Introduction

This YSEU Issue for October, 2019, aims at providing the readership with more precise data and information on the socio-economic and humanitarian indicators based on the diagnosis and analysis of the socio-economic issues using scientific practical techniques and methodologies such as SWOT and SMART analysis methods.

This report focuses on the analysis of the exchange rate fluctuations and their socio-economic implications. Failure to adequately prepare for addressing the humanitarian and food needs amid the ongoing war, and respond to foreign exchange requirements to provide food is a contributing factor to famine, affecting all dimensions of food security.

Executive Summary

The steady decline in the foreign exchange rate (Yemeni Riyal devaluation) in 2019 has led to spiraling inflation, thus exacerbating the humanitarian crisis of Yemeni households. The foreign exchange rate deteriorated during September 2019 to YER 602/USD, recording an increase of 2.9% compared to last month, and 180% compared to the pre-crisis period, February 2015. This deterioration of the exchange rate has resulted in multiple acute threats to the basic food and non-food commodity prices as the 2.9% increase of the US Dollar exchange rate has ramped up the price of the Survival/Minimum Food Basket (MFB) to YER 37,421, which is 1.7% higher than last month, and 115% higher than the pre-crisis rate.

Facts and Indicators

<table>
<thead>
<tr>
<th>2019 Global Hunger Index (GHI)</th>
<th>Ease of Doing Business Index 2019</th>
</tr>
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<tbody>
<tr>
<td>Yemen ranked (116th) out of (117) qualifying countries worldwide with a score of (45.9).</td>
<td>Yemen rank fell to (187) out of (190) countries worldwide.</td>
</tr>
</tbody>
</table>

Human development (HDI) 2018
Yemen placed in the low human development categories. With a Human Development Index value of (0.452), the country positions at 178 out of 189 countries in 2017.

<table>
<thead>
<tr>
<th>(YER602 / USD) The exchange rate in September 2019.</th>
<th>(12.4) million children In need of humanitarian assistance.**</th>
</tr>
</thead>
<tbody>
<tr>
<td>(17.8) million people Need help with water and environmental sanitation**</td>
<td>(45.1%) is the estimate of Yemen's cumulative contraction in real GDP during the period (20152019).</td>
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<td>(66.5) billion dollars are the cumulative losses in GDP during the period (2015-2019).</td>
<td>** UNICEF 2019</td>
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In This Edition

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2nd: Impact of exchange rate fluctuations on food and essential commodities and social services during January-September 2019.
3rd: Role of donors and international organizations in mitigating exchange rate fluctuations during January-September 2019.
4th: Measures taken and recommendations to address deterioration of exchange rate

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"This monthly update is supported by UNICEF YCO"
Exchange rate indicators during January-September 2019

US dollar exchange rate (market price) peaked to YER602 / USD during September 2019, with an increase of 2.9% compared to last month and 12.3 % compared to January 2019. However, as depicted in (Figure 1), the exchange rate plummeted by 10.8% in April 2019, which is mainly due to the Saudi deposit to the Central Bank of Yemen (CBY) that helped provide liquid hard currencies, namely the US dollar1. Since May 2019, exchange rate has witnessed a continuous deterioration ranging between 2.1% and 4.7%, increasing at 180% compared to the pre-conflict rate. This sounds the alarm high for resuming the hydrocarbon production and exports and supplying the CBY with sustainable foreign currencies as the devaluation of the exchange rate, combined with other factors, poses threats on the Yemeni households’ livelihood and economy. Since the depreciation of the Yemeni Riyal by 10% and the entailed spike in non-food commodity prices2 will result in a rise in the poverty rate to between 2.3% and 5.6%, the suffering of families in Yemen is bound to further aggravate.

The official and parallel exchange rate differentials during January-September 2019

The month of September witnessed the largest differential (36.8%) between the fixed (official) exchange rate and the parallel market (unofficial) rate as the gap between the two widened to a whopping YER162. Interestingly, in April this rate differential hit a record low of 3% as the official exchange rate stood at YER459/USD while the parallel at YERS10/USD.

The USD exchange rate is one of the most serious indices that strongly affect the levels of food security, poverty and living standards. Without a sustainable supply of hard currencies to cover imports of basic commodities (wheat grain, wheat flour, rice, sugar, cooking oil and milk) the pressure on the stability of the national currency intensifies, which exacerbates the suffering of the needy and those with low incomes and intensifies the severity of food insecurity, especially in a country that imports about 90% and 100% of its wheat needs on a row. In fact, Yemen is currently living in a difficult humanitarian situation, the worst in the world, with 24.1 million people in need of humanitarian aid (approximately 80% of the total population), of whom 14.3 million are in urgent need of humanitarian assistance3.

Factors affecting exchange rate fluctuations during January - September 2019

Negative factors:

There are myriad factors that have contributed negatively to the exchange rate changes. However, the main culprits were found to be: The deep public finance imbalances stemming from the disruption of oil and gas exports and the government's inability to retain financial resources from the domestic currency obtained through the foreign currencies inflow (oil and gas export revenues) in order to fund the general budget. Another factor that adversely affected the exchange rate is the trend towards financing through printing banknotes as the amount of informal currency in circulation outside banks reached YER 2453 billion in 2018 as against YER1893 billion in 2017, an increase of 29.6%. Moreover, the issuance of such newly-printed banknotes

3- GIEWS Country Brief: Yemen 25-September-2019

is expected to have increased dramatically in 20194. Therefore, with regard to this crisis, resumption of oil exports, mobilization of more donor support, rationalization of imports, reaching a settlement of the disputes over the central bank and repayment of salaries are key to counteract the scarcity of foreign exchange resources and the erosion of foreign reserves.

* Besides, the deteriorating exchange rate and the liquidity crisis were exacerbated in light of the split of the monetary authority after the decision to relocate the headquarters of the Central Bank (CBY) to Aden, thus having two central banks, in Sana'a and Aden, operating with little means and in a complex work setting that resulted in many challenges, including, difficulty of implementing monetary policies in the country, controlling banks and managing their deposits, and disbursing public salaries in all governorates; in addition to having its human, data and equipment resources, essential for its monetary and banking operations, fragmented and even spread too thin.

* Also, lack of banking awareness among the population has led to excessive cash supply, weak legal and judicial environment, wide-ranging dealing in foreign currency, especially the dollar and the Saudi riyal, and shattered confidence in the local currency.
When it comes to the positive drivers of changes in the exchange rate, many factors come into play, most notably:

* Remittances sent home from Yemenis abroad had a significant role in exchange rate changes as they helped mitigate the collapse of the Yemeni riyal with an estimated monthly average of $431 million during the January-September 2019 period.

* Humanitarian initiatives and assistance by international organizations: Many countries, United Nations agencies, international organizations and humanitarian programmes have helped Yemenis contending with the repercussions of the humanitarian crisis by mobilizing financial resources for the Humanitarian Response Plan in Yemen, where the actual funding amounted to about $2.910 billion as of October 2019, covering 69% of the country's needs. Many international organizations have also designed and implemented cash transfer programmes, either by supporting previous work mechanisms or implementing through new mechanisms, in addition to the Saudi Arabian deposit of about $2 billion. And in light of the expected exhaustion of this deposit at the end of 2019, it is crucial to resume oil exports to cover the import of basic commodities and maintain macroeconomic stability.

* Measures to control the exchange rate of the Yemeni riyal against the US dollar: The monetary authorities have taken many measures in an attempt to curb fluctuations in the exchange rate and halt the deterioration, most notably: providing importers of food and medicines with the official dollar exchange rate, selling an amount of dollars to the local market, and sending circulars to banks and money exchangers warning them against speculating on the exchange rates.

**Figure (3) YER exchange rate fluctuation factors, January-September 2019**

**Lower Foreign Currency Inflow**
It has deepened imbalance in public finance that resulted from halt of oil and gas exports, government's inability to print the local currency that it used to obtain through inflow of foreign currency (oil and gas export earnings) to boost the general budget.

**Monetary Authority Split**
Transferring the central bank's operations to Aden and therefore the presence of two banks operating with limited capacity in a complex working environment, which further undermined the Central Bank of Yemen to carry out most of its functions.

**Poor Community Awareness**
This poor awareness among the population is most notably seen in the spread of cash payments, dealing in foreign currency, especially the dollar and the Saudi riyal, and the conversion of the Yemeni riyal to foreign currency.

World Food Program, YEMEN - MONTHLY MARKET WATCH, 2019

**SWOT analysis on the Yemeni riyal exchange rate changes:**

**Strengths:** The capability of the Yemeni riyal to withstand crises compared to the Iraqi dinar, the Syrian pound and the Lebanese pound. The indicators of the effects of endogenous and exogenous factors on averting complete collapse of the Yemeni currency.

**Weaknesses:** The continued division in Monetary Authority and failure to neutralize the central bank and the monetary policy.

**Threats:** The most prominent threats and risks are represented by political factors and the attendant security imbalances and armed conflict. Such elements have helped shake the confidence of individuals, investors and domestic and foreign companies in macroeconomic performance and in the national currency, thus prompting them to maintain the purchasing power of their assets and savings in the national currency by exchanging them for foreign currencies, namely the US dollar and the Saudi riyal. In addition to that, these factors have contributed to increasing economic risks and threats to capital and trade, the decline of economic activity and government services and the subsequent higher import demand to cover for such shortfalls, resulting in increased foreign currency demand to fund such imports.

**Opportunities:** The possibility of a political solution to the ongoing war that would help remove restrictions on the export of Yemeni products and encourage inflow of foreign grants and exchange resources and the provision of liquid foreign currency in the future. And, more importantly, the possibility of having a unified monetary authority (CBY) capable of operating competently to overcome all the obstacles that threaten the banking sector and restore confidence in its financial transactions and in the national currency.
The Impact of exchange rate fluctuations on the cost of the Survival/Minimum Food Basket (MFB) for 7 persons per month during January - September 2019

With the deterioration of the exchange rate, the country fell under multiple and acute threats at the level of food and basic commodity prices, as the rise in the exchange rate by 2.9% in September 2019 led to a drop in the value of the Yemeni riyal. In the same context, the cost of survival Minimum Food Basket (MFB)\textsuperscript{5} for 7 persons per month has risen to YER 37,421 (equivalent to $62.2), an increase of 1.7% compared to last month. Figure (5) shows the cost-push impact of the exchange rate fluctuations on the cost of MFB, where an 8% increase in the former in February 2019, sparked a 4.8% spike in the latter.

Unlike the conventional food insecurity case scenarios, the current famine in Yemen is not driven by food shortage, but rather by the skyrocketing inflation ensued from the implications of the conflict (most notably the collapse of the exchange rate). In fact, Yemen relies almost entirely on imports to meet the domestic market demand for basic food commodities. Food importers constantly refer to the growing appreciation and scarcity of foreign currency as one of the most important constraints facing them in recent years. As the increase in the cost of import; including the insurance, freight and clearing charges and inland transportation cost, has prompted a hike in the prices of food commodities, the cost of MFB has increased by 115% compared to before the war.

5- The components of the Minimum Food Basket as approved by the Food Security and Agriculture Cluster, are: 75 kg of white flour, 10 kg of red beans, 8 liters of imported vegetable oil, 2.5 kg of sugar, 1 kg of salt. See Food Security Technical Secretariat, Monthly Market Watch Report, Issue 50, September 2019.

Second: The impact of exchange rate fluctuations on the prices of food and basic commodities and social services, during January - September 2019

The Impact of exchange rate fluctuations on the cost of the Survival/Minimum Food Basket (MFB) for 7 persons per month during January - September 2019

In the areas of ongoing fighting, severe food insecurity crisis has considerably deepened, affecting internally displaced persons (IDPs), host families, marginalized groups, and landless agricultural workers. Armed conflict and war continue to be the main driver of food insecurity in Yemen, where the depreciating of the exchange rate has contributed to a decline in purchasing power for food. In this context, humanitarian and development strategies were an important component in addressing hunger.
The Impact of exchange rate fluctuations on wheat grain and flour prices during January - September 2019

The decline in the exchange rate has significantly affected the retail prices of basic food commodities; wheat and flour (see Figures 6 & 7). This was largely attributed to the appreciation of the exchange rate on the part of the traders who tend to sell at higher prices to forestall any speculated loss in the purchase power, which has placed additional burdens on the prices of basic commodities. Therefore, wheat and flour prices increased by 5% and 3.1% respectively in September 2019, higher than the exchange rate, and by 114.6% and 97.9% respectively compared to before the crisis.

In general, the consumption of a family of 7 members is a bag of wheat grain and a bag of flour worth YER27000 (price ranging from YER 200260-kg), which is half of the average monthly income. However, prices at the local bakeries exceed the double of the above price. This makes it more difficult for families to meet their food needs of wheat and flour. Therefore, to ensure access to such goods at affordable price for all Yemenis, stabilization and price controls should be emphasized.

6 Average monthly income is estimated at YER 52,500, 2014 labor force survey.

The impact of exchange rate fluctuations on sugar and rice prices during January-September 2019

The average prices of sugar and non-basmati rice rose by 3.1% and 9.9% respectively during September 2019, see (Figure 8). This increase was concurrent with the decline in value of the national currency and the rise in the US dollar exchange rate by 2.9% as indicated in (Figure 9). It is obvious that sugar and non-basmati rice prices fluctuated along with the exchange rate during January-September 2019. Their prices surged by 67.1% and 135.2% respectively compared to before February 2015, which reflects the extent to which the exchange rate affects food and basic commodity prices that have become contingent upon the performance of the Yemeni riyal vs. the foreign currency. The surging prices of rice and sugar (albeit readily available in different types in many local markets) has spelled disaster for low-income and poor families, where the average household consumption of rice is estimated to be about half a bag (20 kg) at a cost ranging from YER9000-890-kg). This amounts to a third of the average monthly income since rice is a staple food in Yemen. As for the average sugar consumption, it is difficult to obtain a precise number owing to the weak purchasing power of these families who have reached the point of austerity. This indicates...
the gravity of social suffering of the poor Yemeni households who are forced to tighten their belts due to the devaluation of the Yemeni riyal. According to the 2019 Global Hunger Index (GHI), Yemen is one of the countries whose population suffers the most from food shortages and child stunting, with a score of 45.9\(^\text{7}\), ranking 116th out of 117 qualifying countries worldwide. Food insecurity is escalating as the exchange rate collapses. Given the skyrocketing prices of basic food items, Yemenis have become vulnerable to food insecurity, which has pushed the country to the verge of famine. According to the latest Integrated Food Insecurity Phase Classification (IPC) analysis as of January 2019, a total of 20.1 million Yemenis are currently food insecure; of which, 9.6 severely insecure. For the first time, catastrophic hunger hot spots were identified in 45 districts where 238,000 people are at risk of starvation. Thus, a steady flow of foreign currency on a sufficient scale will contribute to exchange rate stabilization and push food commodity prices down to reasonable levels.

More importantly, rationalization and consumption of locally produced sorghum, millet, and dates will help provide high-quality protein source food that is high in nutritional value, and ease the pressure on wheat (grain and flour) imports. Thus, providing support is crucial in the areas of food security (local production of wheat, grains, and dates throughout the Republic of Yemen).

### Impact of exchange rate fluctuations on social services costs during January-September 2019

The implications of the collapse and fluctuations of exchange rates and the accelerated decline in the Yemeni riyal during January-September 2019, associated with tremendous strains on local livelihoods, have hurled the country into a downward spiral of increasing poverty. According to the World Bank's estimates of poverty rate in 2018\(^8\), about 81% of the population lives below the poverty line. This high rate was one of the major impacts of the war-induced decline of the local currency that has other serious repercussions, including plummeting income for the majority of the population, deterioration of the standard of living, lack of livelihoods, and falls in the purchasing power of individuals; coincident with the exchange rate decline. This litany of crises has tolled the death knell of the country's already ailing macro economy, and exacerbated the suffering of people who are grappling with the war and the resulted political and security instability that have crippled the nation's social services too, including:

1. **Water and environmental sanitation:**
   - The surge in prices of oil derivatives, entailed by the depreciation of the exchange rate as well as restrictions imposed on ships at sea, has taken its toll on the prices of water (both for domestic use and drinking) which in turn spelled catastrophe for the households reliant on trucked or piped water supply. Prices of water transported by diesel-powered water trucks (owned by private companies) shot up to (YER12,000). In the same vein, households dependent on public water network have also taken their share of misery, experiencing delay or cut in water supply for weeks, and sometimes for long stretches of time. This has aggravated the suffering of a large segment of the population in accessing clean and safe water, which is a major source of concern; especially in light of the recent worsening water situation in Yemen and the subsequent outbreak of water-borne cholera and diphtheria. Besides, this water crisis has had serious repercussions on schoolchildren, whose families send them to fetch water instead of school, and women who spend long hours carrying water home, which resulted in them not getting enough time to take care of their health and the health of their young children. In fact, the situation in Yemen is alarming as the number of Yemeni people in need of water reached 17.8 million, while those in severe need 12.6 million\(^9\).

### Figure (10): The effect of exchange rate fluctuations on the prices of social services

- **RISING WATER COST**
  - A total of 17.8 million of the population require assistance to access safe drinking water, including 12.6 million people who are in acute need. The price of a water truck amounted to (YER12,000).

- **EDUCATION**
  - Exchange rate appreciation affected the living standards and many families had to deprive their children of education due to higher schooling costs.

- **SOLAR POWER SYSTEM**
  - The average cost of a solar system reached $400 owing to the devaluation of the national currency rate. This price is unaffordable for the vast majority of the population.

- **HEALTH**
  - Currency depreciation as well as increasing costs of insurance and freight led to significant decline in medicine imports. This had a negative impact on the price of the medicines available in the local market.

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2- Education:
Owing to the collapse in the exchange rate and its cost-push effects on the standard of living, many families were forced to withdraw their children from school owing to the soaring prices of most services and commodities, which left families unable to cover their children's schooling needs, including school fees and supplies. The number of children in need of educational assistance amounts to 4.7 million, while those in severe need 3.7 million (2.6 million boys, and 2.1 million girls). At least two million children are out of school, while 4.1 million children lack financial assistance to be able to attend school.  

3- Solar energy:
Many parts of the country suffer from a lack of electricity, thus bringing services to a halt and increasing the burden on citizens. It is estimated that 75% of urban households and 50% of rural households use solar energy systems with a 150w solar panel, a 1 kW power inverter, a 10AMP charge controller and a 100AMP battery charger. The average cost of this solar panel system is about $400. Other estimates indicate that the cost of a 100AMP solar panel system is close to $1000. Most Yemenis suffer from energy poverty. And in case their solar panel system gets damaged, they face difficulty purchasing a new system or a spare part to replace the broken one due to the exchange rate decline.

4- Health:
The deterioration of the exchange rate and the increase in the cost of freight and insurance has led to a decrease in the import of medicines to approximately 60% of the average import during the pre-war period. This reflected negatively on the price of the drug, which aggravated the suffering of patients, especially those with chronic diseases, owing to the scarcity of these drugs.

Humanitarian and relief assistance provided by UN specialized agencies, many countries and international organizations to address the humanitarian crisis in Yemen is one of the key aspects that have contributed to mitigating the deterioration of the national currency and the collapse of the exchange rate, by meeting the needs for humanitarian aid.

**Humanitarian initiatives and assistance**
The humanitarian assistance delivered by the organizations is one of the tools that helped the Yemeni economy survive in many social or financial aspects. Since the outbreak of the Yemeni war, a number of policies and procedures have been adopted that have alleviated the humanitarian crisis and also in one way or another helped reduce the burden on the national economy. Among these interventions is the adoption of the UNICEF emergency cash transfer project targeting the 1.5 million cases listed in the Social Welfare Fund, which impact 9 million people and economic empowerment and cash-for-work projects. Additionally, to this end, these organizations engage major local supplier to purchase goods and humanitarian aid where they to carry out bank operations, including cash transfers and receipts, using their bank accounts abroad, which helped to ease the pressure on the demand for foreign currency (dollar) in light of the decline in supply of foreign currency. Local partners in all regions of the republic are also engaged to distribute aid and cash transfers across the country instead of limiting them to a specific region, which has also contributed to providing a kind of local cash liquidity (the movement of currency through the movement of individuals across cities). To recapitulate, the humanitarian aid component, whether directly or indirectly, has contributed to mitigating the fluctuations in exchange rates and providing local cash liquidity in light of the restrictions imposed on bank transfers from abroad to inside Yemen and vice versa. Funding for humanitarian activities increased during the period 2015 to 2019, with the aim of providing humanitarian assistance to save the lives of affected individuals and communities, contribute to delivering food to vulnerable families, and provide cash and in-kind aid to enhance the living conditions and keep societies from collapsing under the conflict. Besides, these humanitarian actions provide support for different state institutions to help them keep functioning and providing various public services, and not to slide into further deterioration. Another advantage of these activities is limiting the depreciation of the exchange rate of the national currency by providing foreign exchange.

The above table indicates that the actual funding for the Humanitarian Response Plan for 2019 (until October) amounted to $2.9 billion with a coverage of 69.4%, while 30.6% of funding is still needed by the end of the year.

**Working through existing government projects:**
Many international organizations and donors are working outside the humanitarian response plan, including the World Bank Group, which has invited humanitarian partners to provide the necessary support to keep the wheels of public institutions turning to provide basic services. In this context, the bank’s current engagement in Yemen provides critical support to Yemeni households use solar energy systems with a 150w solar panel, a 1 kW power inverter, a 10AMP charge controller and a 100AMP battery charger. The average cost of this solar panel system is about $400. Other estimates indicate that the cost of a 100AMP solar panel system is close to $1000. Most Yemenis suffer from energy poverty. And in case their solar panel system gets damaged, they face difficulty purchasing a new system or a spare part to replace the broken one due to the exchange rate decline.

<table>
<thead>
<tr>
<th>Years</th>
<th>Required funding</th>
<th>Received fund</th>
<th>Coverage percentage</th>
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<tbody>
<tr>
<td>2015</td>
<td>1601</td>
<td>885</td>
<td>55%</td>
</tr>
<tr>
<td>2016</td>
<td>1633</td>
<td>1026</td>
<td>63%</td>
</tr>
<tr>
<td>2017</td>
<td>2339</td>
<td>1753</td>
<td>75%</td>
</tr>
<tr>
<td>2018</td>
<td>3108</td>
<td>2507</td>
<td>81%</td>
</tr>
<tr>
<td>2019</td>
<td>4193</td>
<td>2910</td>
<td>69%</td>
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</table>

Source: https://fts.unocha.org/appeals/675/summary
families and communities across the country by helping cushion the impact of the financial crisis on them through income support, wide-ranging cash assistance, health and nutrition interventions, cholera response, and the restoration of agricultural production. Emergency grants to Yemen are funded by the International Development Association (IDA).

Since July 2016, IDA grants amounted to $1.36 billion to fund emergency operations for the Yemeni people. In May 2019, Yemen was granted $400 million to address high rates of malnutrition and contribute to maintaining basic health, water and sanitation services for the population. In addition to the new financing, there is a new World Bank Group engagement strategy in Yemen that focuses on maintaining the basic services and the institutions that provide them, while supporting the sources of livelihoods and economic recovery in preparation for ultimate peace solutions. With this grant, IDA’s obligations to Yemen amount to $1.76 billion1.

Other factors that helped reduce the deterioration of the exchange rate of the national currency accounted for providing foreign exchange through humanitarian support provided by cash assistance programs, in-kind assistance and aid vouchers in different governorates.

What does inaction in Yemen mean?

International donor interventions have achieved satisfactory results by activating the link between humanitarian and development work in record time, but if there had been inaction and reluctance to provide humanitarian assistance, it would have had immediate and serious consequences for Yemen’s poorest and severely needy citizens. Moreover, restarting activities at a later stage would be much more expensive and take longer time. Therefore, Yemen gives an obvious example of the importance of financing investment during an ongoing conflict; which offers valuable lessons that aid teams can use in designing and supervising operations differently in contexts of fragility, war and violence. Failure to fund and provide adequate humanitarian assistance in Yemen at present means:

- Putting the lives of some 24 million people at risk of poverty and hunger for the rapid decline in the exchange rate of the national currency and failure to meet the need for some kind of humanitarian assistance.
- Exposing 19.7 million people to health risk for the collapse of health facilities and lack of basic healthcare services, in addition to the inability to provide treatment for 358,000 children under five with severe acute malnutrition2.
- Putting one million pregnant women at risk of complications and malnutrition.
- Deprivation of 4.7 million children of education for the collapse of educational services and lack of education assistance.
- Serious violations of the basic rights of 4.8 million IDPs, including 3.3 million displaced persons, 1.1 million returnees and 0.4 million refugees and migrants for lack of access to food, water, health services, medicine and protection.
- Exposing the lives of 8.178 million people to environmental risks for lack of water and environmental sanitation assistance.
- Further deterioration and collapse of public institutions.

Concerning the stability of exchange rates and commodity prices and covering the country’s needs of basic commodities, several measures have been taken:

- Issuing a circular on facilitating the provision of basic commodities in the local market, allowing the execution of letters of credits (LCs) and commercial transfers issued with no more than 100,000 U.S. dollars, or equivalent of other foreign currencies, at maximum in one week per trader; taking into account that the transfer is not to be divided, provided that the supporting documents for commercial transfers (purchase invoice, bill of lading, certificate of origin) are completed and compliance is ensured.
- Dealing with traders who have previous and ongoing transactions and a well-known business activity, and doing due diligence to find out the real beneficiary of the transaction parties.
- Refusal to carry out any financial transfers that are not commensurate with the traders activity and to report any suspicious case to the Financial Information Unit in accordance with the suspicion indicators issued by the CBY.
- Completing the procedures for the anti-money laundering and counter-financing of terrorism (AML/CFT) system, applying the principle of «Know Your Client» (KYC), and not to engage in bank dealings with unidentified persons, as well as the completion of documents and documents supporting the purpose of the transfer.
- Providing a detailed statement of the transfers issued in a soft copy (Excel) on a daily basis; no later than the next day at 10 a.m.

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1. The World Bank Group in Yemen, available on the website on October 26, 2019:
An announcement from the CBY to the public regarding receiving any complaint in the event of the following violations by banks and exchange companies:

- Non-acceptance of foreign exchange currency of the US dollar banknotes issued for the years 1999-2006-2003-2001- or trading them at a lower price.
- Non issuance of an official invoice when buying and selling foreign currencies.
- Speculation on prices with high buying and selling margins compared to what appears in the exchange rates panel of exchange companies and the prevailing price.
- Lack of commitment by banks and exchange companies to execute remittances received from abroad in the currency of the transfer or the Yemeni riyal at the prevailing price.
- In August 2018, the CBY in Aden approved the cash withdrawal from the first batch of the Saudi deposit to cover bank credits of basic materials in the amount of 20 million and 428 thousand dollars.
- On September 12018, CBY in Aden instructed commercial banks to sell $2000 to citizens departing from Aden or Sayun for medical purpose under simplified procedures, provided that the CBY compensates commercial banks for these amounts upon receiving the claims, and payment to be made in the foreign currencies paid.

Efforts were made during 2019 to control the exchange rate crisis by the CBY in Aden, including financing imports of fuel and basic food commodities at a preferential exchange rate, including announcing the continued cash withdrawal from the Saudi deposit, in addition to activating the banking system for managing the financial centers of banks. Also activating the function of supervision and inspection of banks, while training compliance officers in banks to review and prepare the required reports, improving foreign exchange management and exchange affairs, as well as preparing report on foreign exchange risks.

- The CBY announced a fixed exchange rate of YER 440/USD for the import of basic commodities, while the exchange rate in the black market exceeded YER 590/USD.
- The CBY in Aden declared that the CBY reserve is S 2.5 billion.
- The Central Bank announced the transfer of the credits amounts to the accounts of commercial banks abroad.

On April 102019, the CBY in Aden set a reduced exchange rate at YER 495/ UDS and committed itself to provide it to all merchants importing basic commodities (non-luxury items), but went back to the exchange rate YER 440/USD in the next month.

**Recommendations:**

Reducing exchange rate deterioration owing to currency depreciation requires large-scale participation by stakeholders. The following is a selected package of interventions:

<table>
<thead>
<tr>
<th>Difficulties &amp; Risks</th>
<th>CBY &amp; concerned bodies</th>
<th>Urgent and medium-term interventions by relevant parties</th>
<th>Potential Impact</th>
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<tbody>
<tr>
<td>Lack of foreign exchange undermines preparedness to meet food needs and to respond to food requirements, which heightens the risk of hunger, affects all dimensions of food security.</td>
<td>Resuming oil and gas exports and increasing foreign exchange inflow.</td>
<td>Providing goods into all governorates.</td>
<td>Ensuring availability of foreign currency, to serve the citizen and economy and improve the living conditions of all Yemeni people.</td>
</tr>
<tr>
<td>The national currency devaluation has exacerbated the sufferings of the Yemeni people presently in the grip of a grave humanitarian crisis, especially after they exhausted all elements of adaptation and resilience.</td>
<td>Uniting the Central Bank of Yemen in Sanasa and Aden.</td>
<td>Mobilizing international efforts and assistance for domestic production.</td>
<td>Alleviating hunger.</td>
</tr>
<tr>
<td>The consumer situation is getting worse for most Yemeni families due to the ongoing conflict.</td>
<td>Encouraging consumption of locally produced sorghum, millet and dates.</td>
<td>Encouraging bakeries to add local grains to the flour.</td>
<td>Alleviating the burden of wheat imports.</td>
</tr>
<tr>
<td>Inability to meet nutrition needs with changing dietary preferences.</td>
<td>Urging bakeries to add corn grains and millet to the flour.</td>
<td>Ensuring availability of food commodities at reduced prices.</td>
<td></td>
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<td>Raising public awareness on rationalizing consumption.</td>
<td>Mobilizing further support for poor families and IDPs.</td>
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<td>Paying salaries to meet food needs.</td>
<td>Supporting agricultural production of wheat, grain and dates.</td>
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<td>Higher prices aggravate peoples’ sufferings as most families have difficulty accessing food.</td>
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<td>Increasing the number of targeted households.</td>
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<td>Restricted access of basic goods through ports and road obstacles.</td>
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<td>Taking proactive measures to maintain stability.</td>
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<td>Improving the purchasing value of the national currency.</td>
<td>Developing controlling and regulating mechanism for the trade of oil derivatives to ensure availability of fuel at affordable prices.</td>
<td>Expanding livelihood programs.</td>
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<td>Ensuring application of subsidies for oil derivatives imported at a preferential exchange rate of 440.</td>
<td>Guaranteeing transparency in applying regulations on traders and ports.</td>
<td>Supporting living standards improvement in IDP camps.</td>
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<td>Including flour among subsidized food commodities to be imported at a reduced price.</td>
<td>Adhering to banking controls that restore cash trading from the black market to the banking sector.</td>
<td>Supporting income-generating projects and programs.</td>
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