

Advocacy Brief

The Impact of the Currency Depreciation on the Yemeni Population

23 October 2018

INTRODUCTION

Yemen's economy has never been very strong and is heavily reliant on the country's moderate oil export, as well as remittances from Yemeni workers abroad, especially in the Gulf countries. With only limited local production, Yemen has also been heavily dependent on commercial imports, including the import of staple food commodities.¹ Whilst years of instability following the Arab uprisings in 2011 had already negatively impacted on the economic situation, it has further deteriorated significantly since the escalation of the conflict in March 2015.

This is the first of a forthcoming series of briefing papers giving a general overview of the impact that the massive decline of the economy in the last three years has had on the Yemeni population's ability to meet their basic needs.² The extremely challenging state of the Yemeni economy is the result of a multitude of different factors and developments. This briefing takes a closer look at the financial decline and the rapid devaluation of the Yemeni Riyal (YER), its specific impact on the people's purchasing power, and the corresponding decline it has had on their health and wellbeing.

The Humanitarian Situation of the Population:

Since the escalation of the conflict in March 2015, the economic situation for the Yemeni population deteriorated significantly. Humanitarian needs were already immense by the end of 2014 with 15.9 million people, 56 percent of the total population, requiring some form of humanitarian assistance. These consequences had been compounded by decades of poverty, lack of development and effective rule of law, and intermittent conflict.³ Since 2015, the population in need of humanitarian assistance rose by nearly 40 percent in under three years to 22.2 million people, 79 percent of the population.⁴ This figure has likely increased at the time of writing due to the escalation of fighting in Hodeidah governorate in June 2018 that has led to over 500,000 people additionally being displaced,⁵ as well as the staggering currency crisis that has swept through the economy.

More than half of the 22.2 million people needing some form of humanitarian assistance are in acute need (11.3 million people, 40 percent of the population). Within this group, 17.98 million people are food insecure⁶ and 8.4 million of them, 30 percent of Yemen's total population, are severely food insecure.⁷ The UN warns that a staggering 13 million people, 46 percent of the population are facing starvation.⁸ In less than a year, between the easing of the blockade in December 2017 and October 2018, the price of the minimum food basket increased by

¹ Up to 90 percent of Yemen's staple food needs are imported because local food production is estimated to account for, at most, 25 percent of the food availability in Yemen and less than 10 percent of staple foods. Qasem, A. and B. Scott (2017), 'Navigating Yemen's Wartime Food Pipeline,' *Deep Root*, p. 16.

² Forthcoming briefings will examine the impact of the 2017 blockade, the fuel crisis, and the economic impact on health and education services.

³ OCHA (2017), Humanitarian Needs Overview – Yemen, p. 5, https://reliefweb.int/sites/reliefweb.int/files/resources/YEMEN%202017%20HNO_Final.pdf

⁴ Yemen Humanitarian Response Plan (YHRP) 2018, <https://reliefweb.int/report/yemen/yemen-humanitarian-response-plan-january-december-2018-enar>; The figures for the YHRP are collected at the end of the previous year.

⁵ OCHA, Yemen: Al Hudaydah Update, Situation Report No. 10 (1-18 September 2018), https://reliefweb.int/sites/reliefweb.int/files/resources/20180726_Al%20Hudaydah%20Update_Issue%2010_final%20version.pdf

⁶ OCHA, Humanitarian Needs Overview 2018, https://reliefweb.int/sites/reliefweb.int/files/resources/yemen_humanitarian_needs_overview_hno_2018_20171204_0.pdf

⁷ YHRP 2018, op. cit, p. 2.

⁸ BBC (15 October 2018), "Yemen could be 'worst famine in 100 years'," <https://www.bbc.com/news/av/world-middle-east-45857729/yemen-could-be-worst-famine-in-100-years>

nearly 70 percent. Compared to pre-crisis levels, it rose by a staggering 142 percent.⁹ Together with a loss of income for substantial parts of the population and the massive devaluation of the Yemeni Riyal (YER) (see below), the price increase for basic food commodities is having a ripple effect on the population meaning many families cannot even afford the bare minimum and resort to negative coping mechanisms such as skipping entire meals. As a result, between 35 and 55 percent are feared to fall from moderate to severe food insecurity, and about 3 to 5 million people more are expected to be in acute need due to the most recent depreciation of the local currency as of the beginning of October 2018.¹⁰

Devaluation of the Yemeni Riyal:

The stability of the Yemeni currency has suffered greatly since the start of the conflict. Between March 2015 and October 2018, it has gone from 215 YER to 727 against the US dollar (USD) losing 70 percent of its value.¹¹ Foreign and local currency reserves of the Central Bank of Yemen (CBY), key to stabilize the value of the currency, had been already reduced due to the conflict, but the cessation of oil exports further led to the depletion of foreign currency reserves, especially as this was paralleled by increasing stocks of local currency in circulation.¹² Whilst the official exchange rate remained fixed at 250 YER against 1 USD (after an official devaluation in 2016), the black-market rate steadily declined.¹³ The first half of the year of 2017 saw a more rapid decline of the YER until the CBY dismantled the official exchange rate and issued the direction to use the floating exchange rates of the parallel market in September 2017.¹⁴

The rapid decline of the currency was exacerbated by the continuous printing of new YER notes, a means that was initiated by the Yemeni government in 2017 and supposed to counter a significant liquidity crisis that had gripped the country over the past two years. Yet, due to the lack of foreign currency reserves, the CBY has not enough guarantees to stabilize the YER and limit the inflation of commodity prices. Together with a lack of sufficiently experienced staff, competing monetary policies between the Sana'a and Aden-based CBY branches,¹⁵ and the liquidity crisis, the value of the YER continued to decline by the end of 2017.¹⁶ A deposit of USD 2 billion by Saudi Arabia into the CBY at the beginning of 2018 slowed down the further decline of the YER temporarily, yet, in late September 2018, the YER experienced another rapid devaluation over just a couple of weeks and hit a record low of nearly 800 YER against 1 USD. By the first week of October, and after a donation of another USD 200 million from Saudi Arabia, the exchange rate stands at 727 YER against 1 USD.¹⁷

Table 1: Depreciation of the YER against the USD¹⁸

February 2015	December 2016	December 2017	September 2018	October 2018
215 YER	269 YER	375 YER	633 YER	727 YER
/	20% decrease	43% decrease	66% decrease	70% decrease

⁹ FAO, MoPIC (October 2018), 'Soaring prices of Essential Food Commodities continues to worsen as the Yemeni Riyal depreciation deepened by 238%', p. 2. The minimum food basket for the average Yemeni household of 7 persons per month consists of 75kgs wheat flour, 10kg dry weight beans (red kidney of fava beans), 8 litre vegetable oil (mostly imported), 2.5 kg sugar and 1kg Iodized salt.

¹⁰ WFP presentation in country, October 2018.

¹¹ FAO, MoPIC (October 2018), op. cit., p. 1.

¹² Sanaa Center for Strategic Studies (SCSS) (2018), The Yemen Review – September 2018, <http://sanaacenter.org/publications/the-yemen-review/6510>; see there for a more detailed explanation of the reasons for the currency depreciation; MoPIC (June 2018), 'Yemen Socio-Economic Update,' Issue 34, p. 2.

¹³ FAO, MoPIC (October 2018), op. cit., p.1.

¹⁴ Ibid.

¹⁵ Rageh, M. et. al. (2016), 'Yemen without a functioning Central bank: The loss of basic economic stabilization and accelerating famine,' Sanaa Center for Strategic Studies, <http://sanaacenter.org/publications/main-publications/55>.

¹⁶ SCSS (2018), op. cit.

¹⁷ FAO, MoPIC (October 2018), op. cit., p.1.

¹⁸ Ibid.

The Impact of the Devaluation of the Yemeni Riyal on the Population:

The depreciation of the YER has led to massive inflation, increasing the costs for basic living commodities such as water, electricity, food, primary health care and education. The purchasing power of large parts of the population has been significantly curtailed due to the high prices and the devaluation of the money that people are still earning, especially in the private sector.

This development is further exacerbated by a number of other factors. For over two years, most of Yemen's civil servants have been only partially or not at all paid, partly due to the above-mentioned liquidity issues of the CBY. With around 30 percent of the work force employed in the public sector prior to the escalation of the conflict,¹⁹ the absence of a regular salary has affected a substantial part of the population. Furthermore, private sector employers could not pay wages or had to reduce salaries due to the liquidity crisis, and eventually had to lay off part of their work force or close down completely, further reducing people's purchasing power and also contributing to the decline of economic activity as people struggle to cover their basic expenses.²⁰

"The daily allowance doesn't cover transportation fees. So, I am forced to go on foot, to serve patients and children who are in there waiting for service."

- Dr. Mohammed, a medical assistant who works in Save the Children's supported health facility in Sa'da. When he cannot afford petrol, he walks an hour to the clinic in the hot sun.

The increase of unemployment and the lack of salaries has particularly affected Yemen's middle class. As many civil servants, teachers started to leave their jobs because they did not receive their salaries anymore, or the remaining salaries were not covering their basic needs due to the inflation of prices. They look for other jobs such as manual labor to be able to provide for their families.²¹ Teachers in the southern parts of the country, for example, were on strike for the first five weeks of this school year that started in early September 2018 because their salaries are so low from the devaluation of the YER that despite still having a salary, the earnings are insufficient to cover the needs of their families. Whilst teachers in the south have been granted a 30 percent increase of their salaries as a result of their strike, their colleagues in the northern parts of Yemen continue to struggle without regular payment. With children out of school over a prolonged period of time, they are not only experiencing significant gaps in their education but are also more vulnerable to negative coping strategies.

At the same time, those who are still receiving salaries often have to support additional members of their families. Any safety nets that have partially offset the severity of the economic decline over the past years are exhausted and people have started to skip meals and eat food with low nutritional value. The recent devaluation of the YER and inflation of prices for basic food commodities has only exacerbated this trend. Given the soaring unemployment and civil servant salaries in arrears, large segments of the middle class cannot provide for themselves anymore and lost their purchasing power which in turn further weakens local markets. However, those most immediately affected are those parts of the population who had been already vulnerable and marginalized, that means largely those of the over 50 percent of the population who had been in need of assistance before the escalation of the current conflict. Many of them had been relying on the cash assistance of the Social Fund for Development as the only source of financial support until it was suspended in 2014.

Remittances from Yemeni workers abroad have traditionally contributed significantly to the country's GDP and people's ability to remain financially afloat. In 2016, remittances worth over USD 1 billion were still sent to Yemen. As most of these remittances are not transferred through the formal banking system, the state has nearly no access to taxes from those remittances. As most Yemeni workers abroad have been working in the Gulf countries and Saudi Arabia in particular, they have been directly affected by new Saudi labor laws over the past years, dating back to pre-crisis periods that demand the nationalization of whole sectors, including those where Yemeni workers have traditionally worked.²² The loss of these opportunities and the return of many of those workers to Yemen over the past few years, and with them the absence of remittances has further curtailed people's access to cash and their ability to spend it in the local market.

¹⁹ MoPIC (June 2018), op. cit., p. 2.

²⁰ MoPIC (July 2018), 'Yemen Socio-Economic Update,' Issue 35, p. 7.

²¹ UNICEF (2018), 'If not in school. The paths children cross in Yemen,' p. 1, https://www.unicef.org/yemen/resources_12501.html

²² Mohammed, S. and R. al-Akhali (2018), 'Diaspora Bonds: Harnessing the Potential of Yemeni Returnees,' p. 4.

Rapid increase in prices:

Whilst the currency has dramatically lost its value, prices for basic food commodities continue to rise. This is partly due to a decline in imports, especially in the aftermath of a temporary full blockade of the country in November 2017 and the severely reduced capacity of Hodeidah port. In late 2016, about 70 percent of all goods were imported through Hodeidah, including fuel and other non-food commodities,²³ but import restrictions and inspection mechanisms have severely reduced the port's capacity. The month-long blockade of the port in November 2017 has had an additional impact on the imports coming through Hodeidah, and re-routing goods through the port of Aden has contributed to price hikes for the end-consumer due to longer transport routes.

While staple food such as wheat, rice, sugar and beans could in theory still cover the monthly minimum needs of the population,²⁴ a severe shortage of fuel and diesel, the security situation with main roads cut off due to active fighting, and the distances from suppliers to markets are the main factors for high prices and the limited availability of goods, especially in rural markets in addition to the devaluation of the local currency.²⁵ The average cost for the minimum food basket, for example, has increased by eight percent between just July and August 2018, and by 75 percent compared to pre-conflict prices.²⁶ The shortage and resulting high costs of diesel also impact on the availability and cost of water as most water is extracted from groundwater wells with diesel pumps and then transported to the communities with water trucks.²⁷ Yet, with average increases of 58 percent for petrol and 48 percent for diesel between August and September 2018, the cost for water has also increased by 54 percent on average over the same period of time.²⁸ People have turned to negative coping mechanisms, such as reducing the operating hours of water facilities, reliance on unsafe water, including surface water on the street and reducing the use of good hygiene practices.²⁹ This change in behaviors carries the severe risk of contracting preventable waterborne diseases such as cholera.

Table 2: Average price increase of basic food commodities, pre-crisis to August 2018³⁰

	Wheat Grains	Wheat Flour	Sugar	Rice	Locally processed Vegetable Oil
Price increase	82% increase	80.6%	63%	96%	84%

In the face of reduced and devalued salaries, or no regular payment at all, and the inflation of prices, people are not only scrambling to afford food but also transportation costs to reach health facilities for primary health care. They also struggle to send their children to school, having next to no money to afford school supplies, books and uniforms. Poor households whose livelihoods and incomes have been significantly reduced by the ongoing crisis are expected to suffer the most from the further increasing cost of living.³¹

²³ Qasem, Scott (2017), op. cit., p. 15.

²⁴ WFP (August 2018), Yemen Market Watch Report, Issue 27, p. 2.

²⁵ Ibid.

²⁶ FAO, MoPIC (August 2018), Monthly Market Monitoring Bulletin, Issue 37, p. 3.

²⁷ WASH Cluster (October 2018), 'Impact of the Economic Crisis on WASH services and public health,' p. 2.

²⁸ Ibid.

²⁹ Ibid., p. 1.

³⁰ FAO, MoPIC (August 2018), op. cit., p. 3.

³¹ WFP (August 2018), op. cit., Issue 27, p. 3.

SAVE THE CHILDREN'S RESPONSE:

Nutrition remains a clear priority overall for Yemen. Save the Children has nutrition interventions in eight governorates and continues to implement lifesaving nutrition intervention in these locations, including unconditional cash distribution, food vouchers, and, if the situation demands, general food distribution. These distributions are geographically integrated in locations most affected by cholera, and gatherings for distributions are used to raise awareness about cholera transmission among beneficiaries.

If the situation improves, 50 percent of those targeted with the above interventions will be considered for livelihood restoration activities and other conditional activities like cash for work (CFW).

Since the beginning of the response, Save the Children in Yemen has reached 1,090,188 people, including 573,554 children with food baskets or cash transfers. Another 146,554 children under five have been treated for malnutrition, including moderate and severe acute malnutrition (MAM and SAM).

Furthermore, Save the Children advocates at capital level and with the international community for the immediate improvement of the health sector and the food security situation, stressing the severity of the situation and suggesting immediate measures. In addition, Save the Children is continuing to call on the active engagement of the international community to urge warring parties to meaningfully support and engage in an inclusive peace process, as this is the only way through which sustainable relief can be provided to the people in Yemen.

RECOMMENDATIONS:

To ensure people can afford food, medicine and other essential commodities in order to prevent needless deaths from preventable causes, **Save the Children calls on all authorities in Yemen and the international community**, to:

- Ensure humanitarian and commercial imports, including medicine, reach Yemen through all land and sea ports, and in particular the full operational capacity of Hodeidah port, and allow their unobstructed transport to all parts of the country in order to prevent a full-fledged humanitarian tragedy;
- Mobilize cash and market expertise to advise the clusters on engaging with all relevant sectors whilst avoiding any negative impact on markets;
- Ensure the regular and full payment of civil servant salaries, particularly to health and education workers, equip health facilities and schools with the urgently needed personnel to ensure the continuity of delivery of much needed services, as well as equip people with the ability to purchase on the local market; and
- For donors to allocate a clear budget for increased funding for food and non-food baskets to stem the severe levels of food insecurity and renewed outbreaks of diseases; with increased flexibility to follow the population and accommodate the rapid changes to the context and provide long-term funding for livelihood interventions to enable people to cover their basic needs.

There is no military solution to this conflict. Only a political solution is likely to bring the war to an end and reinstate peace in Yemen. All parties must agree to a **full cessation of hostilities, a comprehensive ceasefire**, and cooperate with UN Special Envoy Martin Griffiths to **positively engage in the peace process** in 'good faith' without preconditions.