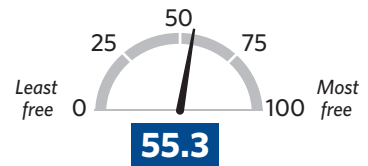


YEMEN

Economic Freedom Score



World Rank: **121** Regional Rank: **13**

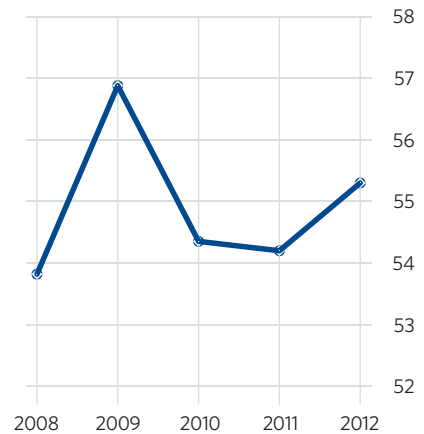
Yemen's economic freedom score is 55.3, making its economy the 121st freest in the 2012 *Index*. Its score is 1.1 point higher than last year due to improvements in freedom from corruption, labor freedom, and the control of government spending that in sum exceed a significant drop in monetary freedom. Yemen is ranked 13th out of 17 countries in the Middle East/North Africa region, and its overall score is lower than the world and regional averages.

Yemen's economy confronts daunting challenges exacerbated by ongoing political turmoil. The economic pain caused by rising unemployment has been compounded by higher living costs, weak monetary stability, and substantial levels of uncertainty.

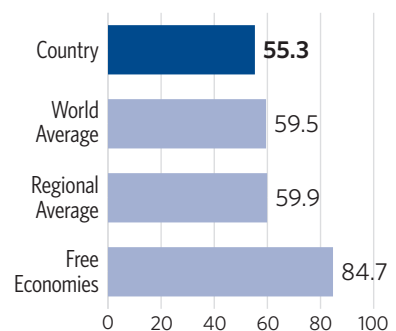
After a decade of rapid improvement in economic freedom, progress in Yemen has stalled over the past three years. A series of economic reform measures, including reforms in public finance management and the legal framework, have been introduced, but many have been either delayed or not fully implemented. Pervasive government interference in the economy and an underdeveloped financial sector continue to hamper the development of a more vibrant private sector. Corruption remains widespread, unchecked by a weak judicial system that is vulnerable to political influence.

BACKGROUND: Yemen is one of the Arab world's poorest countries. The government has faced chronic challenges from secessionists, unruly tribes, and Islamist extremists opposed to its moderate foreign policy and cooperation with the United States against al-Qaeda. The government began an economic reform program in 2006 to strengthen the non-oil sectors and attract foreign investment, but declining oil production, terrorist attacks, clashes between Sunni and Shia Muslims, and kidnappings have undermined tourism and foreign investment. In early 2011, important members of President Ali Abdullah Saleh's government defected to a growing coalition of opposition forces. Saleh was forced to seek medical attention in Saudi Arabia after an attack on his presidential compound in June. Yemen's economic prospects remain clouded by political violence and instability.

Freedom Trend



Country Comparisons



Quick Facts

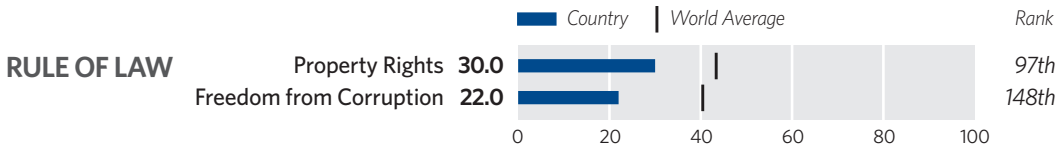
Population: 24.4 million
GDP (PPP): \$63.4 billion
 8.0% growth in 2010
 5-year compound annual growth 4.4%
 \$2,598 per capita
Unemployment: 35.0%
Inflation (CPI): 12.1%
FDI Inflow: -\$329.0 million
Public Debt: 40.6% of GDP

How Do We Measure Economic Freedom?

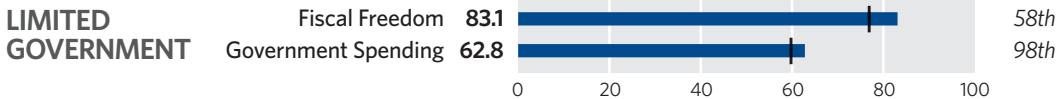
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

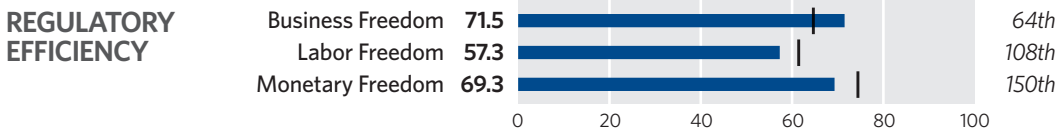
THE TEN ECONOMIC FREEDOMS



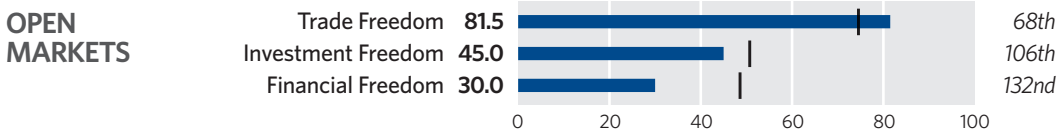
The judicial system is subject to political pressure and corruption. Enforcement of contracts is weak, and private property rights are not strongly respected. Foreigners may own property, but foreign firms must operate through Yemeni agents. Protection of intellectual property rights is inadequate. The civil service is overstuffed, underpaid, and highly vulnerable to corruption, which has been widespread throughout the economy.



The top income tax rate is 20 percent, and the top corporate tax rate is 35 percent. Other taxes include a general sales tax (GST) and a property tax, with the overall tax burden amounting to 8 percent of total domestic income. Government spending has reached a level equivalent to 35.2 percent of GDP. The budget has been chronically in deficit in recent years, and public debt amounts to 40.6 percent of total domestic output.



Measures to create a more efficient entrepreneurial environment have been implemented. The regulatory process has become more streamlined on paper, with the minimum capital requirement eliminated, but overall impact has been mixed, and little new private activity has been generated. The weakness of the private sector results in chronic underemployment in informal economic pursuits. Inflation has been high.



The trade weighted average tariff rate is 4.2 percent, but systemic non-tariff barriers severely limit freedom to trade. Officially, the government permits foreign investment in most sectors and grants equal treatment to domestic and foreign investors. In practice, the inefficient investment regime inhibits dynamic growth in new investment. The economy is largely cash-based, and the small financial system remains dominated by the state.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	-2.2	Trade Freedom	-0.1
Freedom from Corruption	+1.0	Government Spending	+18.3	Labor Freedom	+6.4	Investment Freedom	0
				Monetary Freedom	-13.0	Financial Freedom	0