

Economic Indicators In Yemen

September 2018

I am Hungry

Introduction

A wave of popular discontent swept several Yemeni governorates. Angry citizens protested against the unprecedented depreciation of the Yemeni Rial. The resulting upsurge in prices of goods and services further exacerbated the already collapsing economy and deteriorating humanitarian situation in a war-ravaged country.

The wave of discontent still goes unabated, foreboding harsh winter and painful shocks, while no signs of resolution are visible on the horizon, especially in view of the failure of preparations for peace negotiations of the Yemeni conflict parties before they were actually commenced. The peace talks were supposedly scheduled in early September 2018 in Geneva.

The Yemeni Rial has lost two-thirds of its value, whereas the government proved incapable of intervention as it has no power on the ground in most parts of the country, which is divided among several rivalling factions. Duplicate entities further weakened state institutions, including the Central Bank of Yemen (CBY), which is run by two contending authorities, one in Aden and the other under the Houthi authorities in Sana'a.

The Yemeni economy has experienced unabated decline since the outbreak of the war in Yemen more than three years ago, but the unprecedented depreciation of the Yemeni Rial in September 2018 proved the most severe blow to the Yemeni economy since the conflict began. The national currency lost almost two thirds of its value within two weeks. This decline coincided with the portent of famine, threatening the districts of Aslam in Hajjah governorate, under the control of the Houthi militia, and Al-Azariq in Al-Dali' governorate under the authority of the internationally recognized Aden-based government.

For the first time, Yemenis watched documented reports of citizens eating plant leaves, in spite of the fact that more than \$ 5 billion was spent on humanitarian relief operations over the past three years.

This report documents a 30% increase in basic commodity prices compared to last June. It highlights economic and humanitarian conditions in six Yemeni governorates (Sana'a, Aden, Taiz, Marib, Hadramout and Hodeida), providing updates of basic commodity and fuel prices, exchange rates, as well as covering economic and humanitarian developments.

Mustafa Nasr

SEMC Chairman

Basic Commodity Prices .. Marib recorded the highest

According to data collected by SEMC, a sharp rise in prices of basic commodities (flour, sugar, rice, cooking oil, and milk) was recorded in September 2018. An average rise of 30% in basic commodity prices in the six target governorates was recorded, compared to June 2018, and 92% compared to September 2015 prices.

Marib recorded the highest increase in basic commodity prices in September 2018, with an average increase of 40%, compared to June 2018. Hadramout comes next, recording an average rise of 36%, followed by Aden (31%) Taiz (27%), Hodeida (24%), and finally the capital Sana'a (22%).

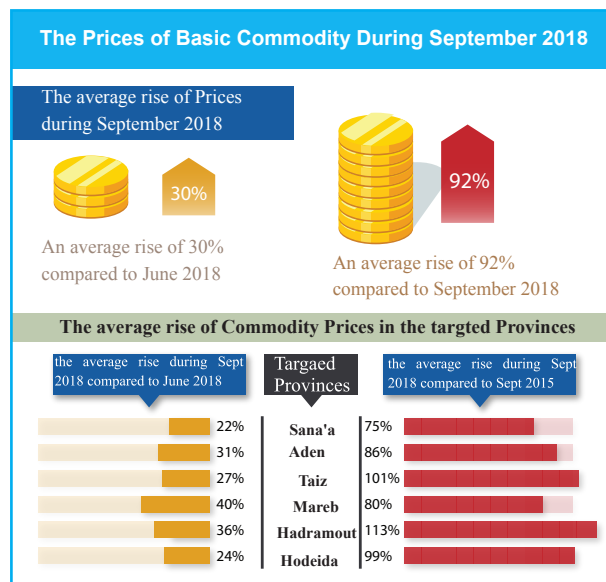
Basic commodity price upsurge is attributed to several reasons, including:

1. Depreciation of the Yemeni Rial. This is considered the main factor behind the basic commodity price escalations.
2. Upsurge in freights of good destined to Yemen due to changing shipping route to ports in neighboring countries.
3. Putting new security measures into effect, creating new inter-country checkpoints, and charging illegal taxes, thereby raising transport costs which are added to prices of goods.

4. The high costs of fuel derivatives, especially diesel, which contributes to increase in inter-country transport costs.

5. The Houthi militia imposes additional taxes on inter-country foodstuff transports in areas under its control by creating new customs offices and imposing extra illegal taxes under various designations; hence doubling prices of goods. Similarly, illegal taxes are imposed by armed groups in areas controlled by the Aden-based government.

6. Failure of the relevant authorities to impose price control measures, allowing businessmen to manipulate the market and impose unjustified price increases in some cases.



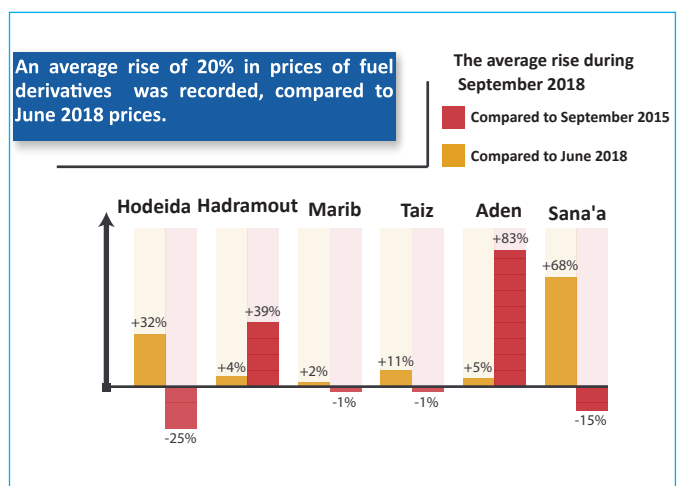
Fuel Prices .. Sana'a recorded the highest

Sana'a recorded the highest, and Marib the lowest, upsurge in fuel prices.

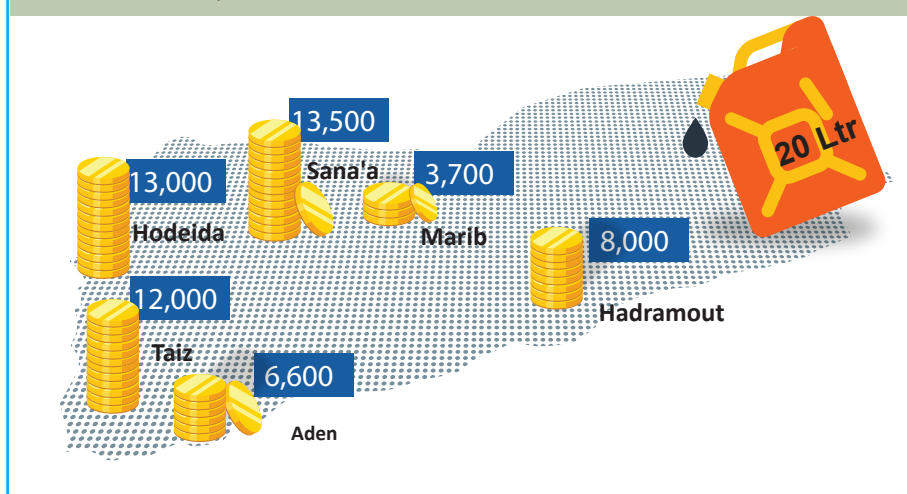
According to data collected by SEMC, prices of fuel derivatives witnessed a sharp upsurge in the six target governorates in September 2018. An average rise of 20% in prices of fuel derivatives (gasoline, diesel, and methane) was recorded, compared to June 2018 prices.

The capital Sana'a recorded the highest increase in fuel prices in September 2018, compared to January of the same year with an average rise of 68%, followed by Hodeida (32%), and Taiz (11%). In Hadramout, fuel prices increased by 4%, compared to June 2018. Marib recorded the lowest increase with an average rise of 2%, compared to June 2018 prices.

The increase in fuel prices is due to the depreciation of the Yemeni Rial, since fuel derivatives are imported, in addition to the difficulties in importing fuel derivatives, especially as fighting intensifies in the western city of Hodeida and intermittent closures of the port.



Infographic showing the price of a 20-liter gasoline gallon in target governorates as of 25 September 2018

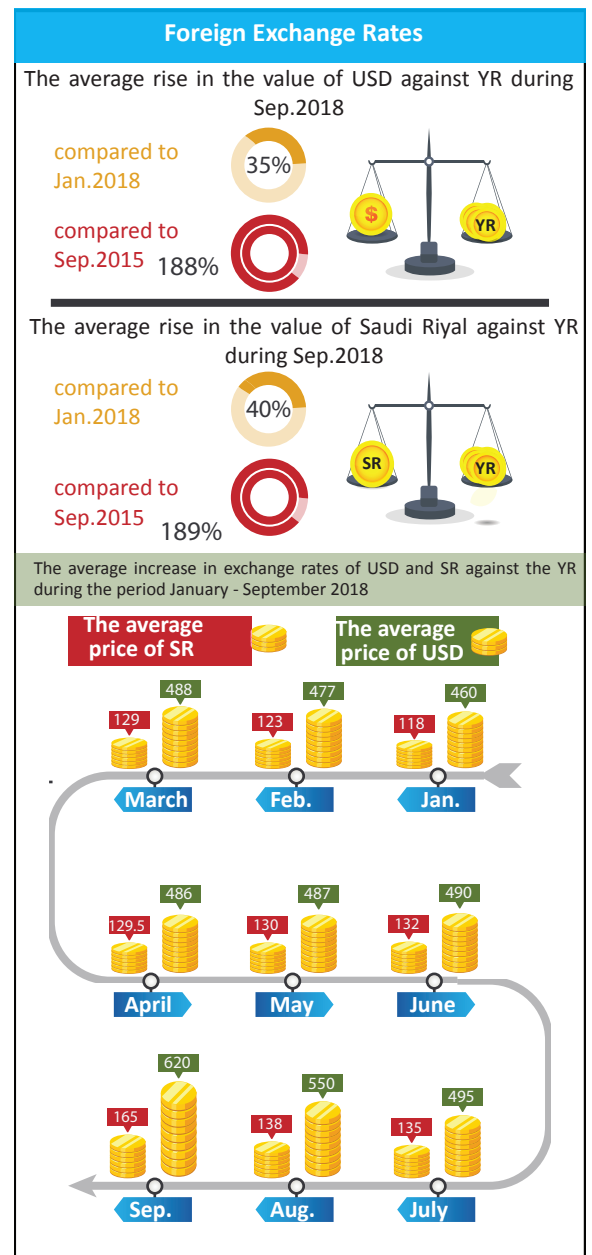


Sharp depreciation of the Yemeni Rial: the Yemeni Rial lost 35% of its value, and 40% against the Saudi Riyal in September 2018.

In September 2018, the Yemeni rial suffered a sharp decline against the US dollar. The average rise in the value of the US dollar against the Yemeni rial was 35%, compared to January 2018, and 188% compared to September 2015 exchange rates. The lowest exchange rate in September was YR 620 rials to \$1, compared to YR 460 to \$1 in January 2018.

The Yemeni Rial also recorded a sharp decline against the Saudi riyal. An average depreciation of 40% was recorded in September 2018, compared to January 2018, and 189% compared to September 2015 rates. In September 2018, 1 SAR was worth YR 165, compared to YR 118 in January 2018 and YR 57 in September 2015.

The average increase in exchange rates of the US Dollar and Saudi Riyal against the Yemeni Rial during the period January - September 2018



The Humanitarian Situation

Yemen passes through a very difficult humanitarian situation. As the war enters its fourth year, the humanitarian situation worsens remarkably. Malnutrition is rampant in several governorates. International organizations have warned that the humanitarian crisis in Yemen is the worst in the world. Reports show that 22.2 million Yemenis (75% out of the total population of 27.4 million), and 11.3 million are in dire need of humanitarian assistance. Two-thirds of Yemen's public sector employees have been unpaid for more than two years, especially in areas controlled by the Houthi-is. Around 3 million Yemenis are internally displaced living in difficult humanitarian conditions, whereas 5.4 million are in need of shelter and basic household items. According to the World Bank, about 40% of Yemeni households have lost their main source of livelihood as a result of the war and the economic crisis. The poverty rate in Yemen has risen to 80%.

Famine Threatens the Lives of 5 Million Yemeni Children

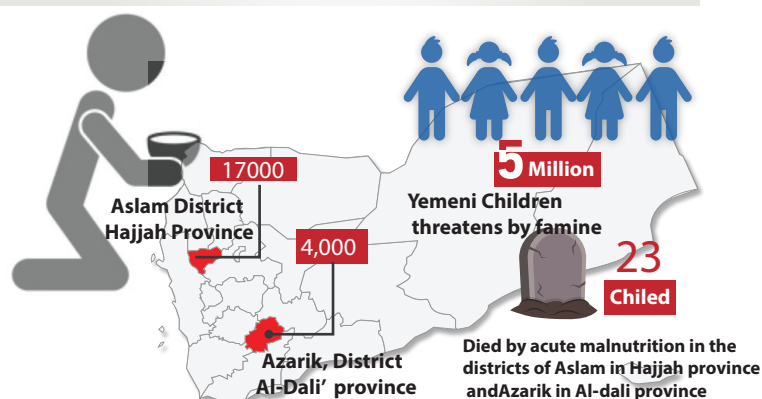
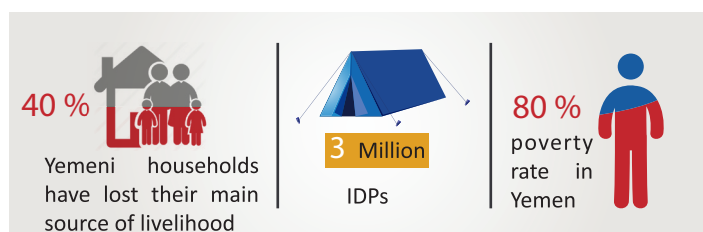
Starvation threatens the lives of Yemeni children. In the districts of Aslam (Hajjah governorate), children are increasingly threatened by starvation. A total of 17,000 cases of acute malnutrition, including 20 deaths, were recorded over a six-month period (Jan.-June 2018). The 2-year-old Zaifa Hassan starved till death in mid-September 2018.

In an Associated Press report, Zaifa appeared eating leaves of succulent grape plants with her family, which lives on leaves of trees. The two-year-old baby suffered diarrhea and vomiting as a result of malnutrition, and ultimately died.

Starvation and lack of basic food has forced residents of the village of Mashrada - to which Zaifa belongs - and other remote villages in Aslam district, Hajjah governorate, to feed on leaves of trees.

In the district of Azarik, Al-Dali' governorate to the south of the country, 4,000 cases of malnutrition, including 5 deaths, were recorded.

According to Save the Children, nearly 5 million children are at risk of starvation in Yemen due to escalating military operations and unaffordable food prices.



Economic Developments in September 2018

Yemen's economy witnessed several developments in September 2018. The devaluation of the local currency dominated the scene in various parts of the country. On the other hand, there were some developments in the Yemeni private sector.

- The interim capital of Aden and several other Yemeni governorates, including Taiz and Hadramout, witnessed popular protests against the depreciation of the Yemeni Rial and the ensuing escalation of basic commodity and fuel prices, not to mention scarcity of goods. In early September, the value of the Yemeni Rial decreased sharply, the exchange rate stood at YR 600 to the US Dollar, compared to YR 500 Rials to the US dollar in August. By the end of September, the Yemeni Rial underwent further depreciation, the exchange rate stood at YR 800 to the U.S. dollar.

- Prime Minister urges the state-owned Yemeni Petroleum Company to supply the market in Aden and neighboring governorates with fuel derivatives, while Central Bank of Yemen would undertake to finance fuel imports.

- The Central Bank of Yemen (in Aden) announces the commencement of the second installment (the \$34 million) of documentary credits support of basic commodity, medicine and fuel imports, from the \$2 billion Saudi deposit at CBY. The sum is divided among four banks as follows:

Yemen-Bahrain Bank: \$5.1 million

National Bank: \$4.5 million

Bank of Yemen and Kuwait: \$52.5 million

Tadhamon Islamic Bank: \$14.6 million

CBY has allocated the sum of \$100 million to support basic commodity imports.

The Economic Committee, formed by President Hadi, approved a set of measures to reduce the depreciation of the Yemeni Rial. Documentary credits were opened to Yemeni banks at the official exchange rate of 585 rials per dollar and application were reviewed within 3 working days by the CBY in Aden. Basic commodity and fuel imports were allowed only upon opening credit accounts in the aforementioned banks. However, the salvation government formed by the Houthis and the General People's Congress in Sanaa expressed its rejection of the Aden-based government decree, which restricts permits to basic commodities and fuel freights, maintaining that the decree has nothing to do with economic solutions, but merely imposes further restrictions on Yemeni ports, especially the port of Hodeida.

\$ 52.5 Million 

Yemen Kuwait bank

\$ 14.6 Million 

Tadhamon international
Islamic bank

\$ 5.1 Million 

Shamil Bank of Yemen
and Bahrain

\$ 4.5 Million 

National Bank of Yemen

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- Selling foreign currency (2,000 as a maximum) to citizens traveling abroad for medical treatment is approved by CBY in Aden.
 - CBY in Aden approves raising interest rate on deposits and documents to 27%, profit on wakala deposits to 23%, and 17% on government bonds.
 - CBY approves banning travelers carrying more than 10,000 dollars in cash without obtaining a prior permission from the CBY.
 - In mid-September, the ben Dagher government approved the allocation of the sum of \$10 million at the market price to cover oil import needs in an attempt to alleviate pressure on foreign currency demand. The equivalent amount has to be deposited in an alternative account in Yemeni Rials in favor of state revenues.
 - The Economic Committee approves closing of government and public institution commercial bank accounts, limiting public accounts only to CBY in Aden. The committee further demands determining the balance of public entities in Yemen and abroad in foreign currency, comparing them to the cash flow plan to determine their foreign currency needs and the intermediate term surplus of hard currency. These measures are meant to make funds available to CBY to cover hard currency demands for the purpose of importing fuel derivatives and to prevent depreciation of the Yemeni Rial in the short term.
 - A Saudi grant \$180 million to Yemen, provided in fuel supplies to meet the needs of the energy sector for 3 months at a rate of \$60 million per month.
 - A local authority and private sector meeting was held in Aden in early 2018 to discuss the depreciation of the Yemeni Rial. Official CBY exchange rate was fixed at YR 497 to \$US. Opening businessmen credit accounts at CBY was approved. The meeting also approved closing unlicensed exchange businesses, seizure of offenders, and referral of price manipulators to the Public Prosecution.
 - The CBY in Sana'a continued to analyze bids for treasury bills at YR 124 billion at an average interest rate of 16%.
 - On September 10, the Ministry of Industry and Trade and major businessmen and importers of basic foodstuffs signed a minute fixing a 50kg wheat bag price at YR 9,300 and a 50kg flour bag at YR 11,150.

Private sector Developments:

- The Parliament in Sana'a ends debates on a draft law of partnership between the public and private sectors. The draft law, which aims to create a legal framework for governing the process of private and public sector partnership in infrastructure projects, will be voted in a forthcoming meeting.
- Yemeni Company for Grain Mills sells products directly to end consumers in several Yemeni governorates, following the sharp depreciation of the Yemeni Rial.
- Lahj Chamber of Commerce and Industry meeting approved broadening the administrative structure of the Chamber to invite investment and revitalize the role of the Chamber in development.
- Bank of Yemen and Bahrain inaugurates a new branch in Sayoun, Hadramout. Bank director, Saeed Bazara'a, underscores the promising economic potentials of Sayoun.



The Studies and Economic Media Center (SEMC) is one of the most prominent Yemeni NGOs that works on , and spreads awareness of economic issues, in addition to buttressing good governance and public engagement in decision making, and working towards the creation of professional media.

The Center has contributed tremendously to debating and rectifying economic policies, divulging the loopholes inherent in the country's economic performance, and influencing decision makers in such a way that serves the think-tank 's vision- a transparent and flourishing Yemeni economy. Further, it has assumed a vital role in presenting economic information to society in a plain and simple manner. The Center seeks to forge ahead with its scholarly mission despite the harsh conditions Yemen is experiencing.

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