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## Country Report

# Yemen

**December 2008**

Economist Intelligence Unit  
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# Executive summary

## Highlights

*December 2008*

### Outlook for 2009-10

- Political cohesion in 2009-10 could be put at risk by deteriorating security conditions, with ongoing activity by Islamist militants and potential outbreaks of violence in both the north and the south of the country.
- A parliamentary election is set for April 2009, but the chance of a postponement is rising given a threat by the opposition to boycott the poll in protest at alleged unfairness in the electoral process.
- Yemen's fiscal outlook has deteriorated, owing to a lowering of the Economist Intelligence Unit's oil price forecast. We expect the fiscal deficit to average 12.2% of GDP in 2009-10, forcing Yemen to seek more foreign donor support.
- Yemen's economic growth is likely to be held back by falling oil prices and weak government consumption. However, average real GDP growth should still rise to 5.2% in 2009-10, as Yemen LNG comes on stream.
- The authorities will allow the Yemeni riyal to depreciate more rapidly against the strengthening US dollar in 2009-10, as inflation starts to ease and oil prices fall.
- Average inflation in 2009 is expected to decline rapidly, to 7.7%, owing to the sharp drop in global commodity prices forecast for next year.
- 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.

### Monthly review

- At the government's behest, parliament has postponed the municipal polls for four years, raising speculation that the government will apply a similar delay to the legislative election scheduled for April 2009.
- A southern secessionist body, the Provisional Council for the Liberation of the South, has been created, under the leadership of a southern dissident who had been imprisoned earlier this year.
- The government has presented the 2009 budget to parliament. The document projects a deficit of 7.4% of GDP, based on an oil price of US\$55/barrel and a modest 9% increase in total expenditure (compared with the 2008 budget).
- Inflation eased but remained high in the second quarter of 2008, at 19.3%, as foodstuffs prices rose strongly. However, inflation is likely to have declined in subsequent months, as global commodity prices fell sharply.
- The first gas has flowed from the Marib field to the export facility in Balhaf, marking the coming on stream of the country's first LNG project. Exports are planned to commence in May 2009, around five months behind schedule.

# Outlook 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

### International assumptions summary

(% unless otherwise indicated)

	2007	2008	2009	2010
<b>Real GDP growth</b>				
World	4.8	3.6	2.0	3.0
OECD	2.6	1.4	-0.1	1.1
EU27	2.9	1.3	-0.3	0.8
<b>Exchange rates</b>				
¥:US\$	117.8	103.6	97.0	96.0
US\$:€	1.369	1.463	1.285	1.300
SDR:US\$	0.651	0.630	0.666	0.660
<b>Financial indicators</b>				
€ 3-month interbank rate	4.27	4.77	3.95	3.60
US\$ 3-month Libor	5.30	2.51	2.36	3.03
<b>Commodity prices</b>				
Oil (Brent; US\$/b)	72.7	98.4	65.0	68.3
Gold (US\$/troy oz)	696.7	863.2	707.5	625.0
Food, feedstuffs & beverages (% change in US\$ terms)	30.9	30.2	-26.4	0.8
Industrial raw materials (% change in US\$ terms)	11.2	-1.0	-20.4	-0.5

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

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.

**Forecast summary**

(% unless otherwise indicated)

	2007 <sup>a</sup>	2008 <sup>b</sup>	2009 <sup>c</sup>	2010 <sup>c</sup>
Real GDP growth	3.5 <sup>b</sup>	3.2	5.0	5.4
Oil production ('000 b/d)	339	307	290	268
Crude oil exports (US\$ m)	6,198 <sup>b</sup>	7,758	4,610	4,217
Consumer price inflation (av)	10.0	18.0	7.7	11.8
Deposit rate	13.0	13.0	13.0	13.0
Government balance (% of GDP)	-6.1 <sup>b</sup>	-7.1	-13.7	-10.7
Exports of goods fob (US\$ bn)	7.1	8.8	6.3	7.1
Imports of goods fob (US\$ bn)	7.2	9.2	8.3	8.5
Current-account balance (US\$ bn)	-1.3	-2.6	-3.5	-2.8
Current-account balance (% of GDP)	-6.4 <sup>b</sup>	-10.3	-13.3	-9.2
External debt (year-end; US\$ bn)	6.1 <sup>b</sup>	6.5	6.7	6.9
Exchange rate YR:US\$ (av)	199.0	199.8	204.0	210.6
Exchange rate YR:¥100 (av)	168.9	192.8	210.3	219.3
Exchange rate YR:€ (av)	272.3	292.2	262.1	273.7
Exchange rate YR:SDR (av)	305.4	316.9	306.1	319.3

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.

## Monthly review: December 2008

### The political scene

#### **Impasse over parliamentary election deepens**

In the run-up to the parliamentary election scheduled for April 2009, country-wide demonstrations staged by the opposition coalition, the Joint Meeting Parties (JMP), have erupted into violence. Tensions between the government and the JMP began to escalate in August, when the government-dominated parliament rejected JMP amendments to the electoral law (September 2008, The political scene). Discussions between the government and the opposition have been ongoing since the presidential election in 2006, in an attempt to ease concerns harboured by the JMP that the government retains disproportionate influence over the electoral process. In particular, the JMP wanted the government to permit four opposition MPs to sit on the Supreme Commission for Elections and Referendum (SCER, the country's electoral supervisory body), in the place of judges appointed by the president, Ali Abdullah Saleh.

Following parliament's rejection of the amendments, the old SCER, with three new government-appointed members, resumed its activities. In a further rebuff to the JMP, the government also abandoned various conditions agreed earlier during their negotiations. These included prohibiting government officials from influencing voting; ensuring the neutrality of state-owned media and an equitable allocation of public funds for campaigning; and barring voters from registering an address on the electoral roll other than their place of birth or current residence.

As a result of these developments, the JMP described the SCER and its operations as "illegal" and urged its supporters to boycott the electoral registration process. In the run-up to the start of the two-week registration period, the JMP convened meetings across the country, at which it was agreed to stage a series of peaceful demonstrations in every governorate in order to put pressure on the government. These demonstrations quickly became unruly, with protesters ejecting officials from several registration offices, and, in Lahej in southern Yemen, a teenager was killed when police opened fire on the demonstrators. The demonstrations took on a harder edge when, on November 24th, parliament voted to postpone municipal elections for four years. (The government had requested the delay, citing both the cost of a poll and the fact that the previous election was held recently, in September 2006.) As a consequence, the JMP staged a walk-out of parliament and openly called for a total boycott of the national legislative election. A subsequent demonstration in the capital, Sanaa, three days later turned violent, with police firing on protesters once more.

Despite the demonstrations and the JMP's apparent decision to boycott the election, the ruling General People's Congress said it was committed to continuing with the poll in April according to schedule. It accuses the JMP of instigating violence on account of its political weakness and the knowledge that it could never win the election. However, the government is in a bind.

Should it fail to bring the JMP on board, the April election will be viewed widely (both domestically and internationally) as a sham, causing popular antipathy towards the authorities to grow and potentially triggering serious nationwide violence. The National Democratic Institute, a US organisation designed to encourage democracy abroad, has recommended postponing the poll in order to give the two sides time to resolve their differences. The government has rejected this, while the JMP is suspicious that any postponement could lead to a cancellation, with the parliamentary election put back four years as well. Nevertheless, with a resolution to this impasse difficult to envisage, at the moment a postponement appears the most likely outcome.

### **Southern independence party is set up**

Regardless of its stand-off with the main opposition parties, the government's problems in the south continue to multiply. In mid-November, south Yemenis established their own representative body, the Provisional Council for the Liberation of the South (PCLS). The PCLS was set up by Hassan Ba'oum, a southern dissident who was arrested earlier this year for publicly calling for an end to the "northern occupation" of the south. He was released in September and has wasted no time in rallying supporters to his cause.

According to report on Wordpress (a US-based website), written by a renowned anti-government blogger, Jane Novak, but corroborated by southern press reports, 350 delegates from 50 districts across south Yemen were elected to the council's leadership on November 14th, in Yafia, one of a number of areas in the south into which government troops seldom venture. The council advocates a peaceful struggle for south Yemen's independence, and has provocatively called for assistance from other countries in the Gulf Arab region. It has also said that it would boycott the April election.

At this stage, the level of support that the PCLS commands is unclear, as is the degree of cohesion within its ranks. The PCLS is unlikely to have access to any significant resources—it has minimal financial backing, no institutional power and no military wing—and at present is no match for the northern regime. However, undoubtedly it lays down a direct challenge to the authority of the government in the south, and, as a result, the authorities will need to tread carefully. By adopting a heavy-handed and direct approach—its *modus operandi* of late—the government risks widespread and serious unrest throughout the south, something that it can ill afford, given the multiplicity of challenges already before it (ranging from an active al-Qaida movement to dwindling oil reserves and piracy). Nevertheless, comments by the president in early December that southern secessionists will receive a "red eye" from himself and like-minded Yemenis would seem to indicate a combative approach—at least for now.

The establishment of the PCLS also presents a major dilemma to the Yemeni Socialist Party (YSP), the predominantly southern-oriented party that forms part of the JMP coalition. The PCLS claims to "speak for all the population in all governorates of the south", an unproven claim at this stage. However, it is a movement that is born out of the disturbances that have erupted throughout the south over the past year or so, reflecting deeply held and long-nurtured

grievances over the area's perceived political disenfranchisement and economic marginalisation by the northern regime. As a result, the establishment of the PCLS creates a potential competitor to the YSP, and may further erode the latter's already faltering support base in the south. (The YSP has just eight seats in parliament, out of 301, and performed poorly in the 2006 local elections.) In addition, the YSP's southern identity is diluted by dint of its presence within the JMP coalition, a problem that could be exacerbated if the JMP reaches an agreement with the government to contest the election, in return for political concessions (although admittedly this looks unlikely at present). Selling such a deal in the south could prove extremely challenging given widespread public mistrust. Whatever the case, it appears that events in the south are set to play a prominent role within the upcoming election (should it go ahead), if not dominate it entirely.

## Economic policy

### **Budget for 2009 is approved by cabinet**

In late November the cabinet approved the budget for 2009, paving the way for parliamentary ratification. Although a full breakdown of the budget is not available, the speech to parliament by the finance minister, Nouman Taher al-Souhaibi, was published on the Ministry of Finance's website before its approval by parliament—the first time this has occurred. The government is forecasting revenue of YR1.54trn (US\$7.5bn) in 2009, based on an assumed oil price of US\$55/barrel and the start of liquefied natural gas (LNG) exports (which the Economist Intelligence Unit has learnt are projected to contribute US\$180m to the state coffers in 2009; see Economic performance). In the wake of fast-falling oil prices, the cabinet said that they would curtail new capital projects, while giving priority to those existing projects that had a greater social focus. However, at YR529bn, the investment spending allocation is still some 19% higher than the 2008 budgeted level. In addition, the government has also pledged to take extra steps as part of a longer-term programme designed to eradicate false wage claims in the public sector. Nevertheless, should all this prove insufficient, the budget includes a clause that would allow the government to make further expenditure reductions if oil prices continue to decline.

At present, total general expenditure for 2009 is planned to reach YR1.96trn, which although some 9% above the 2008 budget, may end up below the final total outturn for this year. (Not only did the government implement increases to civil service salaries and pensions in March, but also the fuel subsidy has proven to be unexpectedly burdensome—May 2008, Economic policy.) With oil prices set to be considerably lower in 2009, outlays on the fuel subsidy should be reduced, although we still expect the government to struggle to rationalise expenditure, given pressing military requirements and the political difficulties associated with reducing spending in the run-up to the planned parliamentary election. As a result, we expect the government to overshoot its projected deficit target of 7.4% of GDP.

**Yemen budgets**

(YR bn, unless otherwise indicated)

	2008	2009	% change
Revenue	1,394	1,537	10.3
Expenditure	1,799	1,963	9.1
Recurrent expenditure and lending	1,355	1,434	5.8
Capital expenditure	444	529	19.1
<b>Balance</b>	<b>-405</b>	<b>-426</b>	<b>5.2</b>
% of GDP	7.6	7.4	-

Sources: Ministry of Finance; World Bank; press reports.

**Economic performance****Inflation eases in second quarter, but remains high**

According to the latest data from the Central Bank of Yemen (CBY), average inflation eased slightly to 19.3% at the end of the second quarter of this year, compared with 24.5% in the first quarter. The high rate of inflation in March was primarily on account of a jump in the price of foodstuffs, which had risen by over 30% year on year, although it was also supported by strong increases in other categories, such as housing costs and qat (a popular mildly narcotic plant). The rate of the increase in housing costs was sustained into the second quarter, reflecting the rising price of oil at the time, which contributed to higher heating and air-conditioning costs, and increased prices for propane (widely used in Yemen for domestic cooking purposes). Although food price rises slowed in the second quarter, they still remained high, helping to buoy overall inflation.

Inflation in Yemen is generally higher than in its Gulf Arab neighbours, in part reflecting the difficulties the CBY faces in combating supply-side price pressures through its manipulation of the exchange rate. The environment was especially challenging during the first half of this year, as global commodity prices surged and the US dollar weakened. Although the recent strengthening of the dollar and falls in global commodity costs will bring some relief to the CBY, it will probably not be sufficient, given the recent declines in Yemeni oil export earnings, for it to significantly reduce its outlays on propping up the Yemeni riyal. Over the past three years, the CBY has spent on average over US\$1bn a year in shoring up the riyal in order to contain imported inflation.

**Inflation**

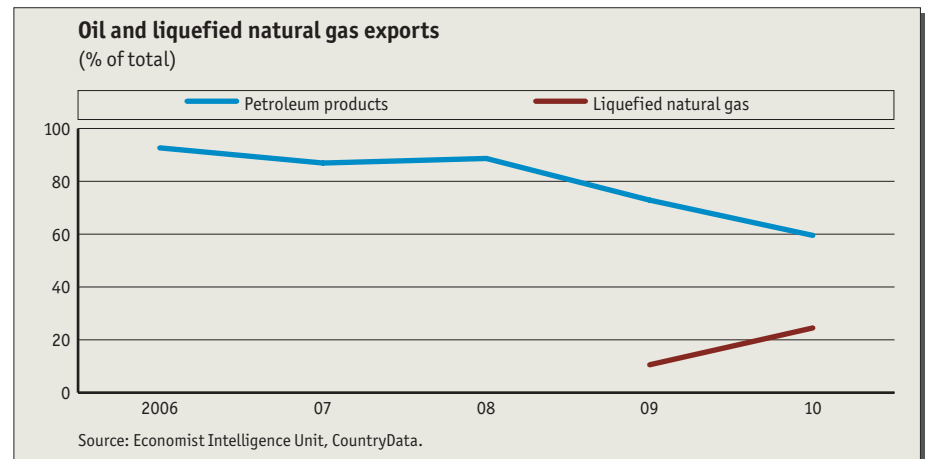
(% change, year on year, unless otherwise indicated; end-period)

	2007				2008	
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Food & non-alcoholic beverages	30.3	14.4	23.7	10.9	30.6	22.4
Tobacco, cigarettes & qat	-7.6	1.6	-6.2	4.3	19.8	8.8
Housing & related items	2.6	2.6	3	3.4	23.9	23.8
<b>All items</b>	<b>15</b>	<b>8.8</b>	<b>13.3</b>	<b>8.6</b>	<b>24.5</b>	<b>19.3</b>
<b>Consumer price index</b>	<b>232.2</b>	<b>232.5</b>	<b>254.8</b>	<b>261.1</b>	<b>289.0</b>	<b>277.4</b>

Sources: Central Statistical Organisation; Central Bank of Yemen.

### YLNG commences operations

In a major boost to the country's hydrocarbons sector, on November 12th gas from the Marib block began to be piped south to the Balhaf liquefaction and export facility on the southern coast. Mr Saleh attended an inauguration event at the Balhaf facility on November 19th, at which he declared that the first exports would commence by end-May. Although some five months behind schedule, in reality this relatively minor slippage is impressive, given both the scale of the project—it is the largest single capital project in Yemen's history—and the fact that the scheme has been in gestation for over a decade.



Yemen LNG (YLNG) is crucial in the context of the country's declining oil reserves (which, without major new finds, the IMF estimates could be exhausted by 2018). The project—designed to produce some 6.7m tonnes/year (equivalent to 174,000 barrels/day in volume terms) when the two trains are on stream by end-2010—will help to mitigate the effect on the balance of payments and fiscal account of declining oil sales, although not fully. According to the IMF, even with YLNG at maximum production, total LNG fiscal returns will still only be equivalent to just 19% of total oil revenue in 2011. This not only reflects the fact that LNG is less lucrative than oil (in part reflecting the significant upfront capital costs of building the facilities), but also that one-third of the LNG will be exported to South Korea at a considerable discount.

### In focus

#### Yemen LNG

Yemen LNG (YLNG) was first formed in 1997, but problems in finding customers, parliamentary contractual revisions, and legal wrangling associated with the government's controversial decision to end US-based Hunt Oil and ExxonMobil's concession in the Marib field (and hand it over to state-owned Safer) led to considerable delay. The decision to cancel Hunt's contract was especially problematic as the US company was also involved in the YLNG consortium, and the issue was only settled at the Paris-based International Chamber of Commerce this year (in favour of the government). The consortium is composed of Total of France (39.62%), the Yemen Gas Company (16.73%), Hunt Oil (17.22%), SK Energy (9.55%), the Korea Gas Corporation (Kogas; 6%) and Hyundai (5.88%), all of South Korea, and the local General Authority for Social Security and Pensions (5%).

The signature of three sale-and-purchase agreements in August 2005—with Suez LNG, (part of France-based GDF Suez), Total and Kogas—finally allowed the project to proceed. Under these deals, around two-thirds of the total will be sold via the spot markets, most probably to the US (at the prevailing Henry Hub price), with the remaining one-third sold to Kogas. The South Korean company will be receiving the LNG at a considerable discount, at around US\$3-4/mBtus, compared with the Economist Intelligence Unit's estimate for Japanese LNG of US\$8.6/mBtus in 2008. However, the long-term supply deal with Kogas was crucial in getting the project off the ground, and the price can be renegotiated after five years if international prices are consistently higher than the contracted level. In addition, although a third gas train has been ruled out for now, YLNG believe that output could eventually surpass the nameplate capacity level of 6.7m tonnes/year.

# Data and charts

## Annual data and forecast

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>b</sup>	2008 <sup>b</sup>	2009 <sup>c</sup>	2010 <sup>c</sup>
<b>GDP</b>							
Nominal GDP (US\$ m)	13,811 <sup>b</sup>	15,839 <sup>b</sup>	19,028 <sup>b</sup>	20,647	24,965	26,644	30,792
Nominal GDP (YR m)	2,551,993 <sup>b</sup>	3,033,380 <sup>b</sup>	3,749,405 <sup>b</sup>	4,107,736	4,987,374	5,434,530	6,483,684
Real GDP growth (%)	4.0	4.6	3.2 <sup>b</sup>	3.5	3.2	5.0	5.4
<b>Expenditure on GDP (% real change)</b>							
Private consumption	5.9	5.4 <sup>b</sup>	4.6 <sup>b</sup>	4.4	3.4	3.0	3.4
Government consumption	6.3	6.0 <sup>b</sup>	6.2 <sup>b</sup>	7.0	7.0	-1.0	1.8
Gross fixed investment	11.4	18.2 <sup>b</sup>	12.5 <sup>b</sup>	9.5	7.4	4.0	3.7
Exports of goods & services	-7.9	4.7	-3.0 <sup>b</sup>	-3.0	-2.4	12.0	10.6
Imports of goods & services	0.6	14.5	7.6 <sup>b</sup>	5.8	4.6	4.0	4.0
<b>Origin of GDP (% real change)</b>							
Agriculture	-0.6	3.3	3.3 <sup>b</sup>	1.5	2.4	2.5	2.0
Industry	1.3	-0.9	-0.9 <sup>b</sup>	3.5	2.5	8.6	8.4
Services	9.7	4.5	4.5 <sup>b</sup>	4.0	4.0	3.0	3.8
<b>Population and income</b>							
Population (m)	20.5	21.1	21.7	22.4 <sup>a</sup>	23.1	23.8	24.5
GDP per head (US\$ at PPP)	2,041 <sup>b</sup>	2,070 <sup>b</sup>	2,141 <sup>b</sup>	2,207	2,293	2,379	2,464
<b>Fiscal indicators (% of GDP)</b>							
Central government budget revenue	31.4 <sup>b</sup>	37.0 <sup>b</sup>	38.7 <sup>b</sup>	34.6	34.9	25.0	23.6
Central government budget expenditure	33.6 <sup>b</sup>	38.9 <sup>b</sup>	37.4 <sup>b</sup>	40.6	41.9	38.7	34.3
Central government budget balance	-2.2 <sup>b</sup>	-1.9 <sup>b</sup>	1.2 <sup>b</sup>	-6.1	-7.1	-13.7	-10.7
Public debt	41.6 <sup>b</sup>	35.7 <sup>b</sup>	30.3 <sup>b</sup>	35.2	36.3	46.6	49.6
<b>Prices and financial indicators</b>							
Exchange rate YR:US\$ (av)	184.78	191.51	197.05	198.95 <sup>a</sup>	199.77	203.97	210.57
Exchange rate YR:US\$ (end-period)	185.87	195.08	198.50	199.54 <sup>a</sup>	200.00	209.00	212.00
Consumer prices (av; %)	12.5	11.8	20.8	10.0 <sup>a</sup>	18.0	7.7	11.8
Stock of money M1 (% change)	12.4	13.3	26.2	9.9 <sup>a</sup>	5.0	4.5	8.1
Stock of money M2 (% change)	14.6	14.4	26.1	17.0 <sup>a</sup>	12.7	11.0	12.9
Lending interest rate (av; %)	18.0	18.0	18.0	18.0 <sup>a</sup>	18.0	18.0	18.0
<b>Current account (US\$ m)</b>							
Trade balance	817	1,700	1,390	-81 <sup>a</sup>	-463	-1,964	-1,366
Goods: exports fob	4,676	6,413	7,316	7,131 <sup>a</sup>	8,752	6,325	7,085
Goods: imports fob	-3,859	-4,713	-5,926	-7,212 <sup>a</sup>	-9,215	-8,289	-8,451
Services balance	-690	-860	-1,306	-1,482 <sup>a</sup>	-1,995	-1,697	-1,696
Income balance	-1,347	-1,613	-1,234	-1,152 <sup>a</sup>	-1,526	-1,228	-1,120
Current transfers balance	1,444	1,406	1,356	1,387 <sup>a</sup>	1,417	1,352	1,361
Current-account balance	225	633	206	-1,328 <sup>a</sup>	-2,567	-3,537	-2,821
<b>External debt (US\$ m)</b>							
Debt stock	5,488	5,363	5,563	6,069	6,481	6,696	6,936
Debt service paid	223	211	225	265	317	306	328
Principal repayments	155	149	154	182	232	216	231
Interest	69	62	72	84	85	90	97
<b>International reserves (US\$ m)</b>							
Total international reserves	5,688	6,143	7,544	7,760 <sup>a</sup>	7,797	6,395	5,536

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.

Source: IMF, *International Financial Statistics*.

## Quarterly data

	2006		2007			2008		
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
<b>Prices</b>								
Consumer prices (end-period; Nov 1999=100)	233.6	240.5	232.2	232.5	254.8	261.1	289.0	277.4
Consumer prices (% change, year on year)	19.9	16.5	15.0	5.0	9.1	8.6	24.4	19.3
<b>Financial indicators</b>								
Exchange rate YR:US\$ (av)	197.60	198.23	198.62	198.95	199.02	199.22	199.58	199.70
Exchange rate YR:US\$ (end-period)	197.89	198.50	198.77	199.11	199.07	199.54	199.66	199.79
Deposit rate (av; %)	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Lending rate (av; %)	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Treasury bills, 3-month rate (av; %)	15.7	15.8	15.8	15.9	15.9	15.9	15.9	15.0
M1 (end-period; YR bn)	517.6	558.5	542.5	527.3	559.6	613.7	584.3	584.1
M1 (% change, year on year)	33.3	26.2	25.4	17.3	8.1	9.9	7.7	10.8
M2 (end-period; YR bn)	1,207.7	1,296.5	1,328.4	1,348.6	1,409.1	1,516.9	1,518.5	1,569.5
M2 (% change, year on year)	26.8	26.1	30.2	23.0	16.7	17.0	14.3	16.4
<b>Sectoral trends (Crude oil)</b>								
Production (m barrels/day)	0.39	0.39	0.36	0.34	0.33	0.32	0.32	0.31
Prices, Brent (US\$/barrel)	69.80	60.00	58.07	68.55	75.04	88.95	96.67	122.48
<b>Foreign trade &amp; payments (US\$ m)</b>								
Exports fob	1,825.3	1,412.0	n/a	n/a	n/a	n/a	n/a	n/a
Imports cif	-1,669.7	-1,665.1	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance	155.6	-253.0	n/a	n/a	n/a	n/a	n/a	n/a
Services balance	-298.2	-356.6	n/a	n/a	n/a	n/a	n/a	n/a
Income balance	-332.7	-270.0	n/a	n/a	n/a	n/a	n/a	n/a
Net transfer payments	347.5	347.0	n/a	n/a	n/a	n/a	n/a	n/a
Current-account balance	-127.9	-532.6	n/a	n/a	n/a	n/a	n/a	n/a
Reserves excl gold (end-period)	7,258.4	7,511.5	7,598.5	7,521.4	7,569.6	7,715.4	8,128.6	8,223.5

Sources: IMF, *International Financial Statistics*; Central Bank of Yemen; International Energy Agency, *Monthly Oil Market Report*; Platts.

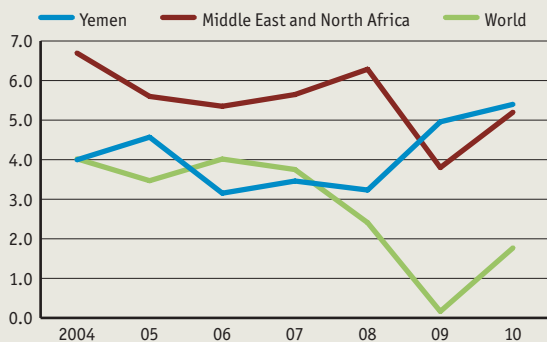
## Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exchange rate YR:US\$ (av)</b>												
2006	195.20	195.94	196.11	196.28	196.59	196.99	197.54	197.64	197.61	198.08	198.28	198.33
2007	198.52	198.62	198.73	198.80	198.97	199.08	199.06	198.98	199.02	199.11	199.10	199.33
2008	199.54	199.59	199.62	199.66	199.68	199.75	199.79	n/a	n/a	n/a	n/a	n/a
<b>Exchange rate YR:US\$ (end-period)</b>												
2006	195.62	196.12	196.26	196.50	196.84	197.49	197.74	197.65	197.89	198.47	198.14	198.50
2007	198.58	198.72	198.77	198.87	199.05	199.11	199.06	198.95	199.07	199.14	199.14	199.54
2008	199.55	199.63	199.66	199.67	199.74	199.79	199.81	n/a	n/a	n/a	n/a	n/a
<b>M1 (% change, year on year)</b>												
2006	11.6	11.4	13.5	16.2	16.8	20.8	25.0	25.4	33.3	24.9	32.3	26.2
2007	19.6	27.9	25.4	21.9	19.0	17.3	14.5	9.1	8.1	5.0	5.0	9.9
2008	8.0	5.7	7.7	5.6	12.7	10.8	13.2	n/a	n/a	n/a	n/a	n/a
<b>M2 (% change, year on year)</b>												
2006	11.2	12.3	10.9	12.2	16.7	16.9	18.7	21.0	26.8	25.9	29.4	26.1
2007	26.8	29.5	30.2	29.1	22.4	23.0	21.4	18.8	16.7	13.0	13.5	17.0
2008	16.7	13.7	14.3	11.6	15.6	16.4	17.5	n/a	n/a	n/a	n/a	n/a
<b>Deposit rate (av; %)</b>												
2006	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
2007	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
2008	13.0	13.0	13.0	13.0	13.0	13.0	13.0	n/a	n/a	n/a	n/a	n/a
<b>Lending rate (av; %)</b>												
2006	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
2007	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
2008	18.0	18.0	18.0	18.0	18.0	18.0	18.0	n/a	n/a	n/a	n/a	n/a
<b>Foreign-exchange reserves excl gold (US\$ m)</b>												
2006	6,282	6,386	6,398	6,545	6,800	6,806	7,055	7,224	7,258	7,359	7,488	7,512
2007	7,536	7,663	7,599	7,609	7,559	7,521	7,496	7,507	7,570	7,655	7,667	7,715
2008	7,695	7,802	8,129	7,737	8,008	8,224	8,428	n/a	n/a	n/a	n/a	n/a

Sources: IMF, *International Financial Statistics*; Haver Analytics.

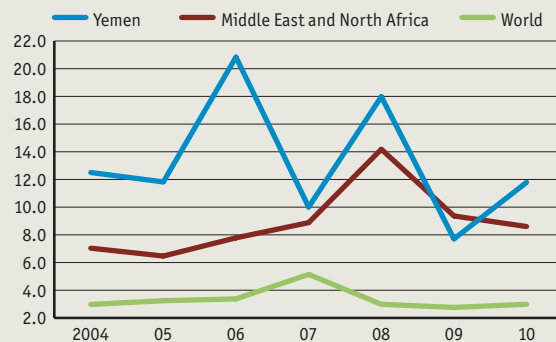
### Annual trends charts

**Real GDP growth**  
(% change)



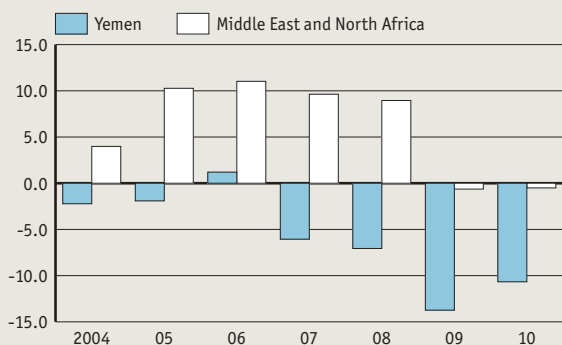
Source: Economist Intelligence Unit.

**Consumer price inflation**  
(% change, year on year; av)



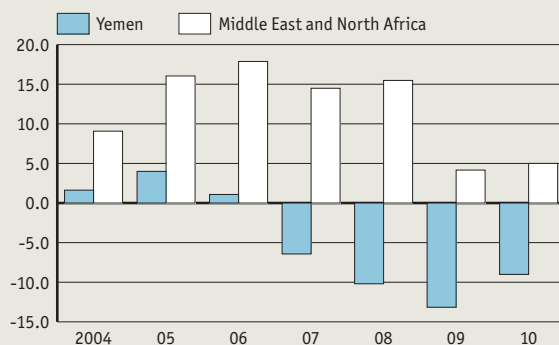
Source: Economist Intelligence Unit.

**Budget balance**  
(% of GDP)



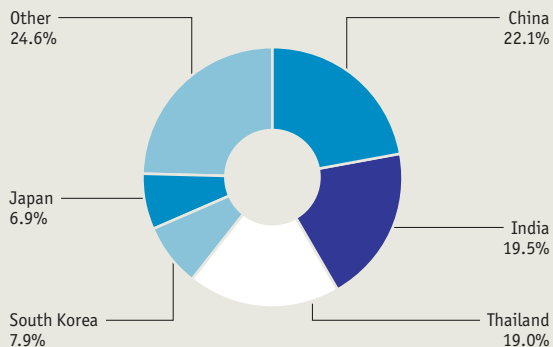
Source: Economist Intelligence Unit.

**Current-account balance**  
(% of GDP)



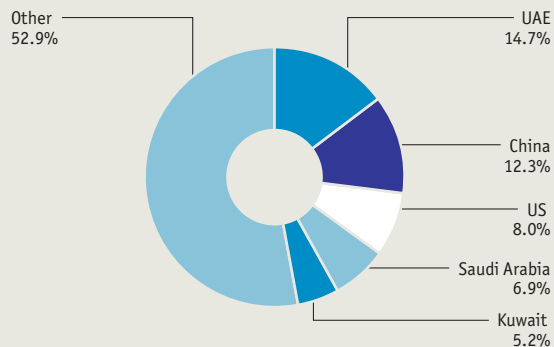
Source: Economist Intelligence Unit.

**Destination of exports, 2007**  
(% share)



Source: Economist Intelligence Unit.

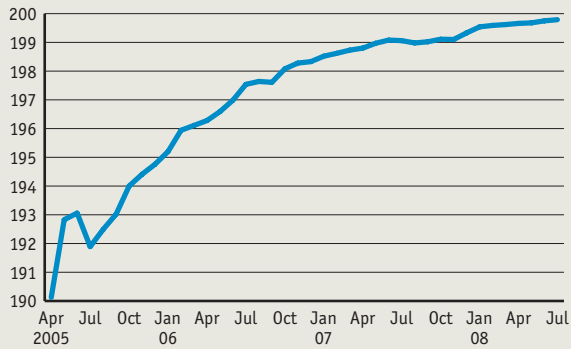
**Origin of imports, 2007**  
(% share)



Source: Economist Intelligence Unit.

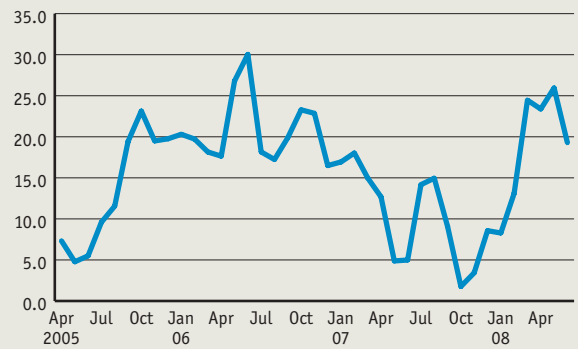
### Monthly trends charts

**Exchange rate**  
(YR:US\$; av)



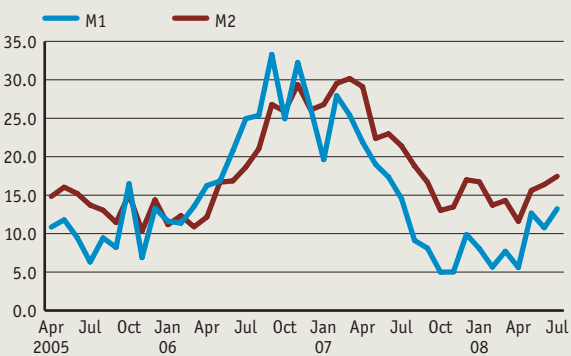
Source: Economist Intelligence Unit.

**Consumer price inflation**  
(% change, year on year)



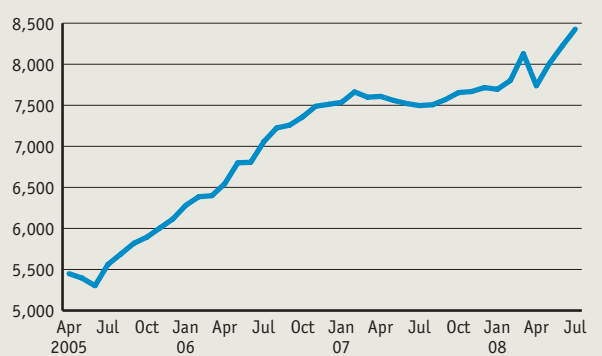
Source: Economist Intelligence Unit.

**Monetary aggregates**  
(% change, year on year)



Source: Economist Intelligence Unit.

**Foreign-exchange reserves**  
(US\$ m)



Source: Economist Intelligence Unit.

# Country snapshot

## Political structure

<b>Official name</b>	Republic of Yemen	
<b>Form of state</b>	Republic, unified on May 22nd 1990	
<b>Legal system</b>	Under the constitution of May 1991, sharia (Islamic law) is the principal source of law	
<b>Legislature</b>	Unicameral assembly directly elected for a six-year term	
<b>National elections</b>	September 20th 2006 (presidential); April 2003 (parliamentary). Next parliamentary election in April 2009; next presidential election scheduled for 2013	
<b>Head of state</b>	President (directly elected for a seven-year term): Ali Abdullah Saleh; vice-president: Abdel-Rabbuh Mansour Hadi	
<b>Executive</b>	Council of Ministers headed by the prime minister	
<b>Political parties</b>	There are 22 legal parties, five of which are represented in parliament: the General People's Congress (GPC, the ruling party); the Yemeni Congregation for Reform (Islah, a religious-based party with tribal and Islamist wings); the Arab Socialist Baath Party; the Yemeni Socialist Party (YSP); and the Nasserist Unionist Party (NUP). These, together with two opposition groups without parliamentary representation, the Union of Public Forces and al-Haq, form a loose parliamentary coalition, the Joint Meeting Parties	
<b>Government</b>	<b>Prime minister</b>	Ali Mohammed Mujawer
	<b>Deputy prime minister for defence &amp; security affairs, and local administration</b>	Rashad al-Alimi
	<b>Deputy prime minister for interior affairs</b>	Sadiq Amin Abu Ras
	<b>Deputy prime minister for economic affairs &amp; planning &amp; international co-operation</b>	Abdel-Karim al-Arhabi
<b>Key ministers</b>	<b>Agriculture &amp; irrigation</b>	Mansour Ahmed al-Hawshabi
	<b>Defence</b>	Mohammed Ahmed Ali
	<b>Electricity &amp; energy</b>	Awad Saad al-Soqotri
	<b>Finance</b>	Nouman Taher al-Souhaibi
	<b>Fisheries</b>	Mohammed Saleh Shamlan
	<b>Foreign affairs &amp; immigration</b>	Abu Bakr Abdullah al-Qirbi
	<b>Human rights</b>	Huda Ali Abdel-Latif al-Ban
	<b>Interior</b>	Mutaher al-Masri
	<b>Justice</b>	Ghazi Shayef al-Aghbari
	<b>Labour &amp; social affairs</b>	Amat al-Razzak Ali Hamad
	<b>Oil &amp; mineral resources</b>	Amir Salem al-Edroos
	<b>Public health &amp; population</b>	Abdel-Karim Rasei
	<b>Public works &amp; roads</b>	Omar Abdullah al-Qurshumi
	<b>Teaching &amp; education</b>	Abdel-Salam al-Jufi
	<b>Tourism</b>	Nabil Hassan al-Faqih
	<b>Trade &amp; industry</b>	Yahya al-Mutawakkel
	<b>Transport</b>	Khaled al-Wazir
	<b>Water &amp; environment</b>	Abdul Rahman Fadhl al-Iryani
<b>Central Bank governor</b>	Ahmed Abdel-Rahman al-Samaawi	