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**REVIEW AND ANALYSIS OF THE PROGRESS MADE BY THE
REPUBLIC OF YEMEN IN THE IMPLEMENTATION OF THE NEW
PROGRAMME OF ACTION FOR THE LEAST DEVELOPED COUNTRIES
FOR THE 1990s**

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EXPLANATORY NOTES

The following symbols have been used in the tables throughout the study:

Two dots (..) indicate that data are not available or are not separately reported.

A dash (--) indicates that the amount is nil or negligible.

A hyphen (-) indicates that the time is not applicable.

The following abbreviations have been used:

DAC	Development Assistance Committee
GCC	Gulf Cooperation Council
GDP	Gross domestic product
IDS	International Development Strategy
LDCs	Least developed countries
ODA	Official development assistance
NPA	New programme of action
UNCTAD	United Nations Conference on Trade and Development
YRL	Yemeni rial
\$	United States dollar

INTRODUCTION

The New Programme of Action for the Least Developed Countries for the 1990s (NPA), adopted at the Second United Nations Conference on the Least Developed Countries (Paris, 3-14 September 1990) did not set quantitative targets to be met by the least developed countries (LDCs), as was the case in the SNPA.^{1/} The NPA, however, stressed a comprehensive development strategy and a set of policy issues to be adopted and implemented by both the LDCs and their development partners, with a view to arresting the deterioration in the economic conditions of the LDCs, improving the standard of living of their population, creating a domestic environment conducive to sustained growth and development and providing a stable and growth-oriented macro-economic framework. To ensure the timely implementation of these goals, the NPA outlined a set of policies and measures to be taken by both the LDCs and the international community, covering areas of macro-economic policy, finance, external trade, external debt, development and expansion of the production base of the economy and the development of human resources.

The Republic of Yemen,^{2/} the region's least developed member country, has exerted great efforts within the prevailing economic conditions to implement the provisions of the NPA. However, the Gulf crisis has adversely affected economic and political relations among ESCWA member countries, reversing earlier favourable trends. The crisis interrupted the flow of aid, trade and labour, with a particularly adverse impact on the Yemeni economy. Economic aid from GCC countries and Iraq virtually ceased, including oil supplies provided at reduced prices. The return of around one million Yemenis from GCC countries, especially Saudi Arabia, has created enormous economic and social difficulties, obliging the Government to adjust its priorities in order to cope with the emerging situation.

The unfavourable external developments coupled with political, economic and administrative issues and complications arising from the unification of the country have negatively affected the implementation of planned development projects. Moreover, the sharp decline in agricultural production due to prolonged drought conditions contributed to Yemen's poor economic performance during 1990 and 1991. The transitional phase through which the country is passing has also had an effect on economic life. The Government has not yet completed the preparation of a unified development plan and is currently relying on annual investment programmes aimed at implementing projects already included in the previous five-year plans of the two parts of the country prior to unification.

^{1/} Substantial New Programme of Action for the Least Developed Countries, adopted at the First United Nations Conference on the Least Developed Countries (Paris, September 1980).

^{2/} The Republic of Yemen came into being as a result of the unification of former People's Democratic Republic of Yemen and Yemen Arab Republic on 22 May 1990.

All these unfavourable internal and external developments detracted from the country's ability to implement the goals and objectives set out in the NPA. This report attempts to review and analyse major economic and social developments in the Republic of Yemen, as well as the progress made and the obstacles faced in implementing the NPA.

I. MACRO-ECONOMIC DEVELOPMENTS

A. Economic growth

The Yemeni economy remains highly dependent on external resources and hence is vulnerable to external economic shocks. External aid and remittances, particularly from GCC countries, have played a crucial role in the economic development of the country, as evidenced by the fact that more than 60 per cent of development financing is covered by external sources. The second half of the 1980s witnessed a sharp decline in aid flows, especially from within the region, reflecting the economic recessionary conditions that prevailed as a consequence of declining oil prices and revenues. Workers' remittances, which represent the second main source of foreign exchange earnings, also declined, owing mainly to the decrease in the demand of GCC countries for expatriates in general, including Yemenis.

Reflecting mainly the reduction in foreign aid and workers' remittances, investment shrank both in volume and in relation to the gross domestic product (GDP). As a percentage of the GDP, investment dropped from 15.5 per cent in 1989 to 13.5 per cent in 1991. In real terms, GDP declined by 3 per cent in 1990, and was estimated to have declined by 4.8 per cent in 1991 (table 1).

Table 1. Macro-economic indicators, 1989-1991

	1989	1990	1991 ^{a/}
1. GDP (in billions of rials at 1985 prices)	32.0	31.12	9.6
2. Per capita GDP (in rials at 1985 prices)	2758	2549	2368
3. Budget deficit as a percentage of GDP	28.3	12.8	16.2
4. External debt (in billions of dollars)	4.5	6.1	7.7
5. External debt as a percentage of GDP	85.2	92.4	95.3
6. Trade deficit as a percentage of GDP	19.4	13.6	15.9

Source: Economic and Social Commission for Western Asia, based on national sources.

a/ Estimates.

The Gulf crisis added inextricable economic and social problems to an already weak economic setting. Aid from the Gulf oil-exporting countries ceased immediately. More than 750,000 workers and dependants returned to the country in a matter of a few weeks; oil supplies, which the country formerly received on concessional terms from Iraq and Kuwait, were cut as a result of the oil embargo imposed on these two countries in the early days of the crisis; the Gulf markets were closed to Yemeni exports, consisting mainly of food items.

In response, the Government has adopted various measures, including increased borrowing to finance the budget deficit and reduced investment outlays. Internal borrowing, mainly from the Central Bank, led to an increase

in the inflation rate (see below). Long-term debt rose from \$4.5 billion in 1989 to \$7.7 billion in 1991,^{3/} which represented more than 95 per cent of GDP.

The unification process triggered a sharp expansion in public spending, which further exacerbated fiscal imbalances. The budget deficit reached about 12.5 billion rials in 1990. Monetary expansion, stemming from the additional cost of unification and widened fiscal deficit, triggered an upsurge in prices which was helped by the sharp increase in the domestic price of oil products (the Government opted for this to contain the rapid increase in domestic oil consumption induced by the returnees). The introduction of a second exchange rate for the rial vis-à-vis the United States dollar, for customs valuation purposes, will lead to a further increase in the prices of imported goods and hence in the inflation rate. Both monetary and fiscal imbalances put more pressure on the already weak local currency. As a result, the difference between the official exchange rate of 12 rials to the dollar and the rate of exchange at the parallel market is on the rise.^{4/} Fiscal imbalances will also negatively affect the government position vis-à-vis its development partners by limiting its chances of obtaining additional external loans and negotiating a rescheduling of its external debts.

At the sectoral level, there has been a further contraction in the output of the non-oil sectors, particularly agriculture. Weather conditions during the last three seasons led to a sharp contraction of agricultural output, contributing to further economic slowdown. Oil, which represents the best hope for reducing the economy's high dependency on external resources, performed less well than expected. Production dropped from 69 million barrels in 1990 to 54.5 million barrels in 1991, a decrease of about 21 per cent, reducing the volume of oil available for export. This was aggravated by the sharp increase in domestic consumption, which prior to the Gulf crisis was met mainly by concessional oil deliveries from Iraq, Kuwait and the United Arab Emirates. The Republic of Yemen consequently did not benefit much from the sharp rise in oil prices following the outbreak of the crisis. The rapid increase in the consumption of oil products poses a challenge in view of the limited production capacity and the development needs of the country.

Emerging economic conditions at the regional and global levels have made adjustment increasingly necessary to avert further deterioration in the economic situation, promote growth and development and reduce the overwhelming dependence on external resources. In this respect, the Government has exerted efforts to manage excessive demand and promote domestic savings.

Reducing fiscal imbalances and the trade deficit, controlling inflation and promoting diversification with the active participation of the private sector should be among the priorities of any set of adjustment policies the Government considers implementing in the near future.

^{3/} Arab Oil and Gas, vol. 21, No. 490 (16 February 1992), p. 24.

^{4/} Recently the dollar was being exchanged at 30 rials in the parallel market.

The participation of the private sector has to be encouraged through the adoption of proper fiscal and monetary policies, as well as administrative and institutional arrangements. This would include positive interest rates, realistic exchange rates, and other monetary and financial reforms. The current over-valuation of the rial discourages the inflow of private transfers -- especially workers' remittances -- through official channels in favour of unofficial channels or remittance of savings in non-monetary forms. The lack of investment opportunities has prompted the private sector, which accounts for a significant part of resource inflows, to invest either in real estate or durable goods, thus depriving the economy of badly needed resources to expand the productive base and diversify the economy. Low or negative real interest rates caused by high inflation discouraged savings and encouraged consumption. Moreover, limited investment opportunities have reduced demand for loans, which made banks hesitant to accept deposits and encouraged the private sector to keep its savings outside the banking system.

Among the measures that the Government adopted to curtail current spending was reducing the number of foreign workers in the country, especially teachers. In 1991, the contracts of about 8,000 expatriate teachers were not renewed, and a decree has been issued to replace them with Yemeni university graduates. The Government has also taken steps to cut down on official representation abroad. These measures remain limited, and there is need for a more comprehensive and integrated set of policy reforms addressing major issues and imbalances. This would help the Government in negotiations with creditors, particularly if the adjustment programme is supported by the International Monetary Fund and the World Bank.

Rationalizing public spending (especially current spending, which absorbs 80 per cent of the total) and improving the tax system (including reduction of tax evasion and smuggling) would contribute greatly to the improvement of government finances.

B. Inflation

There has been a sharp rise in the inflation rate in Yemen during the last few years. Unofficial estimates put the inflation rate at about 30 per cent in 1990 and between 40 and 45 per cent in 1991. The jump in the general price index has been prompted mainly by the persistent and widening fiscal deficit which led to an increase in borrowing from the Central Bank and an expansion in the money supply.

Another important contributing factor has been the depreciation of the local currency, caused by the sharp decrease in external financial flows; this has eroded the international reserves of the country. During the period 1990-1991, the rial depreciated in the parallel market by almost 250 per cent, i.e. from the official rate of 12 rials to the dollar, to 30 rials to the dollar. The introduction, in early 1992, of a second rate of exchange, for customs valuation purposes, led to a further increase in the prices of imported goods, which constitute a major part of consumed goods, and contributed to the general increase in prices. Drought, which the country has been facing for the last three years, led to an increase in prices of agricultural products. Price liberalization, with the exception of four basic commodities (flour, medicine, rice and wheat), and higher oil products prices

in the market led also to a sharp increase in the overall price level, especially in the southern part of the country, which formerly applied an elaborate system of subsidies (before unification), keeping prices artificially low. The prices of some goods more than doubled during the last two years, and this trend is expected to continue during 1992, due to the persistence of inflationary factors. The fiscal deficit, though reduced, is still high. In addition, the Government, under pressure from trade unions, is planning to increase wages and salaries by up to 25 per cent during 1992. Also, the provision by the Government of subsidies to inefficient public enterprises, coupled with generally low productivity in the public sector, have indirectly added to inflationary pressures. By eroding the purchasing power of wages and salaries, inflation intensified the pressure for offsetting salary increases, especially since inflation and wages are not indexed.

C Unemployment

Economic recession in the Gulf area since 1982, high population growth and the return of Yemenis from the Gulf have led to a sharp rise in unemployment in the country. In the 1970s and early 1980s, about one fifth of the Yemeni labour force was employed in the Gulf oil-exporting countries, especially in Saudi Arabia. The Republic of Yemen managed to keep unemployment at around 6 per cent of the labour force until the eruption of the Gulf crisis. During the first few months of the crisis, more than 750,000 Yemenis returned, including about 430,000 workers, or 20 per cent of the labour force. Also, the return of Yemeni nationals from Ethiopia and Somalia aggravated the problem and brought the unemployment rate to about 30 per cent. The problem is likely to get worse, as many of the returnees are still living on their savings and will have to be reintegrated into the country's economic life.

Resolving the returnees' problem requires an improvement in overall economic conditions in the country, as well as in the political environment in the region, to re-open the labour markets of previous host countries. The Government has undertaken various measures aimed at absorbing returnees into the economy, including training programmes to provide them with the required skills and to acquaint them with investment opportunities, particularly in the agricultural sector, which suffered the most from migration.

D. Budget deficit

The budget deficit, excluding capital expenditures, widened in 1990 to about 9.5 billion rials, or 10 per cent of GDP.^{5/} The deficit is estimated to have increased further in 1991 to 12.4 billion rials. This was triggered by a substantial increase in current public spending prompted by the unification process and the absorption and rehabilitation of returnees. Meeting these pressing obligations required the mobilization of additional funding in a relatively short period, which put more pressure on the country's limited financial resources. Expenditures on general administration rose

^{5/} Figures obtained from the 1991 draft budget (unpublished).

sharply in 1990 to more than 7 billion rials, compared with 3.8 billion rials in 1989 (table 2), an increase of about 90 per cent. The main factor behind this sharp increase is the merger of two distinct administrations, including moving thousands of people from Aden to Sana'a. Defence spending also increased sharply during 1990, as a result of the general increase in military spending in the region in the wake of the Gulf crisis and of merging the two armies of former Democratic Yemen and Yemen. Spending on social services rose during 1990, reflecting additional outlays for education and health triggered by the return of more than 750,000 people from the Gulf. In 1991, the level of current expenditures continued to rise, though at a slower rate, and only spending on education and health was expected to rise faster than in 1990, to respond to the needs of returnees. In 1991, current expenditures were expected to increase by 30 per cent, compared with a 68 per cent increase during 1990.

Government revenues rose at a slower rate than expenditures in both 1990 and 1991. Revenues increased from 17.9 billion rials in 1989 to 22.3 billion rials in 1990 and were expected to reach 27.9 billion rials in 1991 (table 2). The major factor behind this is the rise in government oil revenues, which increased by 15.4 per cent in 1990. Taxes, particularly indirect taxes, remain the most important source of current revenues, representing 64 per cent of the total in 1990 and around 70 per cent in 1991. Taxes on oil companies rose during both 1990 and 1991, reflecting the expansion of their operational activities in exploration and exploitation. Direct taxes, on the other hand,

Table 2. Government current expenditures and revenues, 1989-1991
(Billions of rials at current prices)

	1989	1990	1991 ^{a/}
<u>Total current expenditures</u>	<u>18.9</u>	<u>31.8</u>	<u>40.3</u>
General administration	3.8	7.2	7.7
Defence	6.0	9.9	12.8
Education	4.1	5.4	8.3
Health	1.0	1.2	2.0
Security	2.2	3.0	4.0
Others	1.8	1.0	5.8
<u>Total current revenues</u>	<u>17.9</u>	<u>22.3</u>	<u>27.9</u>
Tax revenues	10.6	14.1	19.1
Non-tax revenues	7.3	8.2	8.8
<u>Deficit</u>	<u>-1.0</u>	<u>-9.5</u>	<u>-12.4</u>

Source: ESCWA, based on data supplied by the Ministry of Finance, Sana'a, the Republic of Yemen.

^{a/} Estimates.

remain a modest source of revenue, reflecting the low tax base and level of economic activity in general. In 1992, the current budget deficit is expected to shrink due to the improvement in revenues and contraction in expenditures. Revenues are expected to rise, mainly reflecting the increase in oil revenues. The introduction of a second exchange rate for customs valuation purposes^{6/} is expected to raise current revenues by 3 billion to 4 billion rials. On the other hand, grants and concessional loans are expected to remain depressed in view of the economic and political conditions prevailing since the eruption of the Gulf crisis.

Current expenditures are expected to increase during 1992, though at a lower rate, reflecting the decrease in expenditures related to unification and in military spending, as well as the introduction of additional measures during 1991 to curtail government spending, including reducing the number of embassies abroad.

^{6/} This rate is equal to 18 rials to the dollar, compared with the official rate of 12 rials to the dollar.

II. FINANCING GROWTH AND DEVELOPMENT

Domestic financial resources are very limited in the Republic of Yemen owing to the inherent, structural weaknesses of the economy. Domestic savings have been negative for many years, reflecting the low-level of per capita income and high consumption rates. Aggregate consumption exceeds GDP, and the production-consumption gap is filled by imports. During the 1970s and early 1980s economic aid and remittances flows allowed the financing of a rapid rate of investment and higher consumption levels at the same time.

During the second half of the 1980s, the inflow of financial resources declined, as a result of economic recession in the oil-exporting countries and slower demand for expatriate workers, particularly unskilled workers -- the category under which a large portion of the Yemeni workers abroad can be classified. The eruption of the Gulf crisis has aggravated the difficult situation. Aid flows ceased, remittances from GCC countries plummeted, and the country witnessed a massive influx of returnees. Declining external resources -- which finance about 60 per cent of investment -- triggered a sharp contraction in investment, contrary to the recommendations of the New Programme of Action. Gross investment declined from 11.5 billion rials in 1989 to about 8.0 billion rials in 1991. The trend is expected to endure as long as the current political and economic conditions in the region persist.

The last two years have been marked by a sharp decline in the flow of official development assistance, especially from regional sources. The inflow of concessional aid did not exceed 88.4 million rials (\$7.4 million) in 1991, compared with more than 2 billion rials in 1990.^{7/} During 1991, there was actually a negative flow of resources, reflected in the difference between the flow of aid and the debt service of \$210 million. There is thus an urgent need to provide financial assistance in accordance with the provisions of the NPA, which calls for a substantial increase in economic aid to the LDCs to enable them to cope with the economic and social difficulties facing them.

Despite unfavourable regional developments and the low level of income, there is room for increasing domestic savings through rationalizing public spending and adopting more efficient methods of utilizing resources. In this respect, the introduction of monetary and financial measures to promote domestic saving would enhance the mobilization of domestic resources in the country. Such measures would include adopting realistic foreign exchange rates for the rial, providing investment guarantees to encourage the flow of both domestic and foreign investment funds,^{8/} and adjusting the currently low level of interest rates in the country, which discourage savings and induce consumption, to realistic levels commensurate with inflation.

^{7/} Republic of Yemen, government draft budget for 1992, p. 65.

^{8/} The recently adopted investment law is expected to provide guarantees to domestic and foreign investors.

External debt

Declining external resources obliged the Government to step up its borrowing to finance investment and imports. Borrowing -- including short-term borrowing -- coupled with the maturity of old debts, led to a sharp rise in debt-service obligations. Total external debt reached \$7.656 billion in 1991, representing more than 95 per cent of GDP, while the debt service reached about \$210 million, or 31 per cent of exports. The debt service could have been much larger had the Government not frozen the repayment of debts owed to the Republics of the former Soviet Union. Given the prevailing economic and political conditions in the region, it is unlikely that the country would get debt relief from regional sources in the near future. Consequently, heavy debt-service obligations, coupled with a widening budget deficit, will limit the country's ability to borrow, particularly from unofficial sources.

The Government has been trying to enter into debt negotiations with its creditors to reduce the debt-service burden through rescheduling, debt relief or debt forgiveness, especially concerning the official debt which represents the bulk of the country's external debt. Concessional debts represent more than 60 per cent of long-term external debts. About 15 per cent of the country's concessional debts are from multilateral sources, and 10 per cent is owed to Arab countries. Short-term debt still represents only 10 per cent of total external debt. About 80 per cent of the country's short-term debt is owed to commercial banks, and the rest is in the form of export credits.

Regarding debt relief, no major debt cancellation, rescheduling or forgiveness has taken place in the last two years. Considering the worsening economic conditions in the country, creditors are urged to take the necessary steps to render debt relief to the Republic of Yemen, including the implementation of the Trade and Development Board Resolution 165(S-IX)^{9/} of 11 March 1978, along with substantial increases in economic aid as requested in the NPA.

^{9/} The resolution provides for cancellation or provision of equivalent relief for official development assistance debt.

III. THE EXTERNAL SECTOR

A. The trade deficit

The Gulf crisis deeply affected the external sector of Yemen. The oil embargo imposed on both Iraq and Kuwait immediately following the eruption of the crisis and the position taken by the latter country on relations with the Republic of Yemen, halted the flow of concessional oil deliveries for domestic consumption, thus reducing the portion of domestic production available for export. This, coupled with rapidly increasing domestic consumption of oil products, and lower production, caused oil exports to drop during 1991. Non-oil exports, with the exception of fish, also declined, reflecting poor agricultural performance, closure of the Gulf markets and higher domestic consumption resulting from the return of more than 750,000 Yemenis from the Gulf region.

In 1990, imports declined by about 10.9 per cent in dollar terms, due to a cut in supplies of oil and other fuel by about 45 per cent from the Gulf Cooperation Council (GCC) countries and Iraq, and a drop of 30 per cent in imports of machinery and equipment. In contrast, food imports increased, induced by a rise in demand and a drop in domestic agricultural production. Food imports represented about one third of total imports, with wheat imports alone reaching 800,000 tons in 1991. Generally, imports have been constrained by the instability of foreign exchange earnings, which forced the Government to rely mainly on suppliers' credit to finance a large portion of imports. On the other hand, the increase in domestic demand which was exacerbated by the influx of the returnees and the decline in domestic supply of food items forced an increase in food imports during both 1990 and 1991.

The trade deficit declined by 11.5 per cent in 1990 and 5.2 per cent in 1991. The deficit went down from \$1,180.9 million in 1989 to \$1,045 million in 1990 and to \$991.0 million in 1991 as shown in table 3, reflecting a faster decrease in imports relative to exports in 1990, and a strong surge of exports in 1991.

Table 3. Exports, imports and the trade balance, 1989-1991
(Millions of dollars)

	1989	1990 ^{a/}	1991 ^{b/}
Imports	-1 874.8	-1 671.0	-1 719.0
Exports	693.9	626.0	778.0
Trade balance	-1 180.9	-1 045.0	-991.0

Source: Figures for 1989 and 1990 from the Republic of Yemen, Ministry of Planning and Development, Central Statistical Organization, Statistical Yearbook, 1990. Data for 1991 supplied by the Ministry of Finance, Sana'a.

a/ Estimates.

b/ Government projections.

In contrast to the trade deficit, the current account deficit declined sharply in 1990 (table 4), after years of vigorous expansion, mainly due to a sharp increase in workers' remittances precipitated by the return of large numbers of workers with their savings. However, although the current account deficit declined by 79 per cent in 1990, it is estimated to have risen by more than 300 per cent in 1991. This sharp rise was caused by the steep decline in workers' remittances and other official grants. In 1992, the deficit is expected to increase further, driven by both a widening trade deficit and a sharp decline in current transfers, especially workers' remittances.

Table 4. Main balance-of-payments flows; 1989,1990

	1989	1990
Trade deficit	-1 180.9	-1 045.0
Current account	-1 009.3	-216.0
Capital account	841.8	100.4
Overall balance	-167.5	-115.6

Source: Economic and Social Commission for Western Asia, based on data supplied by the Ministry of Planning and Development, Central Statistical Organization, Statistical Yearbook, 1990.

The overall balance of payments remains in deficit. Though this deficit was greatly reduced during 1990, it will continue to be largely determined by the magnitude of oil exports and by reduced workers' remittances and other transfers, particularly from regional sources. Debt repayment will continue to increase, particularly if the evaluation of the debts owed to the Republics of the former Soviet Union do not result in any debt relief, rescheduling or cancellation. The capital account is expected to continue to be positive, influenced by the increase in foreign borrowing. Short-term borrowing in particular is likely to increase, to compensate for declining current transfers.

B. Access to markets

Prior to the eruption of the Gulf crisis, Yemeni exports, mainly food items, had relatively easy access to neighbouring markets. However, this situation was reversed after the crisis, as political relations with the Gulf countries worsened, resulting in an almost total rupture of economic ties, including the closure of Gulf markets to Yemeni exports. However, exports of fish products have increased during the last few years, as these products enjoy relatively easy access to international markets, owing mainly to their high quality and competitive prices.

Although it is very important to provide preferential access to exports of the Republic of Yemen, this matter, particularly at the regional level, is highly influenced by political considerations and causes considerable problems since most Yemeni exports have low competitiveness in international markets.

C. Diversification

In the Republic of Yemen, the main obstacles to diversification are the narrow resource base, lack of skilled human resources, poor and underdeveloped agricultural sector, and insufficient financial resources.

Despite this, there are several areas where a policy of diversification could be successfully applied. The fisheries sector is a promising area; the country has one of the richest coasts in the area, which if developed to its full potential (particularly through joint ventures with foreign companies), could greatly promote exports and foreign exchange earnings. Another promising sector is tourism. The country's ancient sites like Shebam city and Maarib dam draw tourists, especially in the winter season. This, together with the plans under way to convert Aden into a duty-free zone would help in improving the transit tourism industry in the country. Despite declining external resources, the Government prepared a number of studies aimed at developing infrastructure. In the case of the fishing industry, the Government is planning to modernize ports, provide refrigeration facilities and train Yemeni nationals in modern fishing techniques. In the case of tourism, the development of the physical and institutional infrastructure, including roads, hotels, maps, transportation and communications, is essential for any diversification. Extending financial and other incentives to the private sector would greatly contribute to successful diversification, especially in the areas of tourism, fishing, agriculture and services. However, in order to carry out a policy of diversification, the country's efforts should be supported by external assistance, in the form of technical know-how and financial aid.

IV. DEVELOPMENT AND EXPANSION OF THE ECONOMIC BASE

A. The agricultural sector

Growth in the agricultural sector is still hindered by insufficient water resources and by lack of modern farming techniques, agricultural credit and research. More than 80 per cent of farm lands depend on rainfall, and only vegetables and fruits are regularly irrigated, mainly from underground water sources. Drought, which is continuing for the third consecutive year, has hit the agricultural sector badly. The production of the main agricultural crops declined sharply in 1990 and 1991, and the cost of well-drilling rose.

Inadequate agricultural credit is one of the main factors limiting the expansion of agricultural production. Only about 20 per cent of credit needs are met by the Agricultural Credit Bank, owing to inadequate resources, resulting in part from high operating costs and a high percentage of bad loans. Poor agricultural research and training are hindering the development of this important sector. Most of the research activities are of an academic nature with little practical value to farmers; in addition, there is little coordination or cooperation between research centres. The expansion of gat cultivation caused by high local demand and high prices has encouraged farmers in many areas to convert to the production of this crop at the expense of other cash crops.

Production of the main agricultural crops declined in 1990: cereals by 11.2 per cent, vegetables by 4.2 per cent and cash crops (coffee, cotton and tobacco) by 31 per cent. Estimates for 1991 point to a further sharp decline. Cereals were expected to decline by 61 per cent, vegetables by 32 per cent and fruits by about 10 per cent (table 5). This has caused shortages in certain items, pushed food prices even higher and forced the Government to import considerable quantities to bridge the gap between production and demand. Wheat imports reached 800,000 tons in 1991 at a cost to the budget of about \$180 million. Meat prices rose by almost 30 per cent in 1991. The declining production in 1990 and 1991 coincided with sharp increases in domestic demand precipitated by the return of more than 750,000 persons from the Gulf area.

Though the agricultural sector enjoys a high potential for growth and expansion, compared with the situation in neighbouring countries, structural problems still impede its development. Chief among these are the lack of water, high dependency on rainfall and rapid depletion of underground water. The Government has carried out a number of geological surveys to assess and develop underground water resources. Improving research and training, and provision of improved seeds, fertilizers and technical assistance are needed to increase productivity and lower production costs. Increasing productivity on government farms should also contribute significantly to agricultural performance. Encouraging the private sector to play a more active role in the development of agriculture, especially in the southern part of the country, will also promote agricultural production, increase productivity and improve quality.

Table 5. Production of main agricultural crops, 1989-1991
(Metric tons)

	1989	1990	1991a/
Cereals	864 060	766 871	297 850
Vegetables	730 776	695 531	612 066
Plses	72 457	75 847	53 093
Fruits	312 913	313 339	310 615

Source: Figures for 1989 and 1990 from the Republic of Yemen, Ministry of Agriculture and Water Resources, General Directory of Agricultural Statistics, Agricultural Statistical Yearbook, 1990.

a/ Estimates.

B. Food security

Food security in the Republic of Yemen is still below the minimum acceptable standards. Most of the food supplies available for immediate consumption and reserves are not even adequate in the case of an emergency to meet the most urgent needs until external relief could arrive. It is difficult to build up adequate food reserves in a country that depends to a large extent on imports and external financial resources to meet domestic demand. Food aid also cannot be relied upon to build up food security reserves, as it is meant basically for immediate consumption. Moreover, in many cases its flow is unreliable and unpredictable depending on the political developments prevailing at the time. The optimum way to build reliable food reserves is to increase domestic production, particularly for strategic items. However, establishing food reserves requires solving the problems facing the agricultural sector, particularly water shortages. As has been already mentioned, lack of financial resources and technical expertise makes it difficult to achieve these goals in the short term. Hence the Republic of Yemen will remain dependent on food imports to satisfy the immediate needs of its people and food security reserves requirements. Imported food will continue to be a must to bridge the food production-consumption gap in the short and medium term.

Food security will continue to be a major issue to be faced and managed within the limited available resources. In the long-run, increasing food production should be a major goal of the authorities, to build up the minimum food security requirements and reduce the country's overwhelming dependence on imports.

International support is essential to provide both financial and technical help to meet Yemen's food security requirements. External support includes technical assistance to establish an early warning system, which could provide the authorities with a tool for planning future food needs. It is particularly important for the Republic of Yemen, which is prone to natural disasters (floods, earthquakes and drought) to establish an advance warning system which could provide information on weather conditions, and other related information and data needed to help predict rainfall on which agriculture badly depends.

C. The oil sector

Oil production remains relatively low, less than 200,000 barrels per day. The ability of the Republic of Yemen to increase production^{10/} in the coming few years will depend on the success of ongoing exploration activities to find new oil fields. The discovery of oil in the country by Hunt Oil Company in 1986 has motivated foreign companies to engage in oil exploration. In 1990, oil production reached 69 million barrels, or about 189,000 barrels per day. The Government's share was around 33 million barrels. Oil production declined by about 21 per cent in 1991, reflecting lower productivity of some oil wells and other operational and technical problems. This was accompanied by a sharp rise in domestic oil consumption during 1990 and 1991. As a result, the Republic of Yemen did not fully benefit from the sharp increase in oil prices during the early stages of the Gulf crisis. Oil revenues actually declined, from \$538.8 million in 1989 to \$454.3 million in 1991. The Government attempted to reduce the growth of domestic consumption by raising the prices of oil products. However, this achieved only minimum success, owing mainly to the higher demand for oil precipitated by the sharp increase in the number of vehicles in the country.

Refining capacity in the country is still concentrated mainly in the Aden refinery, which has the capacity of processing 8.8 million tons of crude oil annually. However, the refinery now processes only about 3.5 million tons. The Government is planning to modernize the refinery, and efforts are being made to secure financing from oil companies in the form of joint ventures. The Government is also considering building a new refinery in the Hadramout area with a capacity of 50,000 barrels per day (b/d) to meet local demand for oil products, in addition to the small refinery with a capacity of 10,000 b/d built in 1987.

Proven reserves of natural gas were estimated in 1990 at 14 billion cubic feet.^{11/} Studies are currently being undertaken to evaluate natural gas reserves and to recommend the best ways of utilizing gas in the economy, including in power stations and in the cement industry. However, this would require additional resources to change the infrastructure of the already existing industries.

Government priorities in the mining sector revolve around modernizing and upgrading the Aden refinery and exploring the remaining areas in the country. For this purpose, activities are under way to grant concessions for the remaining assigned locations and connecting all oil fields with pipelines. The Government is also considering establishing a joint company to provide services for the oil companies active in the country.

^{10/} Proven oil reserves are presently estimated at around 3 billion barrels.

^{11/} Arab Oil and Gas, 1 March 1992, p. 15.

D. Manufacturing

The manufacturing sector's contribution to value added has been fluctuating at around 10 per cent of GDP. Though the sector has high potential, major problems, including structural imbalances, still impede its development. The lack of foreign exchange, skilled manpower, and linkages with other sectors of the economy are among the major obstacles facing the sector. Most industrial activities depend on imported inputs, including a high percentage of raw materials, which increases production cost and reduces value added. Economic difficulties and the absence of an integrated national industrial development plan have contributed to the slowdown in the growth of the manufacturing sector.

Food industries suffered from the recent decline in agricultural production, and chemical and plastic industries from insufficient foreign exchange to purchase needed inputs. Low productivity and high production costs are among the dominant characteristics of the sector, and hence domestic prices are much higher than those of imported products. This is particularly the case in the southern provinces of the country, where the public sector dominated all economic activities, including manufacturing, prior to the unification of the country in May 1990.

Government policies in this sector concentrate on price control, import licensing and other protective measures to promote the infant domestic industries. However, excessive protective measures, including tariffs, have discouraged quality control and production efficiency in a number of industries.

Most of Yemen's industrial production is oriented towards import-substitution, and only a small part is devoted to exports, mainly to the Gulf region and east Africa.

To cope with these problems, there is need for a strategy to integrate manufacturing with the rest of the economy, particularly with the agricultural sector, to reduce Yemen's heavy dependence on imports. The strategy should include policy measures to correct price distortions and provide financial incentives to the private sector, to increase its participation in industrial activities, especially in the southern provinces of the country. The national industrial development strategy should also concentrate on the exploration and exploitation of mineral and other resources, with a view to promoting resource-based industries.

In this respect, the Government is planning to develop promising areas such as fisheries, building materials, oil and natural gas as bases for the expansion of the manufacturing sector.

E. Infrastructure

Yemen has made commendable progress in improving its physical infrastructure during the last few years. This has been a result of the high priority accorded to this sector ever since the launching of the first five-year plan of 1976-1980 in the former Democratic Yemen and 1976/1977 -

1980/1981 in the former Yemen Arab Republic. Emphasis on the development of this sector continued unabated despite the difficult financial situation the country has been facing during the last few years.

In the area of transport and communications, the length of paved roads increased by about 5.1 per cent from 4,682 kilometres (kms) in 1988 to 4,937 kms in 1990, while that of unpaved roads increased by 2 per cent, from 10,354 kms in 1988 to 10,509 kms in 1990.^{12/} By 1990 telephone services capacity extended to 152,266 subscribers, in the main cities as well as in rural areas by using the microwave system of communication. Telephone services will be extended further after the completion of current projects under way, including the expansion of the communications network between the main cities, for which 116 million rials has been allocated in the 1992 budget, in addition to the development of the communications system in the southern provinces, for which 220 million rials^{13/} has also been allocated.

Activities of the international oil companies will help improve and expand the transport and communications system in the country as a by-product of their activities.

The conversion of Aden to status as a duty-free zone would contribute to the development of the communications system in the country through the establishment of communication networks connecting the area with the outside world. It would also help expand the transport system not only in the greater Aden area but also in other parts of the country as well.

The main problem facing the country is the lack of financial resources required to extend basic services to rural areas, where the majority of the population lives. The topography of the Republic of Yemen, especially in the mountainous areas, increases the cost of infrastructure projects. Maintenance is another major problem the infrastructure sector faces; in many cases provisions for maintenance are not even included in current expenditure, which leaves completed projects unserved for years and hence shortens their operational span. This is most evident in the transport sector, where roads have been left unmaintained for years, not only in rural areas but also in cities. This has resulted mainly from the absence of a link between the investment budget and current budget.

F. The role of the public sector

The public sector remains the predominant sector in the economy, both in terms of investment and employment. The Government is still the driving force in areas of planning and implementation of development projects, and the bulk of investment allocations is managed by public enterprises. The role of the public sector is more dominant in areas of infrastructure, transport and communications, and services. The recently developed oil sector is also

^{12/} Calculated from data in the Statistical Yearbook, 1990, Republic of Yemen, Central Statistical Organization,

^{13/} Republic of Yemen, Ministry of Finance, 1992 draft budget, p. 53.

under the direct control of the Ministry of Oil and Mineral Resources. Before unification, the role of the public sector was more evident in the former Democratic Yemen, which adopted socialism in pursuing economic and social development. The public sector was in control of almost all economic activities in the country. In the area of manufacturing, for example, more than 80 per cent of value added was produced by public enterprises. In the former Yemen Arab Republic, the role of the public sector was not as dominant; the private sector played an active role in areas of manufacturing, construction and retail trade. For example, more than 85 per cent of manufacturing output was produced by private enterprises, and most retail trade was in the hands of the private sector.

The public sector in the Republic of Yemen still suffers from numerous economic, financial and managerial problems. The productivity of most public enterprises remains low compared with that of the private sector, hampered by low wages and incentives and lack of training. Lack of clearly defined mandates and interference in the activities of these enterprises are also major problems facing public-sector enterprises. Thus, the rationalization of public-sector involvement in the economy is a prerequisite for overall efficiency in economic management.

The public sector is expected to remain a dominant force in the economy in the coming years. The Republic of Yemen has not yet embarked on a programme of economic reform that would pave the way for more effective participation of the private sector in economic activity. The role of the private sector is still limited by inadequate financial and monetary policies; still lacking are a more realistic exchange rate, availability of credit and investment opportunities.

Returnees in particular could be induced to invest in agriculture, manufacturing, trade, tourism and services. Many of them have savings and experience in such activities and could complement the Government's efforts in the development of the country.

G. The environment

Environmental issues have been gaining increasing recognition and attention at the official level, despite the economic difficulties facing the Government in recent years. The main environmental problems the country faces are soil degradation triggered by, among other things, over-grazing, frequent droughts and desertification. High dependency on wood for fuel, particularly in rural areas, is contributing to desertification and soil degradation. Pollution is not yet a major environmental problem in the Republic of Yemen owing to the country's limited industrial activities. However, the discovery of oil and the increased utilization of oil products, especially in the industrial sector (cement industries and power stations) will contribute to air pollution.

There is an urgent need for measures to increase public awareness of environmental problems and for issuing public guidelines on how to cope with them. In this regard, the Government has established a Council for the Protection of the Environment with a planned budget of about 20 million rials

for 1992.^{14/} The Council represents the first step in the formulation and management of environmental protection policies in the country.

Technical and financial assistance from regional and international organizations are needed to support the government's efforts to implement environmental policies, including reducing the usage of traditional energy sources, and combating desertification and soil degradation.

ESCWA has built a pioneer biogas project in the country which would, if expanded, reduce the consumption of fuel wood. Expansion of gas consumption would also contribute to the improvement of the environment.

^{14/} Republic of Yemen, Ministry of Finance, 1992 draft budget, p. 85.

V. MOBILIZING AND DEVELOPING HUMAN RESOURCES

A. Population

The Republic of Yemen has the largest population in the Arabian peninsula. The total population was estimated at 12.2 million in 1991 (table 6). At 3.2 per cent, the population growth rate is among the highest in the region, and in the world as well. Population increased by more than 10 per cent in 1990 owing to the return of about 750,000 Yemenis from the GCC countries. Based on past trends, total population in the country could reach 16 million by the year 2000. High population growth has contributed to the high unemployment rate, which, if it continues, could lead to rising social tension, particularly if emigration prospects remained depressed.

The population issue is at the forefront of the country's priorities. This was reflected in the organization of the first population conference in 1991, which discussed the adoption of a national plan of action to the government efforts on population issues, particularly those related to controlling high population growth, improving health services and combating rising unemployment. The conference succeeded in adopting the country's first population plan of action, which includes introducing family planning as the main factor in controlling high population growth. The plan also stressed the need to improve health services, increase awareness of birth control methods and mobilize public opinion to support family planning. Recognizing the role of religion in Yemeni society, the plan called for the support of the religious leaders and tribal chiefs in its implementation, which faces serious obstacles including a high illiteracy rate -- especially among women -- the strong influence of traditions that include early marriage, and poor health services in rural areas.

Although Yemeni society is still largely rural, there has been an increase in rural-urban migration. This trend has been strengthened by poor agricultural performance, which has led to a decline in rural incomes. This has put additional pressure on the already weak and overstretched social services in urban areas, particularly in the capital, Sana'a. A large portion of the returnees have also preferred to settle in the capital, looking for better job opportunities and a better quality of life. Unofficial estimates indicate that Sana'a's population more than doubled during the last ten years.

C. Education

The education system has greatly expanded during the last decade. The participation rate, especially for boys, at the primary level continued to increase and reached almost 100 per cent. Female participation, on the other hand, although it also increased, remained far below that of males. The latest estimates put female enrolment at the primary level at about 40 per cent. The total number of students enrolled at the primary level increased by 11.6 per cent between the 1989/1990 and 1990/1991 school years. At the preparatory level, enrolment increased by almost 24 per cent during the same period. Despite this significant improvement, the education system in the country still faces major problems which negatively affect the quality of education. Chief among these problems are the high rate of drop-outs after the primary level and high student-teacher ratios, which averaged about 60:1 during the 1990/1991 school year.

The education system remains oriented towards general education rather than technical and vocational training. During the 1990/1991 school year, about 18,000 students were enrolled in vocational training institutes, compared with more than 43,000 in higher education. In general, less than one per cent of all students are enrolled in technical education. Enrolment in teacher-training institutes, although it has increased substantially in the last two years, remains far below the need for teachers to reduce the excessively high student-teacher ratio, and also to replace expatriate teachers.

There is a need to put more emphasis on technical education and training to provide the economy with the skills it needs and reduce the high dependency on expatriates. This can be achieved, in part, by expanding the technical training infrastructure and improving training standards and facilities. It is also important to increase female enrolment in teacher-training institutes to encourage female participation in education.

The Gulf crisis put additional pressure on the already weak educational infrastructure. A large part of the returnee students preferred to enrol in urban areas where student-teacher ratios are already high.

To reduce the contribution of expatriate teachers in the education system, the Government issued a decree in 1991 whereby university graduates, with the exception of doctors and engineers, are required to teach up to one year. This measure, intended to reduce public spending and reduce the outflow of remittances, could have negative affects on the quality of education, since most of the graduates in question lack teaching background and experience.

The share of education in government expenditures increased sharply during 1990 and 1991, reflecting both the expansion of the education system and the increase in its cost. Spending on education rose from 4.2 billion rials in 1989 to 6.1 billion rials in 1990 and reached 8.3 billion rials in 1991. Part of the increase went to cover the higher cost of imports of educational materials as well as the cost of repatriating more than 8,000 expatriate teachers. As a percentage of total current spending, education accounted for 16.3 per cent in 1991.

The Government places high priority on the development of the educational system, including unifying the two systems inherited from the former Democratic Yemen and Yemen. The proposed new system would focus on the expansion of technical education to correct the imbalance between the two educational systems. It is also planning to induce the private sector to play an active role in education, particularly in technical training, with a view to the replacement of about 24,000 expatriate teachers with Yemeni nationals. The country still lacks an integrated and comprehensive training programme. Current training activities are of a limited scale and dispersed among different departments and agencies throughout the country; likewise, they are limited to basic skills. Moreover, the number of relatively highly trained persons, mainly by the University of Sana'a and related institutions, particularly teachers, remains very limited.

C. Health services

Health services have improved and expanded during the last few years, especially services extended to rural areas, where the number of hospitals, health centres and other related health facilities increased sharply. In 1990, there were 74 hospitals, 392 health centres, 912 primary health centres and two mother and child health care centres in the country. The number of doctors also rose sharply, reaching 3,573, including 964 non-Yemeni doctors.^{15/}

During the last two years, public spending on health services rose from 3.9 per cent of government current spending (1.4 billion rials) in 1990 to 4.4 per cent (2.0 billion rials) in 1991.

This expansion in health services helped improve the quality of life of large segments of the population. Life expectancy at birth increased during the last decade and reached 51.5 years in 1990 (table 6). The number of doctors per thousand persons also increased, although it is still below the average for the region and for developing countries in general.

Despite this improvement, the country still lags far behind other countries in health standards (table 7). Life expectancy, for example, is still 11 years below the average for developing countries, and the infant mortality rate is still more than the average for developing countries.

^{15/} Republic of Yemen, Ministry of Planning and Development, Central Statistical Organization, Statistical Yearbook 1990, p. 86.

Table 6. Human development profile, 1990

Life expectancy (in years)	51.5
Fertility rate (per female)	7.5
Infant mortality rate (per 1,000 births)	107
Population (in millions), 1991	12.2
Population growth rate (%)	3.2
Urban population (%)	29
Access to safe water (%)	46 <u>a/</u>
Population per doctor	5 200
Daily calorie supply (%)	90 <u>b/</u>
Food import dependency (%)	62.1 <u>c/</u>
Adult literacy (%)	32 <u>a</u>
Primary enrolment rates (male) (%)	90
Primary drop-out rate (1987) (%)	6.9
<u>Income</u>	
GDP per capita (United States dollars and at 1985 prices)	202
GDP annual growth rate (%)	-3
Annual rate of inflation (%)	30
Debt services as percentage of exports	31.7
Current account deficit (Million of dollars)	1 710.8
Expenditure on education as percentage of GDP	8.0
Ratio of military expenditure to education and health (%)	132

Source: Compiled from data obtained from national sources.

a/ 1988.

b/ 1986.

c/ 1985.

Table 7. Selected social indicators compared with the average for developing countries, 1990

	Republic of Yemen	Average for developing countries
1. Life expectancy at birth (in years)	51.5	62.8
2. Population per doctor	over 5 000	4 590
3. Natural mortality rate (per thousand)	...	290
4. Mean years of schooling	...	3.5
5. Labour force as percentage of population, 1988-89	24.7	43.9
6. Women in labour force (1988) (%)	13.1	31.1
7. Ratio of military expenditure to combined education and health expenditure (%)	132	109

Source: Compiled from data obtained from national and international sources.

(...) denotes incomplete data.

VI. COOPERATION WITH OTHER COUNTRIES IN THE REGION

The economy of the Republic of Yemen is closely linked with the economies of the neighbouring oil-exporting countries through aid, trade and labour movements. More than one million Yemenis have been working in the Gulf region, especially in Saudi Arabia. Their remittances provided much-needed foreign exchange to the economy, thus financing economic development, as well as offsetting the large trade deficit. Recorded remittances averaged more than \$800 million a year during the period 1985-1989. Aid flows, mostly grants, from neighbouring oil countries averaged about \$200 million a year over the same period. Moreover, the employment of about 20 per cent of the country's labour force in the Gulf area helped in keeping the unemployment rate relatively low, not exceeding 6 per cent of the labour force. Furthermore, the Gulf market -- especially Saudi Arabia -- provided the major outlets for Yemeni exports, mainly food items, and hence helped promote the country's small but growing export sector.

This has dramatically changed since the eruption of the Gulf crisis in August 1990. Immediately after this, more than 750,000 Yemenis returned from the Gulf, economic aid and grants virtually ceased, oil supplies at concessional prices were cut off and GCC countries' markets closed. This has had a devastating effect on the economy, particularly since it coincided with a period of political and economic transition after unification. The Gulf crisis strained economic and political relations between the Republic of Yemen and its main regional economic partners, with very adverse implications for development prospects in the country. The disruption of economic relations is contrary to the recommendation of the New Programme of Action, which calls for the promotion of economic ties between the least developed countries and other developing countries in the respective regions. There is an urgent need for the restoration of these relations.

The negative implications of the Gulf crisis for relations between the Republic of Yemen and most of the Gulf oil-exporting countries continued during the first few months of 1992, and all indications are that this situation will remain as it is for the rest of the year and possibly beyond, with devastating effects on the country's economy, particularly on finance and employment.

VII. SUMMARY AND CONCLUSIONS

1. Gross domestic product (GDP) fell by 3 per cent during 1990 and is estimated to have declined by a further 4.8 per cent in 1991. Taking into consideration the 3.2 per cent population growth rate, per capita GDP declined by over 6 per cent in 1990 and 8 per cent in 1991.
2. The sharp decline in external financial flows (loans, grants and workers' remittances) was the main factor behind the poor economic performance during the last two years. Economic aid from the GCC countries ceased immediately after the eruption of the Gulf crisis in August 1990. Workers' remittances, though increasing temporarily in 1990 -- mainly owing to the return of large numbers of Yemeni workers and their families (750,000), especially from Saudi Arabia -- plummeted during 1991 and 1992 to their lowest level in two decades. Remittances are not expected to recover as long as the current political situation does not improve.
3. Domestic factors have also played an important role in lowering the level of economic performance. Agriculture performed poorly during the last three years because of persisting drought; and production of main agricultural crops declined in both 1990 and 1991. The unification of Democratic Yemen and Yemen in the Republic of Yemen in May 1990 entailed a substantial cost to the budget at a time when resources were dwindling rapidly.
4. Expansion of public spending, on the one hand, and foreign exchange shortages, on the other, prompted the Yemeni authorities to sharply increase their borrowing, particularly from the Central Bank, which led in turn to an increase in the country's inflation rate. The inflation rate reached over 30 per cent in 1990 and is estimated at 40-45 per cent for 1991.
5. The fiscal deficit worsened during the period 1990-1991, precipitated by the huge expansion in current public spending, and insufficient receipts. The current budget deficit reached 12.4 billion rials in 1991, or about 16 per cent of GDP.
6. The oil sector performed less well than expected during 1991. Production declined by more than 26 per cent owing to technical problems as well as lower productivity of several oil wells. Domestic oil consumption increased sharply during 1990 and 1991, spurred by the influx of returnees from the Gulf. This coincided with the cessation of concessional oil deliveries from Iraq, Kuwait and the United Arab Emirates immediately after the eruption of the Gulf crisis in August 1990.
7. Unemployment rose sharply during 1990 and 1991 with the massive influx of returnees, declining economic activity, high population growth and closure of neighbouring labour markets to Yemenis. Unofficial estimates put the unemployment rate at over 30 per cent for 1991. The rate is expected to increase further during 1992 and to pose a critical problem for the economy.

8. The exchange rate of the rial deteriorated further during 1990 and 1991. While the official rate remained at 12 rials to the dollar, the rate reached 30 rials to the dollar in the parallel market. The unrealistic exchange rate of the rial has negatively affected government revenues, and has led to increased transfers through unofficial channels or in non-monetary forms.

9. External debt has risen sharply during the last few years, reaching \$7.7 billion in 1991, or more than 95 per cent of GDP. Debt service during 1991 was less than it should have been owing to the freeze on repayment of debt owed to the Republics of the former Soviet Union. Priority in debt service is given to debts owed to Western Europe, international financial institutions and regional development funds. However, debt service represented an acute problem in 1990 and 1991 due to the decline in foreign exchange earnings. The Government is in the process of entering into debt rescheduling negotiations with its main creditors, particularly in Western Europe.

10. The Republic of Yemen has achieved substantial progress in improving social and human conditions in the country. Primary health service improved, the infant mortality rate declined, and life expectancy increased. The latest estimates put life expectancy at birth at 51.5 years in 1991, which represents a substantial improvement from a decade ago. The enrolment rate, especially for boys at the primary education level, reached almost 100 per cent, which also represents a commendable achievement.

However, there is still a gender imbalance in primary education. Female enrolment is still far below that for males. The Government is giving more emphasis to correcting this imbalance, including making primary education compulsory. However, despite this improvement, the Republic of Yemen still lags far behind in social services and human development compared with neighbouring countries. The infant mortality rate is still three times that of Kuwait, while life expectancy is still more than 11 years below the average for developing countries as a whole. Women's participation in the development process, and in decision-making in general, is still far from the objectives set by the authorities and far below the average in the region. The illiteracy rate among women remains very high, and their role in society in general remains limited and concentrated in the informal economy. The scope and scale of technical education is still very limited.