	11.0	12.9

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Current account

	2004 ^a	2005 ^a	2006 ^a	2007 ^a	2008 ^b	2009 ^c	2010 ^c
Current-account balance (US\$ m)	225	633	206	-1,328	-2,567	-3,537	-2,821
Goods: exports fob	4,676	6,413	7,316	7,131	8,752	6,325	7,085
Goods: imports fob	-3,859	-4,713	-5,926	-7,212	-9,215	-8,289	-8,451
Trade balance	817	1,700	1,390	-81	-463	-1,964	-1,366
Services: credit	370	430	549	643	723	749	797
Services: debit	-1,059	-1,290	-1,855	-2,125	-2,718	-2,445	-2,493
Services balance	-690	-860	-1,306	-1,482	-1,995	-1,697	-1,696
Income: credit	104	178	316	385	327	269	260
Income: debit	-1,450	-1,791	-1,551	-1,537	-1,853	-1,496	-1,380
Income balance	-1,347	-1,613	-1,234	-1,152	-1,526	-1,228	-1,120
Current transfers: credit	1,493	1,459	1,402	1,436	1,480	1,415	1,423
Workers' remittances	1,283	1,283	1,283	1,300 ^b	1,395	1,330	1,298
Current transfers: debit	-49	-53	-46	-49	-63	-63	-62
Current transfers balance	1,444	1,406	1,356	1,387	1,417	1,352	1,361

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

International liquidity

	2004 ^a	2005 ^a	2006 ^a	2007 ^a	2008 ^b	2009 ^c	2010 ^c
Total reserves (US\$ m)	5,688	6,143	7,544	7,760	7,797	6,395	5,536
Foreign-exchange reserves	5,665	6,115	7,512	7,715	7,746	6,336	5,468
Total reserves (net of IMF credits & loans outstanding)	5,312	5,850	7,298	7,571	7,683	6,326	5,495
Commercial banks' foreign assets	888	875	1,387	1,395	1,242	1,130	1,164
Commercial banks' foreign liabilities	53	62	98	139	116	109	110
Commercial banks' net foreign assets	835	813	1,289	1,256	1,126	1,021	1,054
Months of import cover	13.9	12.3	11.6	10.0	7.8	7.1	6.1

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Foreign payment and liquidity indicators

	2004 ^a	2005 ^a	2006 ^a	2007 ^a	2008 ^a	2009 ^b	2010 ^b
Foreign payment indicators (% of GDP)							
Current-account balance	1.6	4.0	1.1	-6.4	-10.3	-13.3	-9.2
Trade balance	5.9	10.7	7.3	-0.4	-1.9	-7.4	-4.4
Services balance	-5.0	-5.4	-6.9	-7.2	-8.0	-6.4	-5.5
Income balance	-9.7	-10.2	-6.5	-5.6	-6.1	-4.6	-3.6
Current transfers balance	10.5	8.9	7.1	6.7	5.7	5.1	4.4
Liquidity indicators (ratios)							
Foreign-exchange reserves/short-term debt	18.1 ^c	17.3 ^c	23.7 ^c	20.2	15.9	14.5	12.2
Foreign-exchange reserves/gross external financing requirement ^d	35.6 ^c	-35.6 ^c	24.9 ^c	4.2	2.4	1.5	1.6

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual. ^d A minus sign indicates a financing surplus.

External trade

	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^b	2009 ^c	2010 ^c
Main destinations of exports (% share)							
China	28.7	35.3	31.5	22.1 ^a	–	–	–
India	13.3	16.2	17.5	19.5 ^a	–	–	–
Thailand	29.0	11.9	16.7	19.0 ^a	–	–	–
South Korea	3.2	6.3	7.0	7.9 ^a	–	–	–
Main origins of imports (% share)							
UAE	16.7	18.9	16.4	14.7 ^a	–	–	–
China	6.4	6.1	12.7	12.3 ^a	–	–	–
US	4.7	4.5	4.0	8.0 ^a	–	–	–
Saudi Arabia	8.8	8.9	7.7	6.9 ^a	–	–	–
Principal exports (% share)							
Petroleum products	93.1	93.2	92.7	86.9	88.6	72.9	59.5
Liquefied natural gas	–	–	–	–	–	10.5	24.5
Principal imports (% share)							
Machinery & transport equipment	26.3 ^b	22.2 ^b	22.9 ^b	24.8	24.0	23.1	25.7
Food & live animals	23.1 ^b	19.1 ^b	17.4 ^b	18.5	18.8	19.6	20.0
Manufactured goods	16.3 ^b	14.2 ^b	12.1 ^b	10.9	10.1	11.7	12.8
Volume and prices (% change)							
Export volume of goods	-7.9 ^b	4.7 ^b	-3.0 ^b	-3.0	-2.4	12.0	10.6
Import volume of goods	0.6 ^b	14.5 ^b	7.6 ^b	5.8	4.6	4.0	4.0
Export prices	29.0 ^b	31.0 ^b	17.6 ^b	0.5	25.7	-35.5	1.3
Import prices	7.8 ^b	6.7 ^b	16.9 ^b	15.0	22.2	-13.5	-2.0
Terms of trade (1990=100)	110.3 ^b	135.5 ^b	136.3 ^b	119.1	122.6	91.5	94.5

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

External financing requirement

	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^b	2009 ^c	2010 ^c
Gross financing requirement (US\$ m)	-159	172	-301	-1,827	-3,180	-4,240	-3,490
Current-account balance	225	633	206	-1,328 ^a	-2,567	-3,537	-2,821
Medium- & long-term repayments due (incl IMF debits)	-155	-149	-154	-182	-232	-216	-231
Short-term debt due	-229	-313	-353	-318 ^a	-381	-487	-438
Financed by:							
Medium- & long-term debt inflows	157	248	346	515	481	460	450
Commercial bank loans	0	24	7	3	1	0	0
Officially guaranteed loans	157	223	339	512	480	460	450
International bond issues	0	0	0	0	0	0	0
IMF credits & loans	0	0	0	0 ^a	0	0	0
Short-term borrowing	313	353	318	381	487	438	447
Net portfolio investment (net of external bonds)	-6	-14	-34	-1	-1	-1	0
Inward portfolio investment (net of external bonds)	0	0	0	0	0	0	0
Outward portfolio investment	-6	-14	-34	-1	-1	-1	0
Net direct investment flows	144	-302	1,121	917	1,260	850	625
Inward direct investment	144	-302	1,121	917	1,260	850	625
Outward direct investment	0	0	0	0	0	0	0
Increase in interest arrears (if any)	68	0	5	0	0	0	0
Increase in principal arrears (if any)	0	0	0	0	0	0	0
Other capital flows (net)	163	-2	-53	230	991	1,091	1,110
Change in international reserves (a minus sign indicates an increase)	-679	-454	-1,402	-215 ^a	-38	1,402	859

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

External debt stock

	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^b	2009 ^c	2010 ^c
External debt stock (US\$ m)							
Total	5,488	5,363	5,563	6,069	6,481	6,696	6,936
Public medium- & long-term	4,799	4,717	5,000	5,496	5,876	6,184	6,444
Private medium- & long-term	0	0	0	3	4	4	4
IMF	376	292	246	189	114	70	41
Short-term	313	353	318	381	487	438	447
Interest arrears	115	94	100	95	81	59	33
Official creditors	107	94	100	95	81	59	33
Private creditors	8	0	0	0	0	0	0
Ratios (%)							
Total debt/exports of goods & services	85.3	64.6	58.8	64.2	57.9	77.2	73.5
Total debt/GDP	39.7 ^b	33.9 ^b	29.2 ^b	29.4	26.0	25.1	22.5
International reserves/total debt	103.6	114.5	135.6	127.9	120.3	95.5	79.8
Debt per head (US\$)	268	254	256	271	281	282	284
Net debt (US\$ m)							
Total	-200	-780	-1,981	-1,691	-1,316	301	1,400
Net debt/exports of goods & services (%)	-3.1	-9.4	-20.9	-17.9	-11.8	3.5	14.8
Net debt/GDP (%)	-1.4 ^b	-4.9 ^b	-10.4 ^b	-8.2	-5.3	1.1	4.5
Medium- and long-term debt by lender (US\$ m)							
Total	4,799	4,717	5,000	5,499	5,880	6,188	6,448
Official creditors	4,723	4,686	4,959	5,455	5,834	6,142	6,402
Bilateral	2,538	2,468	2,452	2,697	2,885	3,037	3,166
Multilateral	2,185	2,218	2,507	2,757	2,949	3,104	3,236
Private creditors	77	31	41	45	46	46	47
Memorandum items (US\$ m)							
Export credits	255	311	391	476	609	548	558
Principal arrears	245	170	120	110	108	92	90
Official creditors	229	170	120	110	108	92	90
Private creditors	16	0	0	0	0	0	0
Debt owed to BIS banks (US\$ m)							
Total	210	487	500	637^a	-	-	-
0-1 year	186	247	230	311 ^a	-	-	-
1-2 years	1	11	5	1 ^a	-	-	-
Over 2 years	23	229	265	325 ^a	-	-	-
Memorandum items (US\$ m)							
BIS banks' undisbursed credit commitments	-	-	-	-	-	-	-

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

External debt service

	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^b	2009 ^c	2010 ^c
External debt service (US\$ m)							
Total paid	223	211	225	265	317	306	328
Medium- & long-term debt service	175	148	158	186	226	246	282
Paid to official creditors	175	148	158	186	226	246	282
Paid to private creditors	0	0	0	0	0	0	0
IMF debits & charges	44	59	63	61	78	47	31
Short-term debt (interest only)	4	4	4	19	13	13	15
Total due	292	211	231	265	317	306	328
Debt-service ratios (%)							
Debt-service ratio, paid	3.5	2.5	2.4	2.8	2.8	3.5	3.5
Debt-service ratio, due	4.5	2.5	2.4	2.8	2.8	3.5	3.5
Debt service paid/GDP	1.6 ^b	1.3 ^b	1.2 ^b	1.3	1.3	1.1	1.1
Principal repayments (US\$ m)							
Total paid	155	149	154	182	232	216	231
Medium- & long-term debt	113	93	94	124	157	172	203
Paid to official creditors	113	93	94	124	157	172	203
Paid to private creditors	0	0	0	0	0	0	0
IMF debits	41	56	60	58	75	44	28
Total due	155	149	154	182	232	216	231
Interest payments (US\$ m)							
Total paid	69	62	72	84	85	90	97
Medium- & long-term debt	62	55	65	62	69	74	79
Paid to official creditors	62	55	64	62	69	74	79
Paid to private creditors	0	0	0	0	0	0	0
IMF charges	3	3	3	3	3	3	3
Short-term debt (interest only)	4	4	4	19	13	13	15
Total due	137	62	77	84	85	90	97
Interest payments ratios (%)							
Interest paid/debt service paid	30.8	29.6	31.7	31.6	26.8	29.3	29.5
Interest paid/exports of goods & services	1.1	0.8	0.8	0.9	0.8	1.0	1.0
Interest due/exports of goods & services	2.1	0.8	0.8	0.9	0.8	1.0	1.0
Interest paid/GDP	0.5 ^b	0.4 ^b	0.4 ^b	0.4	0.3	0.3	0.3
Effective maturity and interest rates							
Effective interest rate (%)	1.3	1.1	1.4	1.2	1.3	1.3	1.3
Effective maturity (years)	41.9	51.7	50.2	40.3	35.0	34.2	30.5

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Data sources

Current account: IMF, *International Financial Statistics*; Central Bank of Yemen
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