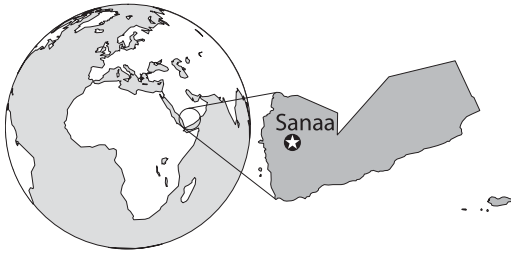


YEMEN



Rank: 125

Regional Rank: 14 of 17

Yemen's economy is 52.8 percent free, according to our 2008 assessment, which makes it the world's 125th freest economy. Its overall score is 0.4 percentage point lower than last year, reflecting slightly worsened scores in monetary freedom and labor freedom. Yemen is ranked 14th out of 17 countries in the Middle East/North Africa region, and its overall score is lower than the regional average.

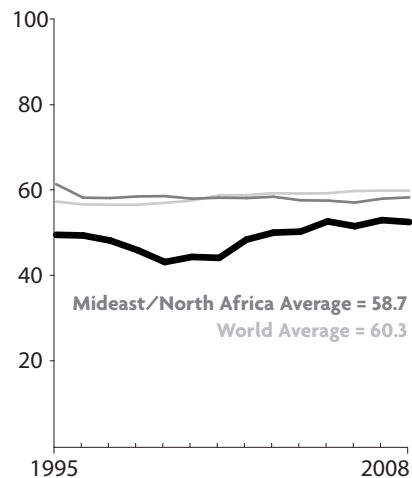
Yemen scores well in fiscal freedom and labor freedom. The top income tax is relatively low, but the corporate tax rate is more burdensome. Overall tax revenue is low as a percentage of GDP. The labor market is relatively flexible.

Yemen faces major challenges in financial freedom, monetary freedom, government size, property rights, and freedom from corruption. The regulatory process is opaque, and court rulings are subject to the demands of the government. Political interference bleeds into the financial market, which is unsophisticated, dominated by the state, and not subject to standard oversight and international regulations. Corruption is prevalent throughout the civil service. Inflation is high, although the government directly subsidizes only a few goods. State expenditures equal almost two-fifths of GDP.

BACKGROUND: Yemen, in addition to being a poor country with few natural resources, is politically unstable. President Ali Abdallah Saleh's government continues to face intermittent challenges from some of the country's often unruly tribes and Islamic radicals, who oppose economic reform and cooperation with the United States in the war against terrorism. Saleh's government has placed economic reforms on the back burner while it has waged war against Islamic extremists. In recent years, the economy has been hurt by declining oil production, terrorist attacks, and kidnappings, which have undermined tourism and foreign investment. The government has taken some steps to combat corruption it, but it needs to do more.

How Do We Measure Economic Freedom? See Chapter 4 (page 39) for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

The economy is 52.8% free



QUICK FACTS

Population: 21.0 million

GDP (PPP): \$19.5 billion

3.7% growth in 2005

3.3% 5-yr. comp. ann. growth

\$930 per capita

Unemployment: 35.0% (2003 estimate)

Inflation (CPI): 11.8%

FDI (net flow): -\$266.0 million

Official Development Assistance:

Multilateral: \$200.8 million

Bilateral: \$242.5 million (7.4% from the U.S.)

External Debt: \$5.4 billion

Exports: \$6.8 billion

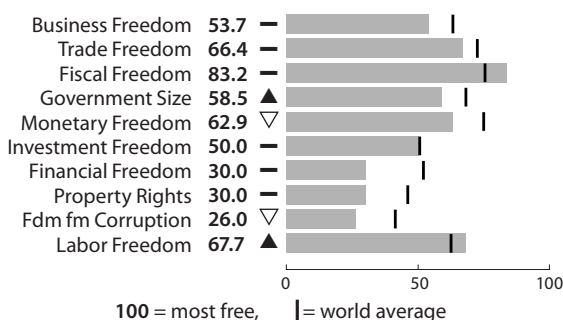
Primarily crude oil, coffee, dried and salted fish

Imports: \$5.3 billion

Primarily food and live animals, machinery and equipment, chemicals

2005 data unless otherwise noted.

YEMEN'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 53.7%

The overall freedom to start, operate, and close a business is restrained by Yemen's regulatory environment. Starting a business takes an average of 63 days, compared to the world average of 43 days. Obtaining a business license takes less than the world average of 19 procedures and 234 days. Bankruptcy proceedings are relatively straightforward.

TRADE FREEDOM — 66.4%

Yemen's weighted average tariff rate was 11.8 percent in 2000. Some import bans and restrictions, import taxes, import licensing requirements, weak enforcement of intellectual property rights, inefficient customs administration, and corruption add to the cost of trade. An additional 10 percentage points is deducted from Yemen's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 83.2%

Yemen has a low income tax rate but a burdensome corporate tax rate. The top income tax rate is 20 percent, and the top corporate tax rate is 35 percent. Other taxes include a property tax and a fuel tax. In the most recent year, overall tax revenue as a percentage of GDP was 7.4 percent.

GOVERNMENT SIZE — 58.5%

Total government expenditures, including consumption and transfer payments, are high. In the most recent year, government spending equaled 37.2 percent of GDP. Yemen depends heavily on foreign private oil companies that have production-sharing agreements with the government.

MONETARY FREEDOM — 62.9%

Inflation is high, averaging 18.4 percent between 2004 and 2006. Unstable prices explain most of the monetary freedom score. The government controls the prices of pharmaceuticals and petroleum products and influences prices through regulation, subsidies, and state-owned enterprises and utilities. An additional 10 percentage points is deducted from Yemen's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 50%

The government officially permits foreign investment in most sectors, grants equal treatment to domestic and foreign investors, and intends to turn the General Investment Authority into a one-stop shop for investors. Foreign

investment in the exploration for and production of oil, gas, and minerals is subject to production-sharing agreements. Foreign investment is not permitted in the arms and explosive materials industries, industries that could cause environmental disasters, or wholesale and retail imports. Though political unrest and civil violence are deterrents, Yemen appears to have attracted some regional investment enthusiasm and political support since its presidential election in late 2006. Foreign exchange accounts are permitted. There are no restrictions on payments and transfers, and capital transactions are subject to few restrictions. Corruption is significant.

FINANCIAL FREEDOM — 30%

Yemen's financial system is small, underdeveloped, and dominated by the state. Financial regulation remains insufficient, but the government is taking some steps to improve certain regulations like capital requirements. Non-performing loans are a problem. Of the 16 commercial banks (including four Islamic banks) in October 2006, nine were private domestic banks, five were foreign banks, and two were state-owned banks. Two state-owned development banks lend to the agriculture and housing sectors. The state wholly owns the country's largest bank, the National Bank of Yemen, and owns a majority of the Yemen Bank for Reconstruction and Development. Efforts to privatize these banks have foundered. A second plan, to combine them into a single institution, has also stalled. The Embassy of Yemen reports that the state is a very small shareholder in three other private banks. Commercial lending is limited to a small circle of clients, partly because of legal inability to collect on overdue debts. The insurance sector is small, capital markets are negligible, and there is no stock market.

PROPERTY RIGHTS — 30%

The judiciary is subject to government pressure and corruption. Contracts are weakly enforced. Foreigners may own property, but foreign firms must operate through Yemeni agents. Protection of intellectual property rights is inadequate.

FREEDOM FROM CORRUPTION — 26%

Corruption is perceived as widespread. Yemen ranks 111th out of 163 countries in Transparency International's Corruption Perceptions Index for 2006. Government officials and members of parliament are presumed to benefit from insider arrangements and embezzlement. Procurement is a regular source of corruption in the executive branch.

LABOR FREEDOM — 67.7%

Relatively flexible employment regulations could be further improved to enhance overall productivity growth and job creation. The non-salary cost of employing a worker is low, but dismissing a redundant employee can be burdensome. Regulations related to the number of work hours remain rigid.