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Addressing Yemen's Economic Crisis

*Priorities for Stabilisation, Recovery,
and International Engagement*

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Godesberger Allee 149
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info@fes.de

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Responsibility for content and editing

Dr. Marie-Christine Heinze, CARPO

Contact

Astrid Becker
Astrid.Becker@fes.de

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Acronyms

AML/CFT	Anti-Money-Laundering and Countering the Financing of Terrorism
CBY	Central Bank of Yemen
FTO	Foreign Terrorist Organization
GDP	Gross Domestic Product
GoY	Government of Yemen
IDA	International Development Association
IMF	International Monetary Fund
PLC	Presidential Leadership Council
PPP	Public–Private Partnership
SMP	Staff Monitored Program
YER	Yemeni Rial

Executive Summary

Yemen's economy is entering a fifth consecutive year of contraction, but the government's reform record over the past year is the strongest since the conflict began. Since August 2025 the Yemeni rial has remained broadly stable in Government of Yemen (GoY)-controlled areas, supported by Central Bank of Yemen (CBY) measures and Saudi financial support. The GoY has raised the customs exchange rate to the market rate, directed governorates to transfer central revenues to the government's general account, and channelled import financing through licensed banks. It has also established new national payment institutions, adopted a public-private partnership policy, and is in the process of approving Yemen's first agricultural and fisheries export policy. Re-engagement with the International Monetary Fund (IMF) after an eleven-year interruption has resulted in an 18-month Staff Monitored Program (SMP) that provides a framework for measuring reform progress.

These reforms are outpacing the financing required to sustain them. Oil exports remain suspended, revenue collection remains fragmented, and electricity subsidies absorb roughly a fifth of public expenditure. The electricity crisis embodies two of the government's greatest challenges: It is a service-delivery failure citizens experience daily and a fis-

cal liability the budget cannot carry. Meanwhile, humanitarian funding has fallen from USD 3.6 billion in 2019 to USD 0.7 billion in 2025, with only around a fifth of 2026 requirements having been met by mid-year. This equates to withdrawing support from households even as they are being impacted by fiscal adjustment and renewed warfare is deepening their needs.

What makes this moment different is that the reforms have advanced during a period of renewed national and regional escalation from January to August 2026. However, since 9 August, when Houthi forces began a campaign against al-Mokha, the Yemeni conflict has entered a far more serious phase. On 4 October the Chairman of the Presidential Leadership Council (PLC) announced a full campaign to recover the lost territory and restore state authority across the country. The government is now being asked to fight a war and build institutions at the same time. For European and other international partners, the question is therefore not whether Yemen's institutions are capable of reform, but whether external support will arrive while that capacity still exists. This paper sets out seven areas where European engagement would reinforce reforms already under way, at a moment when the cost of leaving them unsupported is rising.

Introduction

This paper examines Yemen's economic situation in areas controlled by the GoY and identifies where European and other international partners can engage most effectively. It does so at a moment when the fighting that resumed in August 2026 has become the central reality of Yemeni politics, and when the government's capacity to govern is being tested against its capacity to wage war. It argues that the government's reform record over the past year has opened a narrow but genuine window for economic recovery, and that the principal risk to that window is not a lack of reform, but insufficient financing to make reform durable.

The paper reviews economic and fiscal developments through the first half of 2026, the government's reform measures and their initial results, the constraints that could interrupt implementation, and what these imply for external engagement. It concludes with recommendations designed to reinforce government-led reform rather than substitute for it.

1. The Economic Landscape

1.1 An Economy Under Sustained Pressure

More than a decade of conflict has left Yemen's economy profoundly weakened. It has effectively split the country into two separate economic systems in GoY- and Houthi-controlled areas, created two exchange-rate regimes, and fragmented state institutions and public revenue collection. Following Houthi attacks on oil export facilities in Hadhramawt and Shabwa in October 2022, crude-oil exports have been suspended since January 2023 (IMF 2026a, p. 6).

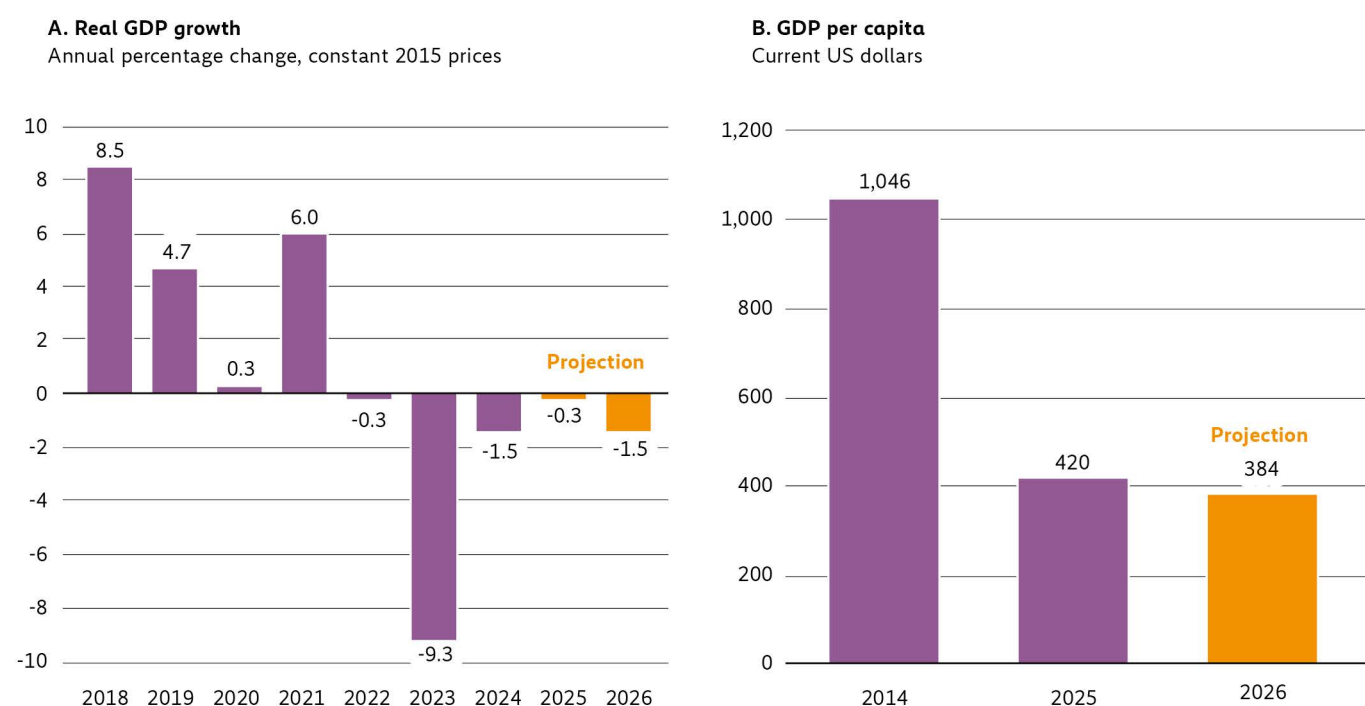
A further shock arrived in the second half of 2026. On 9 August, Houthi forces launched a campaign to seize territory around Bab al-Mandab, through which a substantial share of global oil shipments passes (Al-Qadhi 21.09.2026; Al Jazeera 04.10.2026). The campaign to recover this territory, announced by the Chairman of the PLC on 4 October, is now under way alongside fighting on several other fronts

(Al Jazeera 04.10.2026). The economic consequences are only beginning to register, but they fall on an economy with little capacity left to absorb them. The cumulative effect has been severe. Real Gross Domestic Product (GDP) contracted by about 27 per cent between 2014 and 2025, GDP per capita fell from approximately USD 1,046 to USD 420, and government revenue excluding grants declined from 22.5 per cent of GDP in 2014 to under 12 per cent in 2024 (IMF 2026a, pp. 5–6). In July 2026 the IMF projected a fifth consecutive year of contraction, with a decline of 1.5 per cent in 2026 (IMF 2026b).

The social consequences are correspondingly deep: Youth unemployment is estimated at 32.4 per cent, against 25.9 per cent across the Arab region and 13.6 per cent globally, and Yemen ranks 184th of 193 countries on the Human Development Index (MoPIC and UNICEF 2026, pp. 6, 9). These are the conditions under which the measures described below are being implemented.

Yemen's output losses have become a structural constraint on stabilisation

Fig. 1



Source: International Monetary Fund (2026a), Staff Report, p. 24; IMF (2026b).

1.2 Exchange-Rate Stability Is the Clearest Reform Dividend

Against this backdrop, the stabilisation of the Yemeni rial (YER) in GoY-controlled areas stands out as the most significant economic achievement of the past two years. The rial appreciated in two stages: from around YER 2,900 to approximately YER 1,630 per US dollar in August 2025, and then to about YER 1,560 by February 2026, where it has remained broadly stable since (CBY 2026b, p. 18).

This was not a windfall. Saudi financial support provided an essential external anchor, but the improvement rested on a sequence of deliberate measures: channelling import financing through licensed banks; establishing the National Committee for Import Regulation and Financing; strengthening foreign-exchange supervision; closing exchange companies involved in speculative activity; maintaining restraint on monetary expansion and new banknote issuance; and conducting competitive, transparent foreign-exchange auctions (IMF 2026a, pp. 9–13). Together they demonstrate that exchange-rate stability in Yemen is achievable through domestic policy, not external transfers alone.

The appreciation has provided relief without removing the economy's underlying vulnerabilities. Foreign-exchange supply still depends on grants, remittances and limited exports; Yemen imports an estimated 90 per cent of its food; and the current-account deficit was projected at about 3.4 per cent of GDP in 2026 (IMF 2026a, pp. 5, 27). This structure transmits external shocks quickly: Increases in global food or fuel prices, transport costs or maritime insurance raise local prices within weeks.

Developments in the first half of 2026 illustrate the exposure. Local gasoline and diesel prices rose by 26 and 30 per cent respectively from their February levels following regional escalation (WFP 2026, p. 1), and the cost of the minimum food basket rose by 3.9 per cent between December 2025 and July 2026, to YER 132,861 (FAO 07.09.2026). Cumulative monthly inflation in GoY-controlled areas nonetheless stayed at around 20 per cent across 2025 (IMF 2026a). Exchange-rate stability has brought time and credibility; it has not yet brought price stability.

1.3 Fiscal Fragility Remains the Core Constraint

Fiscal fragility is the central challenge facing the GoY, reflecting three mutually reinforcing pressures: the loss of oil exports, fragmented revenue collection and the high recurring cost of electricity. Together they have reduced the government's ability to pay salaries, sustain services and invest in recovery, and they define where external support has the greatest leverage.

Oil Revenue Loss Reshaped the Budget

The suspension of crude-oil exports removed close to half of total government revenue and the country's main source of foreign exchange. In 2022, hydrocarbon revenue accounted for 58 per cent of total government revenue, equivalent to 11.7 per cent of GDP against total revenue excluding grants of 20.1 per cent (IMF 2026a, p. 28). Domestic revenue could not replace the gap, which made Saudi budget support essential to priority expenditure. The shock has also lent new urgency to non-oil revenue reforms, and much of the government's agenda discussed in Section 2 responds directly to this challenge.

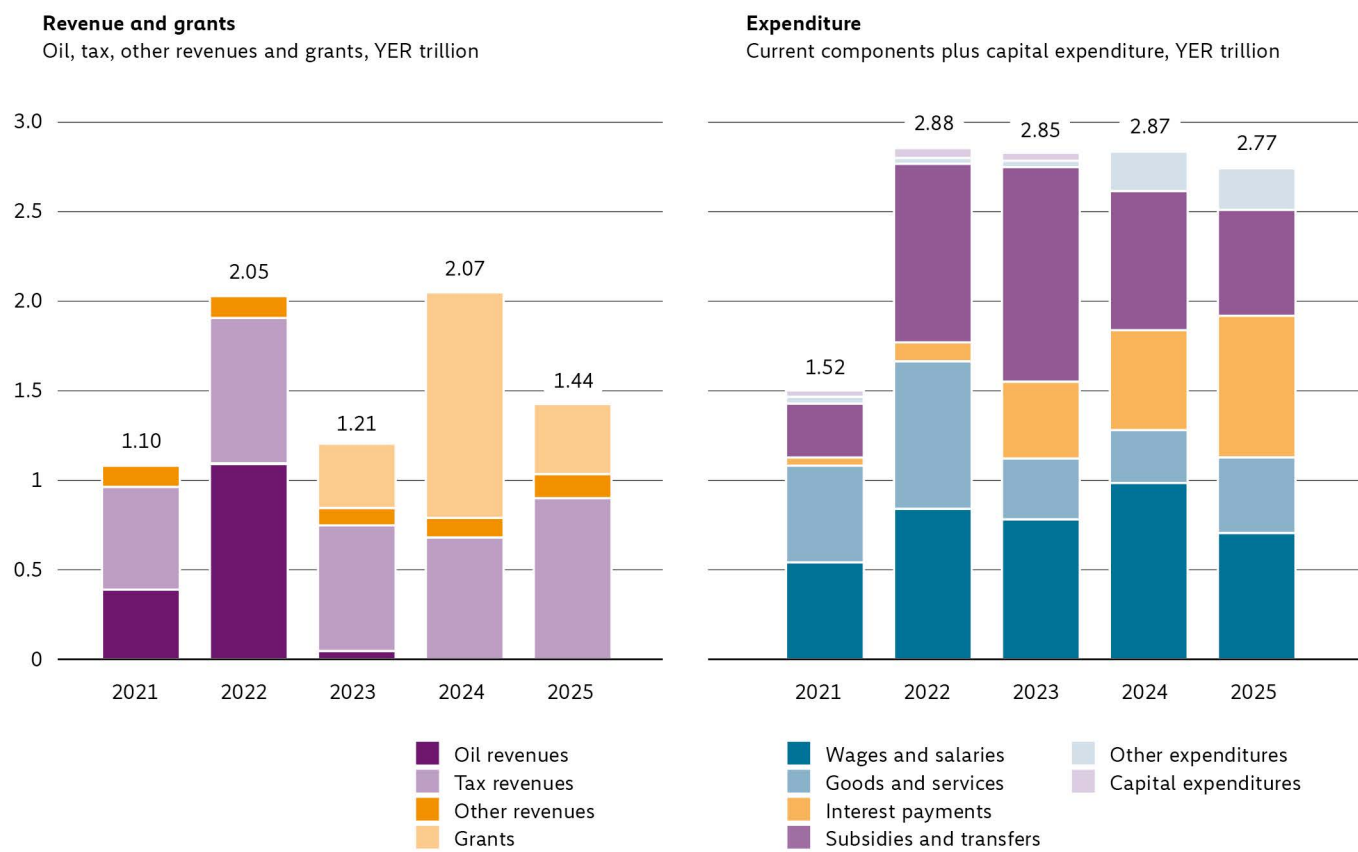
Governorate Revenue Retention Weakens Consolidated Budgeting

A significant share of public revenue collected in GoY-controlled areas does not consistently reach the government's general account at the CBY. Oil- and gas-producing governorates, particularly Marib and Hadhramawt, retain portions of locally generated and sovereign revenue, while other governorates and public entities retain taxes, customs receipts and fees. These arrangements developed amid conflict, weak central transfers and unresolved disputes over revenue sharing. Oil-producing governorates obtained a presidential decree allocating 20 per cent of oil export revenues to governorate development accounts, while other governorates received a comparable share of customs revenues. These decisions were taken without a basis in law or the constitution and without clearly defined expenditure rules (Al-Lakmah and Al-Akhali 2024, pp. 4, 9). In May 2026, Hadhramawt Governor Salem Ahmed al-Khanbashi called for oil-producing governorates to receive at least 20 per cent of sovereign-resource revenues (Akhbar Al-Youm 18.05.2026), illustrating how unsettled the framework remains.

The practical consequence is that the Ministry of Finance operates without a full picture of available resources, weakening consolidated budgeting and reducing the resources available for national obligations. PLC Resolution No. 11 of 2025 addressed this directly, establishing for the first time a formal basis for re-centralisation.

Government revenue and expenditure composition, 2021–2025

Non-oil revenue subtotal excluded to avoid double counting



Source: CBY (2026a), p. 51.

Electricity: Where Fiscal Weakness Becomes Social Risk

No sector illustrates the link between fiscal constraint and government legitimacy as directly as electricity. Although 76 per cent of Yemenis have some form of access, only about 12 per cent rely on the public utility, and in Aden public supply has averaged just two to six hours per day (World Bank 26.03.2025; IMF 2026a, p. 19).

The fiscal side is equally stark: Electricity subsidies accounted for approximately 21 per cent of total expenditure in 2024, reaching USD 810 million, reflecting reliance on costly imported liquid fuel, weak revenue collection, and tariffs well below cost (IMF 2026a, p. 19; IEA n.d.). While the government has begun to act by discontinuing costly, ineffectively designed diesel-based power purchase agreements, a move welcomed by the IMF as a corrective step (IMF 2026a, pp. 18–19), protests in Aden and Hadhramawt in June 2026 (The New Arab 10.06.2026; The Star News 10.06.2026) reflect the delicate nature of the sector and the need for reforms to produce visible service improvement for citizens.

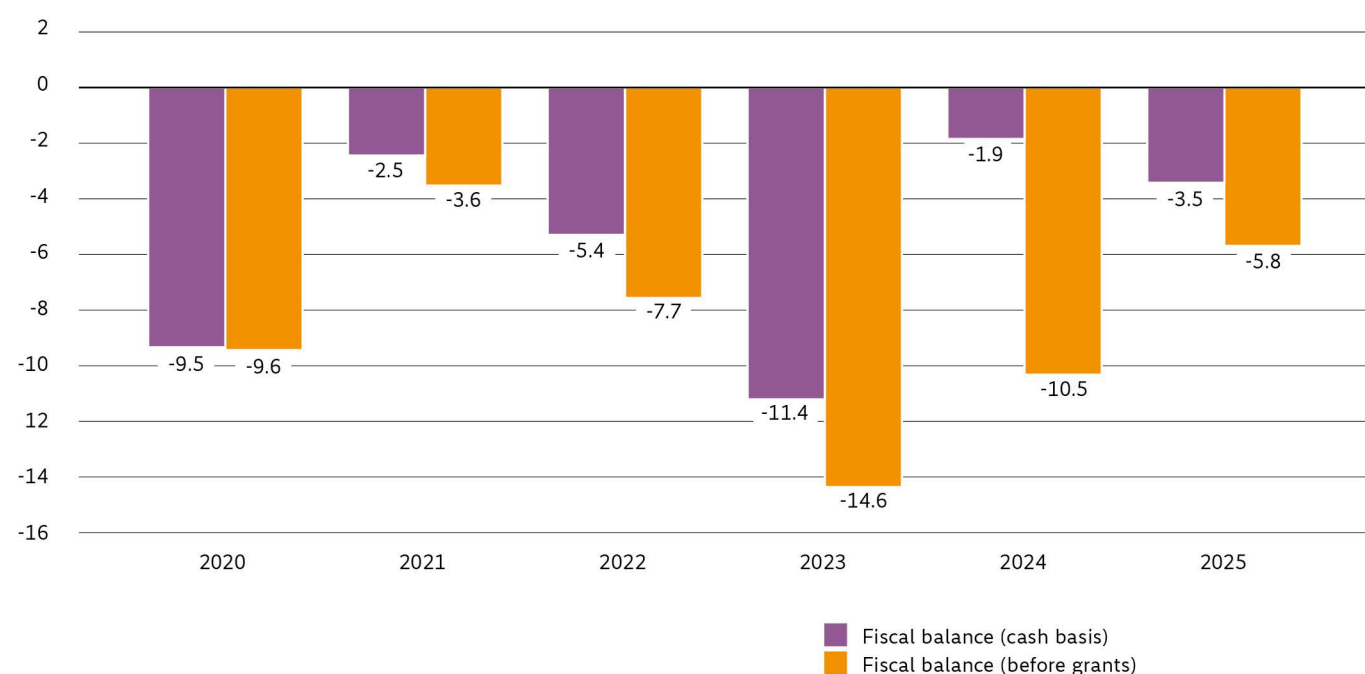
Saudi Budget Support Has Protected Core Expenditure

On the expenditure side, in addition to the electricity subsidy, salaries, wages and interest payments account for most of the remainder of the budget, and capital expenditure was under 0.5 per cent of total expenditure in both 2024 and 2025 (CBY 2026a, p. 51). The deficit reached around 3.8 per cent of GDP in 2025, and by June 2026 salary arrears had reportedly reached two to four months.

Saudi support has allowed the government to meet basic obligations throughout this period. Following the suspension of exports, Saudi Arabia provided USD 1.2 billion in budget support for 2023–2024 and USD 182 million in 2025. In 2024 this reduced the deficit from an estimated 10.5 per cent of GDP before grants to 1.9 per cent after grants; in 2025, grants reduced it by about 2 percentage points, to 3.8 per cent (IMF 2026a, pp. 27–28). That support has been decisive, but it rests on a single partner, and reducing the dependence through domestic revenue mobilisation, centralisation and restored exports is a stated government objective.

Public finance position, 2020–2025 (% of GDP)

Fig. 3



Source: International Monetary Fund (2026a), Table 1; and Staff Supplement, Table 2, p. 8.

Public debt further limits the government's room for manoeuvre. The IMF reported GoY debt of approximately 135 per cent of GDP by July 2025 and assesses Yemen to be in external and overall debt distress, with external arrears equivalent to 8.3 per cent of GDP — owed mainly to Saudi Arabia, the Arab Fund for Economic and Social Development, and the Russian Federation, at 2.9, 2.6 and 1.1 per cent of GDP respectively (IMF 2026a, p. 15). At the end of 2024, external public and publicly guaranteed debt stood at about USD 6.4 billion, or 79 per cent of GDP (World Bank and IMF 2026, p. 2, Text Table 1). Throughout the conflict the government has nonetheless continued servicing its obligations to the International Development Association (IDA) — maintaining payment discipline under acute stress, thus offering a credible starting point for creditor dialogue (IMF 2026a, pp. 15, 56–57).

Programmes have contracted accordingly. The World Food Programme (WFP) reduced planned food-assistance coverage in GoY-controlled areas from 3.4 million people in 2025 to 1.7 million in 2026 (WFP 2026, p. 1). More than 22.3 million people across Yemen require humanitarian assistance or protection and 18.3 million face acute food insecurity, while nutrition, health, water and sanitation assistance is expected to decline further as funding contracts (UN News 2026). The Houthi attacks since August have further intensified the humanitarian crisis: At least 100,000 people fled the September offensive, with 65,845 displacements recorded in Ta'iz governorate alone between 10 August and 15 September (Al Jazeera 16.09.2026). The sequencing matters: Support is being withdrawn from households just as fiscal reform begins to affect them and the military escalation adds to their suffering.

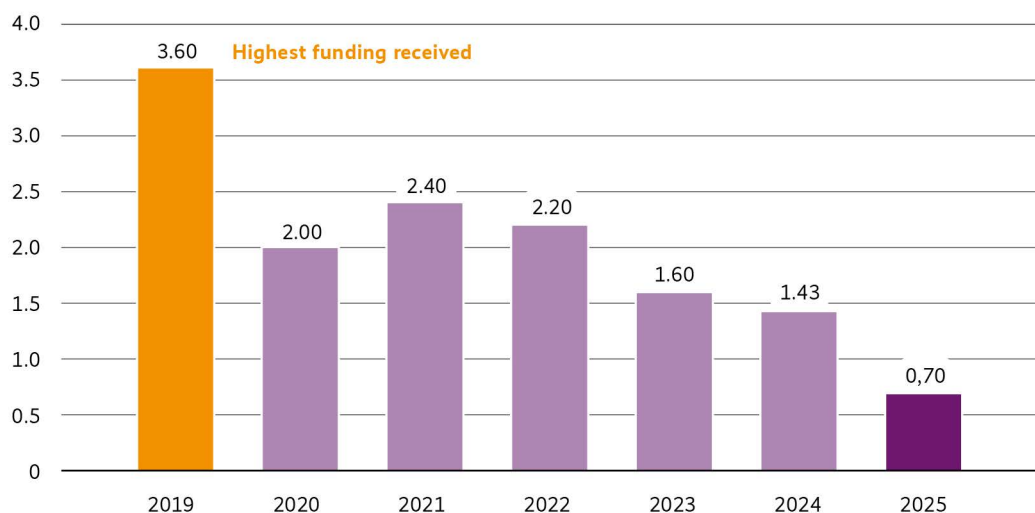
1.4 Declining External Assistance Compounds the Pressure

External humanitarian assistance has declined sharply over the same period, during which the government has had to absorb difficult adjustments, falling from approximately USD 3.6 billion in 2019 to USD 0.7 billion in 2025 (OCHA 2026a, p. 6). By mid-2026, only about USD 433 million had been mobilised against requirements of roughly USD 2.2 billion (OCHA 2026b, p. 1).

Humanitarian funding received in Yemen, 2019–2025

Fig. 4

Funding received under Yemen's coordinated humanitarian response plans – US\$ billion



Source: OCHA (2026a), p. 6.

2. Government Reform Efforts

The GoY has advanced a connected series of reforms across fiscal policy, monetary management, banking, payments and private-sector development. The frameworks are not new: They include an Arab Monetary Fund-supported programme associated with a Saudi deposit at the CBY for 2022–2026, the Economic Recovery Plan for 2025–2026 announced in late 2024, and the IMF Staff Monitored Program (SMP) agreed at staff level in July 2026. What has changed is that the authorities have begun converting these frameworks into decisions, institutions and operating arrangements that external partners can reinforce.

Re-engagement With the IMF Has Restored a Reform Framework

The resumption of IMF Article IV consultations after an eleven-year interruption restored a core channel of economic policy dialogue. Publication of the 2025 Article IV report in April 2026 was followed in July by staff-level agreement on an 18-month SMP covering July 2026 to December 2027 (IMF 2026a, p. 1; IMF 2026b). The programme links macroeconomic stability with salary payments, basic services, social protection and creditor engagement. Because performance is monitored, implementation produces something Yemen has lacked for more than a decade: an externally verified reform record on which donors and creditors can base decisions — available to partners now rather than at the end of the programme.

Fiscal Decisions Have Begun to Strengthen Revenue Control

Adjustment of the customs exchange rate had remained on the fiscal reform agenda for years without resolution. On 19 May 2026 the Cabinet raised the rate from YER 750 to YER 1,550 per US dollar, bringing it into line with the market rate (Saba 19.05.2026). The measure brings the valuation of non-exempt imports closer to market rates and removes a substantial implicit subsidy, while retaining statutory exemptions for basic goods such as flour, rice and medicines, with a 20 per cent allowance for public employees announced alongside it to moderate the social effect. The decision is notable less for its revenue yield than for what it demonstrates: a government willing to correct a long-standing distortion while partially compensating households for the resulting increase in living costs.

Revenue centralisation has progressed in parallel. PLC Resolution No. 11 of 2025 directed selected governorates and public entities to transfer central revenues to the government's general account at the CBY. Implementation of this resolution has begun in a number of governorates. For example, a joint Ministry of Finance–CBY committee completed fieldwork in Marib in June 2026, reporting progress in the long-standing challenge of reconciling government accounts (Saba 22.06.2026; Saba 24.06.2026). While a broader central-local revenue-sharing framework remains to be negotiated, the ongoing activities on the ground are converting a high-level decision into an operational process, which is precisely the stage at which reforms of this kind have historically stalled.

Banking Reforms Have Expanded Oversight and Formalisation

Prime Ministerial Decree No. 9 of 2025 established the National Committee for Import Regulation and Financing to channel trade finance through the formal banking sector and strengthen oversight of the foreign-exchange market (Bab News 01.08.2026). In its first 100 days, the committee approved financing for more than USD 2.5 billion in imports (CBY 30.12.2025). The mechanism was part of a broader package of measures — including the revocation of licences from money exchangers suspected of currency manipulation and limits on foreign-currency exchange — that curtailed opportunities for unregulated speculation and contributed to the exchange-rate stabilisation described above (IMF 2025).

The CBY also issued regulatory decisions in 2024 requiring local banks to relocate their headquarters from Houthi-controlled areas to GoY-controlled areas, arguing that the measure was necessary to protect the banking sector from sanctions and illicit-finance exposure. Implementation was initially suspended under a de-escalation agreement facilitated by the Office of the Special Envoy for Yemen in July 2024 (OESGY 2024). The United States' redesignation of the Houthis as a Foreign Terrorist Organization (FTO) in 2025 accelerated the relocation to government-controlled areas. This relocation brought major banks more directly under the Aden-based CBY's regulatory supervision, a move that protected the remaining correspondent-banking relationships of Yemeni banks. This has been complemented by broader oversight of deposit-taking institutions and work on developing a risk-based anti-money-laundering

and countering-the-financing-of-terrorism (AML/CFT) framework. The result is a materially wider supervisory perimeter for the CBY and a stronger institutional basis for AML/CFT compliance — addressing the stringent requirements international correspondent banks apply to engaging with Yemen.

Payment Modernisation Has Moved from Design to National Operation

The CBY is modernising Yemen's financial infrastructure through the Financial Market Infrastructure and Inclusion Project, supported by a USD 20 million World Bank grant and implemented with the United Nations Development Programme (World Bank 17.06.2025). The project introduces a real-time gross settlement system for high-value inter-bank transactions and a fast payment system allowing transfers between bank accounts and mobile wallets within seconds.

Two institutional steps in 2026 moved this from project design to national ownership. In August, under the leadership of the CBY, Yemeni commercial, Islamic and microfinance banks, alongside other participating financial institutions, established the jointly owned Yemeni Payments and Clearing Company to operate shared national payment infrastructure and provide clearing services among participating institutions (CBY 03.08.2026). The CBY also supervised the establishment of the Unified Network for Money company, bringing money-transfer networks under a single framework and strengthening AML/CFT oversight. GoY-controlled Yemen now has payment institutions it did not have a year ago, owned and operated domestically.

Private-Sector and Export Reforms Have Created New Instruments

The government approved a public-private partnership (PPP) policy in November 2025 and established a specialised unit within the Prime Minister's Office in May 2026 (Presidency of the Council of Ministers 23.11.2025; 18.05.2026). The unit gives the government a single focal point for project preparation, commercial and fiscal risk assessment, transparent procurement and pipeline development, with immediate application in fisheries, telecommunications, electricity and transport (Saba 15.04.2026).

In parallel, the government has begun building Yemen's non-oil export base. In March 2026, less than a month after the new government was announced, the Ministry of Industry and Trade formed a committee of public- and private-sector representatives to draft Yemen's first Agriculture and Fisheries Export Promotion Policy (Ministry of Industry and Trade 04.03.2026). Supported by the Organisation for Economic Co-operation and Development and DeepRoot Solutions through the EU-funded Promoting Economic Resilience in Yemen programme, the initial draft

is nearing completion and will be ready for implementation once approved by the cabinet. The speed of that step, taken within weeks of forming the new cabinet, is itself a signal of where the government's priorities lie.

Reform Has Continued Under Pressure

The most consequential feature of this record is when it was achieved. The customs adjustment and the PPP unit were decided in May 2026, the Marib revenue fieldwork was completed in June, staff-level agreement on the SMP was reached in July, and the Yemeni Payments and Clearing Company was established in August — amid renewed national and regional escalations (Al-Amrani and Pickhardt 2026). Reform continued while the government was simultaneously managing an active security crisis.

No single one of these measures is transformative on its own. But taken together, they signal institutional momentum for reforms in Yemen that is not contingent on favourable conditions — and that is precisely why it is worth supporting now rather than later. Yemen has offered no quiet moment in the past decade, and a policy of waiting for one is a policy of indefinite disengagement.

3. Constraints That Could Interrupt Reform

The government's achievements are real but not self-sustaining. The constraints set out below are not arguments against engagement; rather, each identifies a point at which external support can help determine whether a reform consolidates or stalls.

Challenge 1: Fiscal Centralisation and Adjustment Face Political and Social Limits

Revenue centralisation is politically sensitive because governorates and public entities depend on retained collections to finance local salaries and services, and because the existing 20 per cent arrangements rest on decrees rather than law. Any transfer of revenue to the centre is therefore read locally as a withdrawal of resources rather than a technical consolidation, and it intersects with unresolved questions about the distribution of powers between the centre and the governorates (Al-Lakmah and Al-Akhali 2024, pp. 13–14).

Fiscal adjustment carries a parallel social limit: Customs changes, stronger electricity revenue collection, tariff reform and reduced exemptions improve public accounts but raise household costs. With severe food insecurity and irregular salaries, measures that are poorly sequenced or weakly explained invite resistance and evasion. This is where external support can most directly mitigate political risk: Targeted protection, lifeline access and visible service improvements make adjustment survivable, and financing them is considerably cheaper than absorbing the consequences of a failed adjustment.

Challenge 2: Financial Formalisation Remains Exposed to External Dependence

The relocation of banks' headquarters and the formalisation of import financing have widened the CBY's supervisory reach, but correspondent-banking constraints, sanctions exposure, limited compliance capacity and continued economic fragmentation still restrict formal financial channels. Budget support underpins the CBY's reserves, but it is neither guaranteed nor predictable and is concentrated in a single partner. A sudden interruption in this support could weaken the CBY's foreign-exchange position, put pressure on the exchange rate, and stall banking reforms before their benefits are established.

This asymmetry is worth stating plainly. Yemeni banks have relocated, the supervisory perimeter has widened, and compliance frameworks are being rebuilt — steps taken at real political and commercial cost. What has not changed is the willingness of major international correspondent banks to re-engage, which is governed by risk assessments made outside Yemen and largely outside the government's influence. Without a counterpart response, the practical effect is that remittances, humanitarian payments and trade finance continue to migrate towards informal channels, which are more expensive for households, less visible to regulators and harder to reverse the longer they persist.

Challenge 3: New Payment Institutions Rest on Legacy Capacity

New payment systems promise faster and more transparent transactions, but their performance depends on integration with the CBY's core banking system. That system remains outdated, while weaknesses in networks and cybersecurity make reliable integration harder. Temporary interfaces may support the launch of new platforms, but they cannot provide the automation, reliable information and resilience needed for sustained operation. Payment reform will remain incomplete if the platforms advance while the CBY's own infrastructure does not.

This dependency points to a clear priority. The systems needed to operate payment infrastructure also underpin the CBY's supervision of financial institutions, foreign-exchange management and monetary policy operations. Investment should therefore cover core banking modernisation, secure connectivity and cybersecurity alongside the new platforms. Otherwise, the reform will expand payment capacity without giving the central bank the capacity to operate and oversee it effectively.

Challenge 4: Export and Investment Reform Faces Security, Infrastructure and Financing Limits

The PPP unit and the emerging export policy provide useful government-led entry points for investment and export promotion, but implementation depends on institutional capacity, clear mandates and access to finance. Security risks and regional disruption deter investment, interrupt transport and raise the cost of reaching external markets.

Producers face the practical barriers of certification, traceability, laboratory capacity, packaging and logistics — none of which can be resolved by the policy framework alone.

The gap here is narrower than it appears. Yemen's producers already have preferential access to European markets; what they lack is the technical apparatus to use it. That is a constraint external partners are unusually well-placed to lift, because it consists almost entirely of standards, accreditation and testing capacity rather than capital investment. Left unaddressed, the export policy will be adopted and then go unused, leaving the government with a framework it cannot activate and producers with the same barriers they face today.

Challenge 5: The Oil-Export Question Remains Unresolved

The suspension of oil exports continues to limit the medium-term outlook. In July 2026 the Chairman of the PLC announced an intention to resume exports, and the government reported technical, administrative and logistical preparations (Saba 20.07.2026; Saba 21.07.2026). These steps demonstrate policy intent, but export infrastructure and shipping remain exposed to Houthi attacks, and oil revenue is tied to the military developments on the ground and wider political negotiations over economic resources. A restart therefore remains contingent on security and governance conditions rather than a financing source already available to the government — which is precisely why the non-oil reform agenda described above cannot wait for it.

4. A Narrowing Window: Conclusions and Implications

The developments of the past year have produced an economic and institutional position that is materially different from what preceded it. Exchange-rate stability has held for over a year now. Bank headquarters have relocated and the CBY's supervisory reach has widened. New payment institutions exist and are domestically owned. Customs valuation has been corrected, revenue centralisation has moved from the decision-making stage to fieldwork, and a monitored IMF programme now makes performance verifiable. None of this was true in early 2025.

Four implications follow for international partners: First, the reform track record that donors have long said they required before deepening engagement now exists, and the SMP makes it independently verifiable. Second, the reforms have strengthened institutional counterparts — the CBY, the Ministry of Finance, the PPP unit and the new payment companies — that can absorb and account for support, which was a practical obstacle in earlier periods. Third, several of the highest-value interventions change the cost structure of the state rather than subsidising it: Financing that shifts electricity generation from expensive liquid fuels towards gas and renewables, digitised revenue collection and treasury controls, and secure interoperable payment systems all reduce recurring fiscal and foreign-exchange exposure and are worth more over time than repeated emergency financing.

Fourth, and most consequentially, the window is narrowing rather than widening. Humanitarian funding has fallen by more than 80 per cent since 2019. Budget support is concentrated in one partner whose priorities are shaped by a regional confrontation forced upon it. Salary arrears are accumulating. Since August, the government has also been fighting a war initiated by the Houthis, which competes with reform for money and attention. A government that has pushed the reform agenda under these conditions is demonstrating exactly the institutional resilience that external programmes exist to build. This is the moment where those programmes would deliver the most value.

There are also possibilities that should be treated as upside rather than assumption. Changes in regional shipping patterns may direct additional commercial traffic to Aden and other GoY-controlled ports, increasing customs receipts and supporting transport and logistics activity; realising this would depend on port security and capacity, predictable customs procedures and inland connectivity. A resumption of oil and gas exports would restore the government's prin-

cipal revenue source and create fiscal space for arrears clearance, buffers and social protection. Neither should anchor a financing plan. Both strengthen the case for building the institutional capacity that would allow Yemen to use them well.

The reverse case deserves equal weight. If support does not arrive, the most likely outcome is not a dramatic reversal but a quiet one: Reform measures that remain on paper because the systems to implement them were never financed, institutions that exist formally but cannot operate, and an adjustment agenda abandoned because its social costs could not be cushioned. Yemen has been through this sequence before, and each repetition raises the cost of the next attempt.

European engagement in Yemen has narrowed over recent years towards humanitarian management, reflecting the realities of an earlier period. It is no longer an accurate reading of what Yemeni institutions are doing, and continuing it is not a neutral choice: It allocates resources to symptoms at a moment when structural work has finally begun.

5. Recommendations for European and International Partners

Yemen's stabilisation requires domestic reform and external support to reinforce one another. The recommendations below are ordered by threshold of action: the first three can begin now, using instruments and relationships that already exist; the next two require new financing decisions; and the last two depend on political and diplomatic conditions that will take longer to assemble. They are designed to reinforce reforms the government has already initiated, to be verifiable against the government's own benchmarks rather than externally imposed conditions, and to complement rather than duplicate what Saudi Arabia and the international financial institutions are already doing. European and international partners should:

Convert European market access into export opportunities for Yemeni producers: Support implementation of Yemen's agricultural and fisheries export policy and help producers translate preferential European market access into actual trade. Yemen already benefits from duty- and quota-free access under the EU's Everything but Arms scheme, so assistance should concentrate on the barriers that prevent that access being used: sanitary and phytosanitary compliance, quality certification, traceability, accredited laboratories, packaging, export protocols and trade logistics. Targeted support for fish, agricultural products, coffee and honey would expand foreign-exchange earnings, create employment and reduce dependence on hydrocarbon revenue. The policy framework is nearly complete and the institutional counterpart exists. This is therefore the lowest-threshold intervention available.

Rebuild correspondent-banking relationships and secure formal payment channels: Help restore correspondent-banking relationships between European and Yemeni banks. A structured financial roundtable should bring together European correspondent banks, the CBY, Yemeni commercial banks and relevant regulatory authorities to address sanctions, the FTO designation of the Houthis, and the compliance risks affecting remittances, humanitarian payments and trade finance. The dialogue should be supported by technical assistance in banking supervision, AML/CFT compliance, sanctions screening and payment infrastructure. The relocation of bank headquarters and the CBY's expanded supervisory perimeter have addressed the Yemeni side of this problem; a proportionate, risk-based European response would lower transaction costs, keep financial flows in formal channels and strengthen regulatory oversight.

Build operational capacity in Yemen's core economic institutions: Move beyond short-term advice by financing the operational systems these institutions need to function. Priorities include a modern core banking and information-technology platform for the CBY and an integrated public financial management system for the Ministry of Finance, alongside resident or long-term experts working with national counterparts across public financial management, revenue administration, economic statistics, banking supervision and AML/CFT controls — rather than stand-alone training or systems delivery. This support should be deliberately additive: The IMF's engagement covers macro-economic data, debt reporting and fiscal coordination, and European institutions add most value in the areas that the mandate does not reach, including foreign-exchange market infrastructure, financial-sector cybersecurity and the payment and payroll systems on which public salaries depend. Coordination with the IMF, World Bank and other partners should be explicit from the design stage.

Bridge humanitarian assistance and economic recovery through flexible, multi-year financing: Help close the humanitarian financing gap and restore assistance suspended for lack of funds, prioritising food, health, nutrition, water and other life-saving programmes, while progressively expanding recovery and development financing aligned with the government's reform priorities. Flexible, multi-year funding that connects immediate assistance to livelihoods, basic services and local economic recovery would reduce disruptive funding gaps and create a credible transition from relief to resilience. Critically, this financing should be additional to governance and institutional-resilience commitments rather than drawn from them. The institutional reflex when conditions deteriorate is to reprogramme long-term commitments into emergency response; doing so here would dismantle the institutional support that makes the humanitarian caseload smaller over time.

Establish a unified framework for electricity-sector support: Help establish a government-led framework aligning electricity-sector assistance from Saudi Arabia, the World Bank and other donors under common priorities and measurable results. Immediate support should protect supply to hospitals, schools, water facilities and emergency centres. Medium-term financing should support lower-cost generation, reliable fuel supply, network maintenance, metering, billing, collection and transparent sector accounts. The discontinuation of costly power purchase agreements has already demonstrated the government's willingness to act

against entrenched costs; linking further assistance to verified improvements in service delivery, efficiency and financial performance would build on that and ensure emergency support contributes to structural recovery rather than substituting for it.

Use coordinated diplomacy to support the safe resumption of oil and gas exports: Use coordinated diplomatic engagement to help establish the security, political and commercial conditions required for the safe resumption of oil and gas production and exports, supported by technical assistance on infrastructure assessment, operational readiness and transparent revenue management. Restoring exports would provide the fiscal revenue and foreign exchange the government currently lacks, ease pressure on the balance of payments and reduce the dependence on external grants that constrains reform. Preparing the governance arrangements now would ensure that, if exports resume, the revenue strengthens resilience rather than recreating the fiscal structure that preceded the suspension.

Support an orderly strategy for external arrears and debt: Support the government in reconciling, validating and legally reviewing its external debt and arrears before substantive creditor negotiations begin. With arrears equivalent to 8.3 per cent of GDP concentrated among a small number of creditors, and with a record of continued servicing of IDA obligations maintained throughout the conflict, the basis for a credible process exists. Once a verified debt record and reform track record have been established, European and Paris Club creditors should consider coordinated options for arrears treatment, rescheduling or other appropriate relief, closely coordinated with the international financial institutions and structured to preserve Yemen's access to concessional financing. An orderly process would reduce future debt-service pressure, limit legal and financial risk, and restore a workable relationship with external creditors.

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About the Project, Acknowledgements and About DeepRoot

About the Project

This paper is part of the 'Yemen Policy Analysis' series implemented jointly by the Friedrich Ebert Foundation (FES) and CARPO. Against the backdrop of profound political and socio-economic transformations in Yemen, this project supports the development of publications on key questions of governance, sustainable conflict resolution, and economic stabilisation with a focus on areas under the control of the internationally recognised government. It combines in-depth analyses of current developments with short briefing papers contextualising core political dynamics to formulate realistic and actionable recommendations for German and international decisionmakers. By combining policy briefs, short-term analyses, and accompanying expert discussions and briefings, the project contributes to raising political awareness of Yemen and supports informed policy-making processes.

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About DeepRoot Solutions

DeepRoot Solutions is a sustainable development firm that blends deep local knowledge with global best practice to empower communities and drive transformative change. Guided by its core values of partnership, excellence, integrity and innovation, DeepRoot works side by side with diverse stakeholders to design and implement solutions that address complex development and sustainability challenges. Founded in 2016 and headquartered in Aden, DeepRoot works across Yemen and in the wider region through three service areas — Advisory, Programme Solutions and Analytics — spanning peace and stability, governance, and economic development.

