

## Macroeconomic trends

### EXCHANGE RATE

The Yemeni rial continued to be stable in November 2022, but a disruption in currency auctions and growing fears surrounding depleted foreign currency reserves led to the depreciation of the currency in December. In the first half of November, the rial's value in areas under the control of the Internationally Recognized Government of Yemen (IRG) fluctuated between YER 1,150 and YER 1,180 per USD 1, continuing its trend of stability witnessed in the previous reporting period. On November 23, the exchange rate value showed further signs of improvement peaking at around YER 1,015 per USD 1 on November 27. Since 14 December, the rial started to depreciate again, reaching the YER 1,200 per USD 1 mark on 24 December and slowly depreciating through the remainder of the month.

Exchange rates in IRG and DFA areas



Source: YETI dashboard accessed 19/01/2023

### ABOUT THIS REPORT

The YETI bimonthly economic update aims to provide a quick overview of the main economic trends in Yemen, including commodities prices, exchange rate, food and fuel imports volumes and major contextual events. It is based on data included in the YETI dashboard and follows its module structure.

The stability observed in November was partially the result of the announcement of upcoming support to the Central Bank of Yemen (CBY) in Aden, namely, a conversion of the Special Drawing Rights (SDRs) and financial support from the Kingdom of Saudi Arabia. On 17 November, the Chairman of the Presidential Leadership Council (PLC) of the IRG, Rashid Al-Alimi, announced that CBY-Aden will receive USD 300 million by converting a portion of Yemen's SDRs as issued by the IMF. The US and the UK are slated to be partners in the conversion, with the US Federal Reserve agreeing to hold US dollars from the exchanged SDRs in CBY-Aden's account ([SCSS 16/12/2022](#)). Al-Alimi made the announcement after his meeting with US Charge d'Affaires Inger Tangborn and stated that the funds would help "bolster trust in the national currency, help constant imports of basic commodities, and improve the livelihood of the Yemeni peoples all over the country" ([Saba News Agency 17/11/2022](#)).

CBY-Sana'a has argued that both the original allocation of the SDRs to CBY-Aden, announced in August 2021 ([Reuters 23/08/2021](#)), and the conversion decision are politicised. On November 19, CBY-Sana'a published a statement detailing its position on the announced support and reiterating its proposals on how the IMF could remain neutral and manage the allocation of the SDRs in a non-political manner ([Saba News Agency 19/11/2022](#)). Among CBY-Sana'a's proposals were: assigning an independent third party to oversee the use of the SDRs in financing imports and paying public salaries; using the SDRs to pay off part of public debt to and alleviate the liquidity crisis in private banks; and suspending the conversion of the SDRs until the end of the conflict.

On November 27, the Arab Monetary Fund (AMF) signed an agreement with the IRG to support an economic, financial, and monetary reform programme ([SPA 27/11/2022](#)). Saudi Arabia will provide USD 1 billion and the AMF will provide technical support for the programme, which aims to stabilise the economy. The support entails reforming and rebuilding Yemeni economic institutions in the hope of spurring economic growth, although details on how the funds will be used have not been disclosed.

Despite the anticipated financial support, in the second half of December, the rial partially depreciated because of a disruption in currency exchange auctions and a statement of PLC Chairman Al-Alimi regarding public sector salaries. On December 6, CBY-Aden postponed a foreign currency auction to give private banks time to fulfil the conditions of the US Federal Reserve ([CBY 06/12/2022](#)). Among the conditions were adopting anti-money laundering/combating the financing of terrorism (AML/CFT) controls. Auctions resumed on 8 December and continued weekly. On December 27, CBY-Aden conducted the last auction of 2022 and raised the auctioned amount from USD 30 million to USD 50 million ([CBY 22/12/2022](#)). CBY-Aden held a total of 50 foreign currency auctions in 2022.

Aside from the postponement of foreign currency auctions in early December, a public statement by PLC Chairman Al-Alimi likely affected the depreciation of the rial. During his December 19 interview with Al Arabiya, Al-Alimi stated that the Government will face difficulties paying public sector salaries in December because of DFA drone attacks targeting southern ports and interrupting crude oil exports and revenues ([Al Arabiya YouTube 19/12/2022](#)). Likewise, in December, observers reported conditions and requirements that might delay the arrival of the funds from the Saudi pledge, likely contributing to the depreciation of the rial.

### **THE IRG INCREASES THE CUSTOMS RATE BY 50%**

As at 4 January 2023, the IRG increased the customs duty exchange rate on non-essential goods by 50%, from YER 500 to YER 750 per USD 1 ([The New Arab 11/01/2023](#)). In July 2021, the IRG had already doubled the customs exchange rate from YER 250 to 500 per USD 1 ([Reuters 26/07/2021](#)). Despite these increases, the customs duty rate remains lower than the exchange rate of YER 1,250 per USD 1 as at 3 January. The new customs rate excludes basic goods, such as wheat, rice, sugar, and medicine. After the announcement, prices of commodities hiked in Aden and Ma'rib ([Reuters 10/01/2023](#)). The IRG decree

number 3 of 2023 (as reviewed by YETI analysts) stipulated a gradual increase in the price of petrol from YER 170 to YER 487.50 per litre, while the price of gas cylinders will increase from YER 2,100 to YER 3,000 effective immediately. The IRG says that the measure intends to boost government revenues and protect the currency and is aimed at “harmonisation between financial monetary policies” ([SEC Yemen Twitter 03/01/2023](#)). The IRG added that the prices of electricity and water will also gradually increase, although the specific amounts, as well as the timeline of the price increases (including for petrol and gas cylinders), remain unclear.

### **CBY-ADEN BLACKLISTS 12 COMPANIES FOR SUSPECTED TIES WITH THE DE-FACTO AUTHORITY (DFA) IN THE NORTH OF YEMEN (ALSO KNOWN AS THE HOUSHIS)**

In a separate development, CBY-Aden blacklisted 12 companies for their suspected ties to the DFA. On 6 December, CBY-Aden issued a circular blacklisting a dozen commercial and financial entities, ordering exchange facilities to freeze accounts associated with the companies, their owners, and other connected associates ([Al-Masdar Online 06/12/2022](#)). The circular also prohibited all financial transactions with the listed entities, citing public prosecution decree 17 for 2022 (linking the companies to the DFA) and international AML/CFT laws as basis. The decree was issued on 1 December and follows the IRG's designation of the DFA as a terrorist organisation on 22 October. The blacklisted entities include several oil trading and importing companies and one refrigeration company.

### **ELECTRICITY DEVELOPMENTS**

Fuel shortages have led to power outages in Aden and Shabwah. On December 11, an electricity blackout hit Aden city for almost 24 hours. On the days leading up to the blackout, the Public Electricity Corporation (PEC) in Aden warned that its supply of diesel was running low and called on authorities to act ([Aden PEC 11/12/2022](#)). On 12 December, the PEC announced that it had received diesel shipments that would allow power generation to resume ([Aden PEC Facebook 12/12/2022](#)). Despite the announcement, diesel rationing remained in effect at Petromassila station, one of the largest plants in Aden.

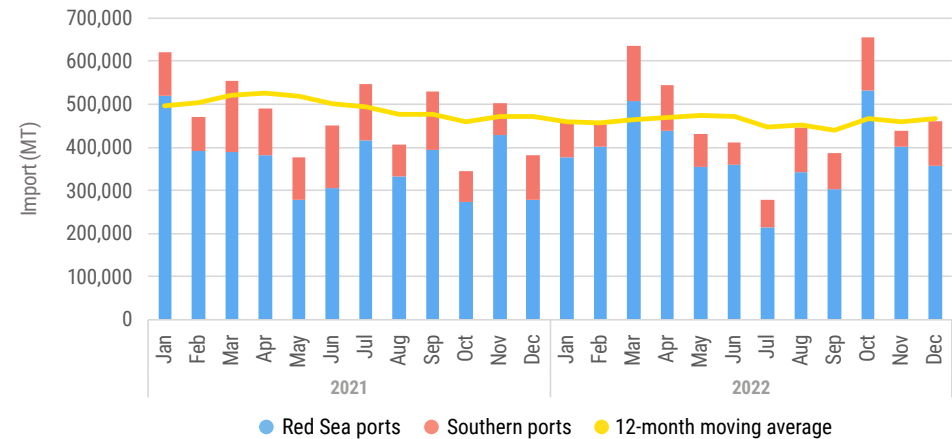
Throughout the reporting period, shipments of fuel supplied by the Saudi Development and Reconstruction of Yemen programme grant signed in September 2022 continued to revive the electricity sector in the south ([SPA 29/09/2022](#)). On 9 November, 4,000MT of diesel were delivered to Nishtun port in Al Mahrah governorate ([SDRPY Twitter 09/11/2022](#)). On 28 November, an additional shipment of 8,000MT of diesel and 13,000MT of mazut was delivered to Mukalla port to supply power stations in Hadramawt ([SDRPY Twitter 28/11/2022](#)). The second tranche of fuel derivatives covered by the programme was delivered in December to the governorates of Aden and Al Mahrah. On 17 December, 40,000MT of diesel was delivered to Aden port, and 30,000 MT of mazut followed several days later ([SDRPY Twitter 17/12/2022](#)). On 24 December, about 3,800MT of diesel arrived at Nishtun port ([SDRPY Twitter 24/12/2022](#)).

Although diesel provision has been a persistent problem for the electricity sector in Aden, interruptions in the maritime transportation of fuel from Shabwah to Aden have worsened the diesel shortages. Fuel has instead been transported over land using trucks, which is less efficient than using seaborne vessels for large quantities. The supply line of diesel from Ma'rib has also been inconsistent because of recurrent violence in the area, resulting in partial power outages in districts across Shabwah ([YPA 09/12/2022](#)).

## Food imports and price trends

Food imports in November–December were about 30% lower than in October but only 5% and 1.4% lower than the 12-month moving average in November and December, respectively. Food imports through southern ports in November were the lowest ever recorded since August 2017 (based on available import data) at only 38,000MT.

**Food imports through Red Sea and southern ports**



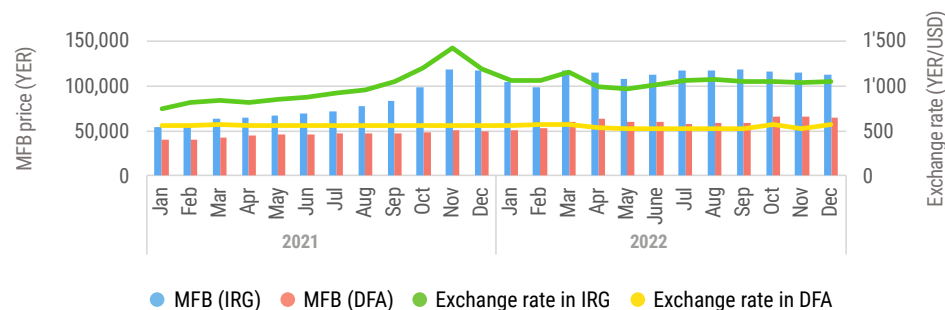
Source: ACAPS' discussions with key stakeholders

## THE DFA INTRODUCES NEW PRICE CUTS ON BREAD AND FOOD PRICES

The DFA introduced several regulations to reduce the prices of bread and other food items in line with other prior policies introduced to control food prices in areas under their control. On 3 November, the DFA-run Ministry of Industry and Trade (MOIT) announced regulations lowering the price of bread to YER 450 per kg in bakeries and YER 500 per kg in stores ([MOIT 03/11/2022](#)). The reduction is in line with a regulation introduced a month prior that saw the price of a 50kg bag of flour decrease from YER 20,400 to YER 18,200, along with reductions in the prices of cooking oil and other essential commodities. The MOIT also enforced new measures to ensure that bakeries complied with the introduced price change ([MOIT 05/11/2022](#)). These measures included requiring bakeries to use scales to sell bread by weight instead of by the number of loafs. Neighbourhood supervisors (Akl al-Hara) controlled the compliance of shops with these measures. In October, bakery and store inspection campaigns led to the forced closure of several shops in Ibb, Sa'dah, and Sana'a. On 14 November, several bakery owners organised a strike in Sana'a against the newly imposed regulations; increased prices of bread ingredients and the heavy taxation by the DFA have forced many of them to close down their businesses ([NewsYemen 15/11/2022](#)).

The MOIT also introduced several decrees in December to reduce food prices in DFA areas. It announced the reduction of the price of wheat flour from YER 18,200 as at the last price cap to YER 17,600 on 4 December. According to the DFA Deputy Minister of Trade Mohammad Qatran, the rationale behind the reduction in the prices of flour and other food products came in line with the downward shift in global food prices and decreased transportation costs. The introduced regulations were enforced by price monitoring campaigns in DFA areas between December 4–13 ([MOIT 10/12/2022](#)). Several shops and malls in Amanat al-Asimah were forced to close during the campaign for not abiding with the introduced price cuts. The Trader's Union issued a statement on December 11 criticising the newly enforced price cuts that did not take into account the needs and rights of traders ([YNN 12/12/2022](#)). The statement described the latest food price cuts as the DFA attempting to unjustly put the burdens of the economic challenges the country was experiencing onto the traders. The union also requested to be consulted in setting the official price cap of products. The inspection campaigns led to the closure of major wholesale shops in DFA areas, including several companies owned by the Yemeni business conglomerate Hayel Saeed Anam Group in Dhamar, Sana'a, and Ta'iz. On 16 December, a DFA price inspection campaign closed down the HSA Group and the Natco Holding Company branch in Yemen, both major food importers and reseller companies in the country ([Al Watan 16/12/2022](#)). In response, the Ta'iz Workers Syndicate organised a protest denouncing the closure of the shops. The protesters claimed that high production costs and taxation in DFA areas were the main drivers of increased food prices.

**Minimum Food Basket prices and exchange rates in IRG and DFA areas**

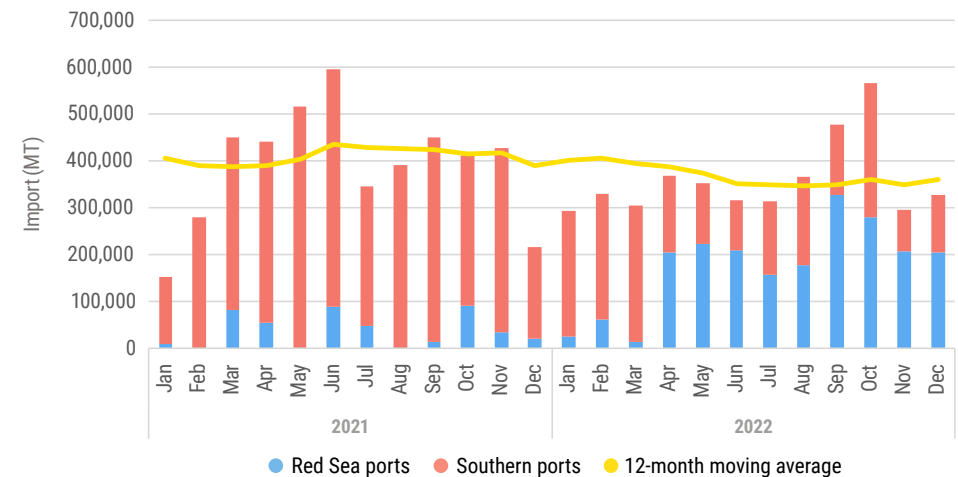


Source: FAO accessed 16/01/2023; YETI dashboard accessed 16/01/2023

## Fuel imports and price trends

Fuel imports in November–December respectively fell to 18% and 10% lower than the 12-month moving average following significantly above-average import volumes in September–October. A total of about 205,000MT of fuel was imported through Red Sea ports in both November–December, while a total of 90,000MT and 121,000MT of fuel was imported in November and December, respectively, through the southern ports.

**Fuel imports through Red Sea and southern ports**



Source: ACAPS' discussions with key stakeholders

On 23 December, the Yemen Petroleum Company (YPC) in Sana'a decreased the official price of 20L of gasoline to YER 10,000 from YER 10,500 and the price of 20L of diesel to YER 12,000 from YER 12,500 ([YPC Twitter 23/12/2022](#)). Although YPC–Sana'a social media channels and spokespeople continue to publicly condemn the Saudi-led coalition for imposing a blockade on the Yemeni people by holding ships for extended periods, the average number of days that fuel tankers spent in the coalition holding area in November (5.6 days) was less than the average during the truce (10 days).

## **DFA ATTACKS ON OIL TERMINALS**

On 9 November, DFA forces targeted the Qana oil port in Shabwah with drones to prevent a ship from docking and exporting crude oil for the IRG ([South24 09/11/2022](#)). On November 21, DFA forces targeted the Ad Dabah oil port in Hadramawt and prevented another vessel from docking ([Reuters 21/11/2022](#)). The DFA claimed that it only fired warning shots, while the IRG said that the Ad Dabah oil terminal sustained damage in the attack, halting crude oil exports and requiring at least five to six months of repairs on the port infrastructure. Crude oil exports are a major source of foreign currency for the IRG, and Al-Alimi said that the IRG will struggle to pay public sector salaries in December because of the attacks ([Al Arabya YouTube 19/12/2022](#)). There are reports of the IRG signing a contract with a private company to build a seaport in Al Mahrah governorate. On 2 January, Deputy Minister of Transport Nasser Al Sharif told Bloomberg that the project will cost USD 130 million and will be completed under a Build-Operate-Transfer agreement involving a 50-year concession. The project is expected to be finished in about three years. The port is slated to be used mainly for exporting limestone and other minerals ([Bloomberg 02/01/2023](#)).

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## *Food security update*

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Given limited income, reduced humanitarian assistance, and significantly above-average food prices, Crisis (IPC Phase 3) and Crisis!<sup>1</sup> (IPC Phase 3!) food insecurity outcomes are expected to remain widespread in the country. In Ma'rib, Emergency (IPC Phase 4) outcomes will likely persist given the large population of displaced and flood-affected people ([FEWS NET 21/12/2022](#)).

Seasonal improvements in household access to food and income related to the main season harvest in highland areas that concludes in December/January will be temporary. The food stocks of households are expected to last no more than two months. Many households will have low to minimal income and will be unable to purchase sufficient food from the market after the depletion of their food stocks ([FEWS NET 21/12/2022](#)).

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<sup>1</sup> *Crisis!* refers to areas that would likely be at least one phase worse without current or programmed humanitarian assistance.

## Timeline of events

