

Economic Indicators Report - Yemen 2017

% 25

percentage of increase in
foodstuff prices in 2017

% 42

percentage of increase in
Fuel prices in 2017

SEMC

STUDIES & ECONOMIC MEDIA CENTER
مركز الدراسات والإعلام الاقتصادي

:Photo

Ahmed Al-Basha

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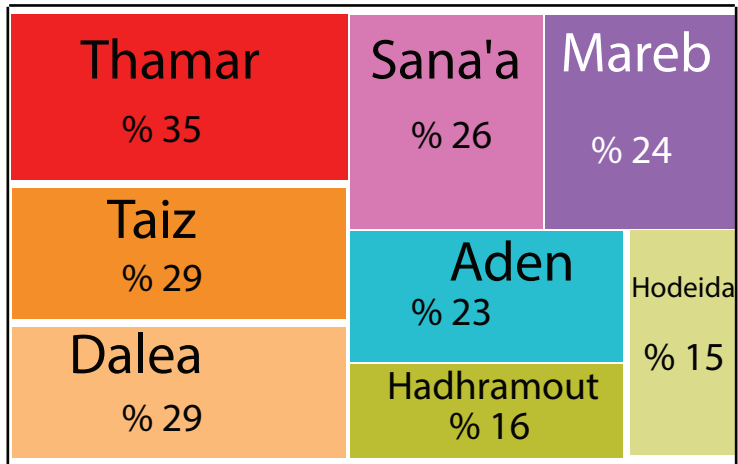
Introduction

Yemen is going through a state of economic deterioration as a result of the war that has been raging for the last three years. War has created an economic and humanitarian crisis which has affected most Yemenis. The most remarkable indicator of this crisis is the spiraling number of the people affected. 22.2 million citizens, 85% of Yemenis, are in need of humanitarian assistance, of whom 11.3 million Yemenis are in acute need of humanitarian .assistance

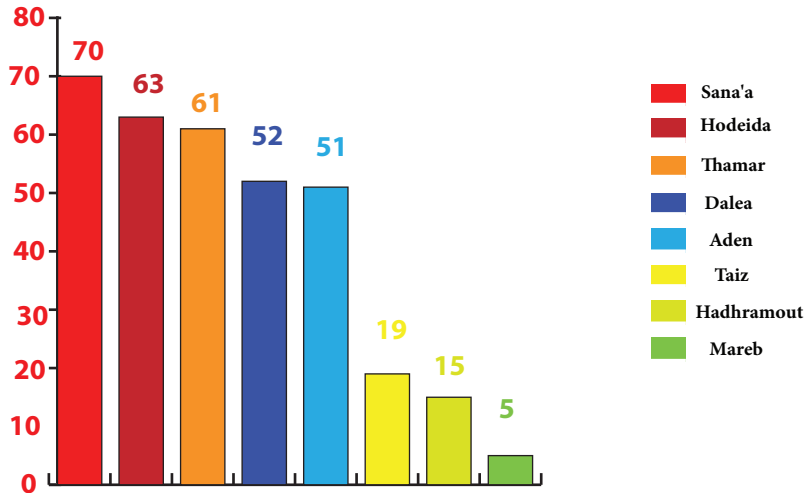
Prices of basic food items have increased by 25% compared to prices in 2016, and 50% in 2015. Fuel prices have increased by 42% compared to .2016

The annual Economic Indicators Report, which has been issued by SEMC for the last three years, presents the significant indicators of the humanitarian and economic situation in Yemen, including basic commodity and fuel prices, exchange rates, and the status of the health and education .sectors

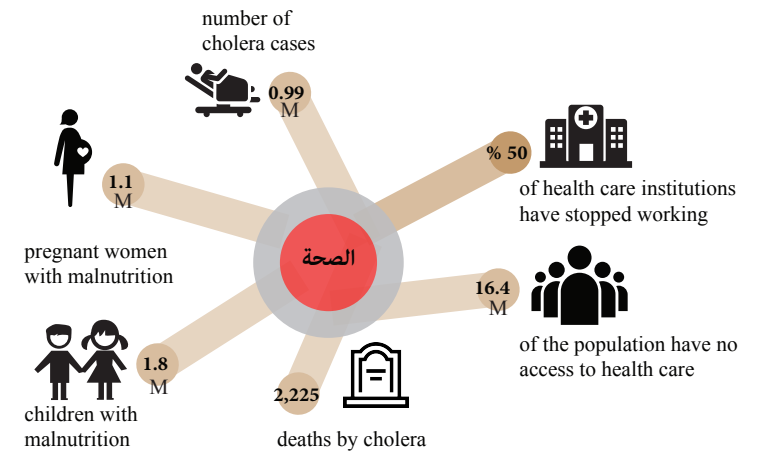
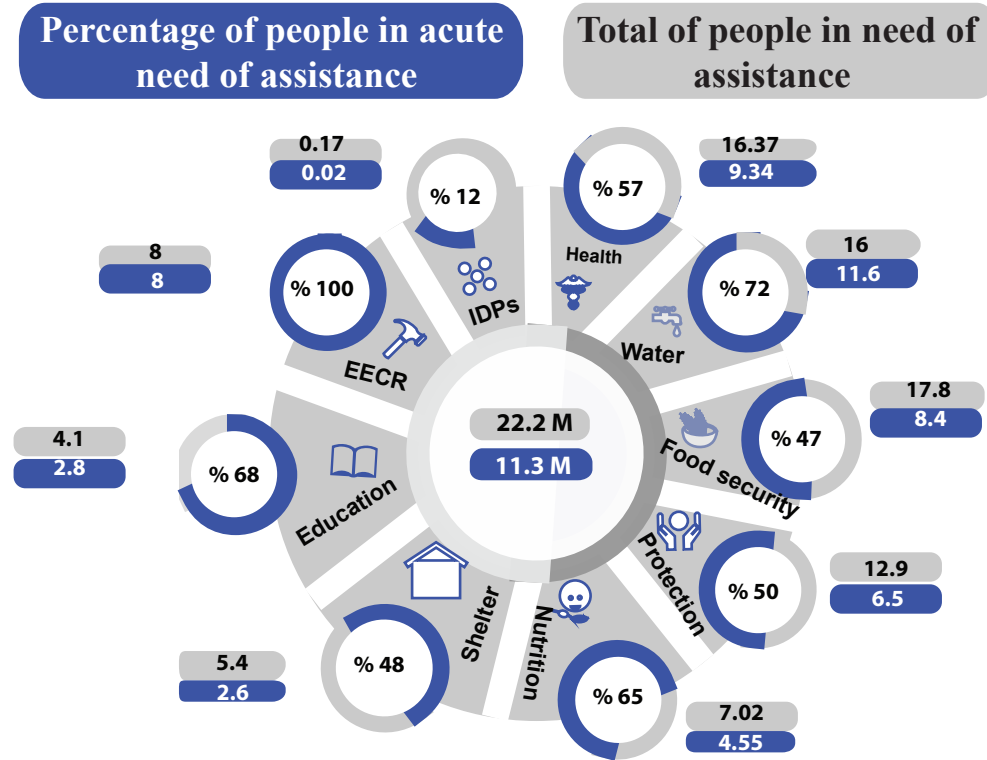
Percentage of increase in foodstuff prices in 2017, compared to 2016 in the Targeted Provinces



Percentage of increase in Fuel prices in 2017, compared to 2016 in the Targeted Provinces



Percentage of people in need of assistance by sector



Basic Commodity Prices

In 2017, prices of basic food items skyrocketed in the targeted governorates (Sana'a, Taiz, Aden, Hodeida, Mareb, Hadhramout, Thamar, and Dalea). Prices of basic food items (flour, sugar, rice, milk, cooking oil) are on average 25% higher than in 2016. Thamar witnessed the highest increase in of basic food prices during 2017, recording an increase of 35% compared to 2016 prices. Taiz and Dalea came next, recording an increase by 29%, followed by the capital Sana'a with an average increase of 26%. Mareb recorded an increase by 24% for the same commodities, whereas in Aden prices increased by 23%. Hadramout and Hodeida recorded relatively low increases in food prices compared to other governorates, as prices were respectively 16% and 15% higher than in 2016. With Hodeida recording the least increase.

Compared to 2015, prices of basic food items in the targeted governorates were 50% higher, and were as high as 72% in comparison to pre-war 2014 prices.

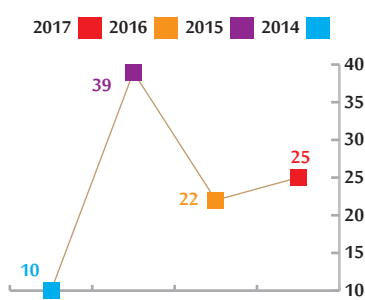
Increase in foodstuff prices is due to several reasons, including:

1. Decline of the value of the Yemeni Rial vs. the US dollar and other foreign currencies, this being the most important factor behind increase in prices of basic food items.
2. Houthi-imposed additional taxes on food items in governorates controlled by the militia as new customs and tax collection offices were created. Such randomly collected taxes are added to the tariff and hence paid by the end customer. Similarly, illegal taxes are collected by armed groups which set up illegal checkpoints for this purpose in governorates controlled by the Aden-based government.
3. Lack of any official price control mechanisms, particularly with regards to food items, creating a situation of market instability where suppliers of those commodities monopolize the market.
4. High costs of in-country and transit transport, and rise of goods insurance fees;
5. Fluctuating high fuel prices, a situation that forced importers and businessmen to secure their needs of fuel from the black market and add the extra rates to prices of their goods.

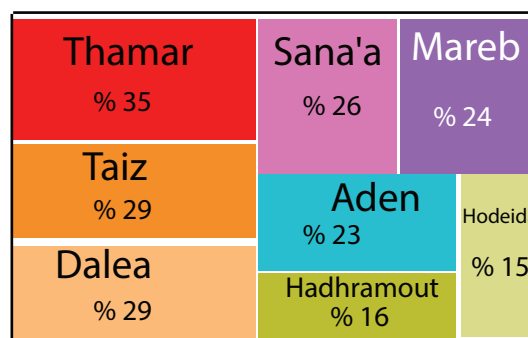
25% inflation in prices of basic food items Thamar being the most

expensive governorate

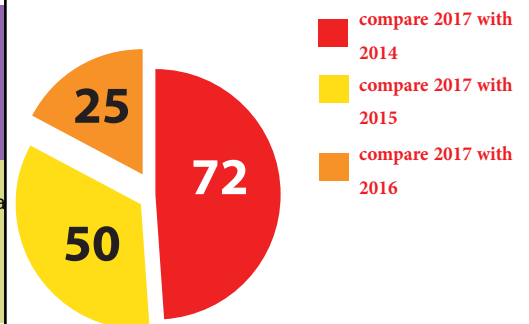
Rate of Inflation During past years



Percentage of increase in foodstuff prices in 2017, compared to 2016 in the Targeted Provinces



Percentage of increase in foodstuff prices in 2017, compared to the three preceding years



Fuel Prices

Fuel Prices in 2017 recorded a remarkable increase in targeted governorates (Sana'a, Taiz, Aden, Hodeida, Mareb, Hadhramout, Thamar, and Dalea) compared to 2016. Prices of fuel derivatives (petrol, diesel, and gas) were 42% higher than in 2016.

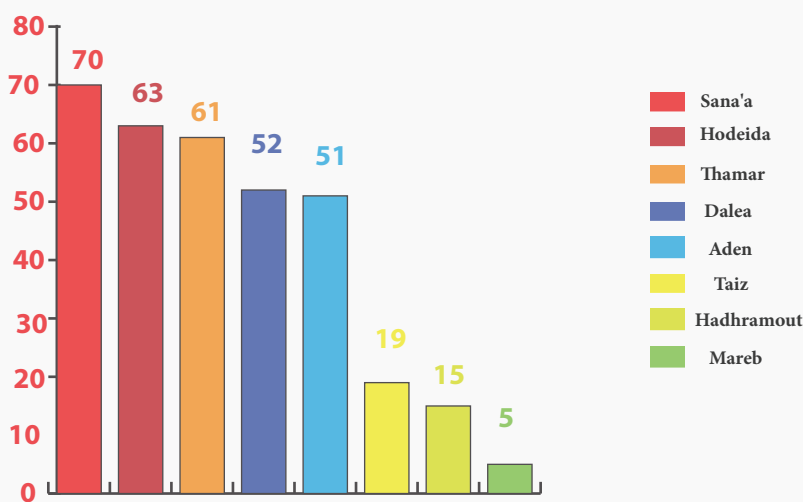
Sana'a recorded the highest increase in fuel prices in 2017, with an average increase of 70% compared to 2016 prices. Hodeida came next, with an increase of 63%. Thamar, Dalea, Aden, and Taiz recorded increases of 61%, 52%, 51%, and 19%, respectively; whereas Hadhramout recorded an increase of 15%. Mareb recorded the lowest increase of 5%, compared to 2016 prices.

Compared to 2015, increase in fuel prices in targeted governorates was as high as 31%, but the increase spirals to 143% in comparison to pre-war 2014 prices.

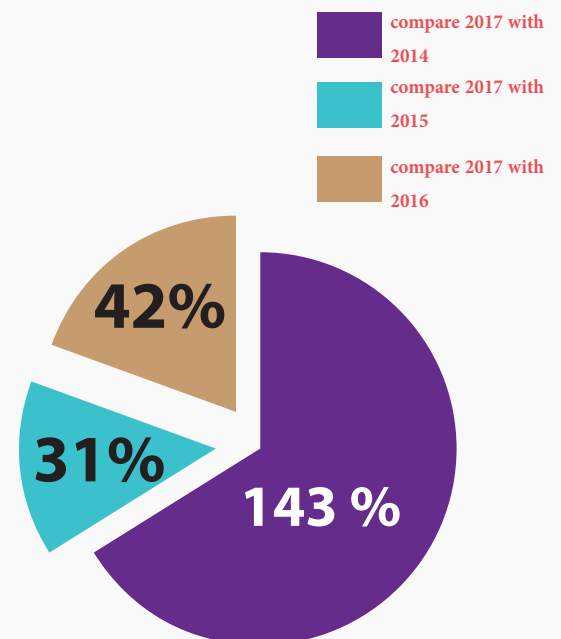
Increase in fuel prices was remarkably evident during the second half of 2017, when fuel derivatives were available only in the black market.

“
Sanaa recorded the highest whereas Mareb records the lowest increase in fuel prices.
”

Percentage of increase in Fuel prices in 2017, compared to 2016 in the Targeted Provinces



Percentage of increase in foodstuff prices in 2017, compared to the three preceding years



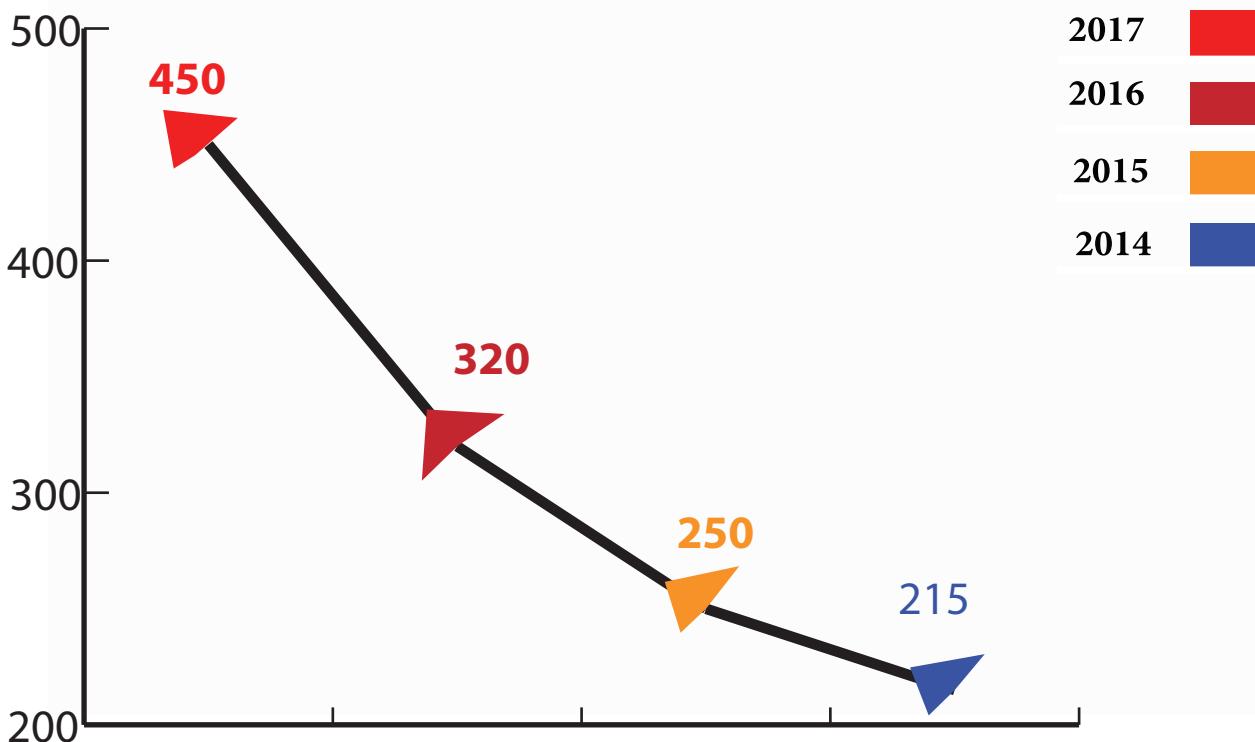
Currency Exchange Rates

The Yemeni Rial recorded a steady decline in the exchange market. The Rial was down by up to 41%, compared to its 2016 value. The highest rate of the US Dollar was YR 450, compared to YR320 in 2016.

Decrease in value of the Rial reached 109%, compared to 2014 rates, and 80% compared to 2015 rates.

"
Decline of
the value
of the
Yemeni
Rial (YR)
in 2017,
taking a
downturn
of up to
41%.
"

Figure : Exchange Rates of the US Dollar in Yemeni Rials over the period (2014 - 2017)



Major Challenges Facing Private Enterprises and Business Sector in Yemen, 2017

Yemeni economy went through several crises that affected the business and financial sectors during 2017, most significant among which:

1. Additional taxes were charged on goods transport

Private enterprises were subjected to heavy taxes. The Houthi militia imposed extra taxes on in-country goods transport, even when goods do not go beyond the boundaries of a single governorate. The Houthi militia also set up new tax collection checkpoints and customs offices in Tamar and other cities, where goods entering the country via the port of Aden and other cities within the dominion of the legitimate government were subjected to customs fees.

Businessmen and owners of private enterprises complained of heavy losses as a result of illegal decrees and edicts issued by the Houthi-controlled customs authority, including edicts charging taxes on goods distributed to the branches of an enterprise in other cities.

2. Low Liquidity and Fluctuation of Exchange Rates

The private sector faced challenges arising from low liquidity, such as the fluctuation and instability of exchange rates and difficulties in outbound money transfers. This problem was exacerbated by the total absence of any role by the Central Bank of Yemen (CBY) and its failure to mediate money transfer transactions.

3. High Import Costs

The private sector was further crippled by rises in import costs, including shipping, discharge, and transport charges, in addition to war risk fees and other illegal charges at seaports and by customs offices.

Major economic events during 2017

- 1.** Flotation of the Yemeni Rial vs. Hard Currencies Decree: CBY management in Aden approved a decision to drop the official value of the Rial previously set at 250 Rials/\$1.00). The new CBY-approved exchange rate had to be determined by liquidity and market transactions.
- 2.** Creating new customs offices by the Houthi militia in some major cities where a second tariff is charged on inbound goods entering the country via ports in the dominions of the Aden-based government.
- 3.** Resumption of crude oil exports from al-Masilah field in Hadhramout; with an average export of 35,000 barrels/day.
- 4.** In the Geneva Conference called into session by the United Nations in April 2017, the donors announced allocating \$1.1 billion in support of humanitarian aid and relief efforts in Yemen.
- 5.** Most governorates, particularly Aden, Taiz, and Sana's experienced sporadic crises due to fuel shortages. Only Mareb, al-Jawf and relatively Hadhramout had stable oil supplies.
- 6.** The World Bank announced two new grants of \$450 million to Yemen, allocated to providing urgent assistance to the most vulnerable sections of the population.
- 7.** Inflow of 400 billion Yemeni Rials minted in Russia. The prime minister announced then that the liquidity crisis in the country had come to an end.
- 8.** The humanitarian crisis in the country persisted. 22 million out of 27 million Yemenis were in need of humanitarian assistance, 11 million of whom were in acute need of assistance.

Economic Trend Indicators: 2018

● **The value of the Yemeni Rial vs. US dollar and other hard currencies will continue to deteriorate**

It is expected that the Yemeni Rial will be devaluated further, due to the continued lack of efficient monetary policies that would put an end to further decline. This in turn is due to the absence of any efficient role by Aden-based CBY, and the tax-based policies and decrees approved by the Houthis-militia in its dominions.

● **Approval of General State Budget 2018**

It is expected that the legitimate government will approve a budget after it had failed to do so for three years (2015-2017-). The budget is likely to be announced following the pressing demands by civil society, economists and media on the necessity of a clear-cut government program, a publicized budget, and empowering supervisory boards to monitor government apparatus performance.

● **Partial resumption of oil exports**

It is expected that some oil companies in the dominions of the Aden-based government such as Hadhramout, Shabwa and Mareb, will resume production due to increasing governmental needs for resources. Governmental spending increases as more areas come under its control. Moreover, persistent employment in the military and civil sectors exacerbates this situation, particularly in light of limited resources and inability to mint local currency as was the case in 2017.

● **Income of the Aden-based government is likely to improve, particularly in relatively stable governorates**

Field data show that 2018 will witness slight improvements in state income in provinces controlled by the Aden-based government. Some institutions have started to revive their infrastructure, especially Aden, Taiz, Shabwa, and other governorates where institutions suffered destruction in infrastructure or in administrative structures.

● **Persistent outbound flow of local capital**

Yemeni capital is expected to continue to migrate abroad due to unabatedly continued risks spurred by illegal taxes, security risks, haphazard extemporary decisions, the state of lawlessness particularly in Houthis-controlled areas. Indicators of a flow of capital abroad have begun to surface in lists of businessmen to be supervised or their capital detained on account of their political sympathies. The militia even resorts to force in dealing with economic crises as was the case in dealing with some banks and exchange companies.

● **Failure to go beyond relief to reconstruction**

The need for urgent relief persists. This means that no steps to go beyond relief to reconstruction can be taken. Major reasons for the persistence of the status quo include the ongoing war in many areas and the concomitant worsening of the humanitarian crisis as well as the absence of government efficacy. Moreover, regional (members of the Saudi-led Coalition) and international players (donors) are not serious about supporting reconstruction, which is still a secondary issue on their agendas up to the moment.

Power and Water Supplies

Since the outbreak of the war in 2015, service sectors in Yemen have been seriously paralyzed. The power and water sectors were the most affected. The electricity network underwent severe damage and stopped functioning completely in the majority of governorates as a result. The power supply crisis persisted during 2017. There was no improvement in the power services in Houthi dominions, where the public power service has been off since March 2015.

Reports show that 90% (24.3 million) of Yemenis have no access to a public power supply. In Houthi dominions, including the capital Sana'a, private generators providing services at high rates to subscribers are widespread. A kilowatt costs 180 rials, compared to public power rates of 6 rials/1 kilowatt.

Approximately 60% of Yemenis (16 million) do not have access to clean drinking water and sanitation services.

In the Aden-based government dominions, there was some improvement in water and public power supplies, as was the case in Mareb, Hadhramout, and Aden, especially when compared to Houthi dominions.

Solar Energy as an Alternative to Public Power Supply

Most Yemenis resorted to setting up solar energy systems as an alternative to the public power supply. Although solar energy covers only 60% of domestic power needs, and does not meet the needs of commercial stores, which need higher power to operate electric appliances, solar energy was a viable alternative that furnishes the basic power needs. A 100-ampere output solar energy system costs approximately \$1000.

A study conducted by SEMC shows that solar systems with an estimated output of 300 megawatt were set up in Yemeni cities and countryside.

90 %
of People
do not
get
public power

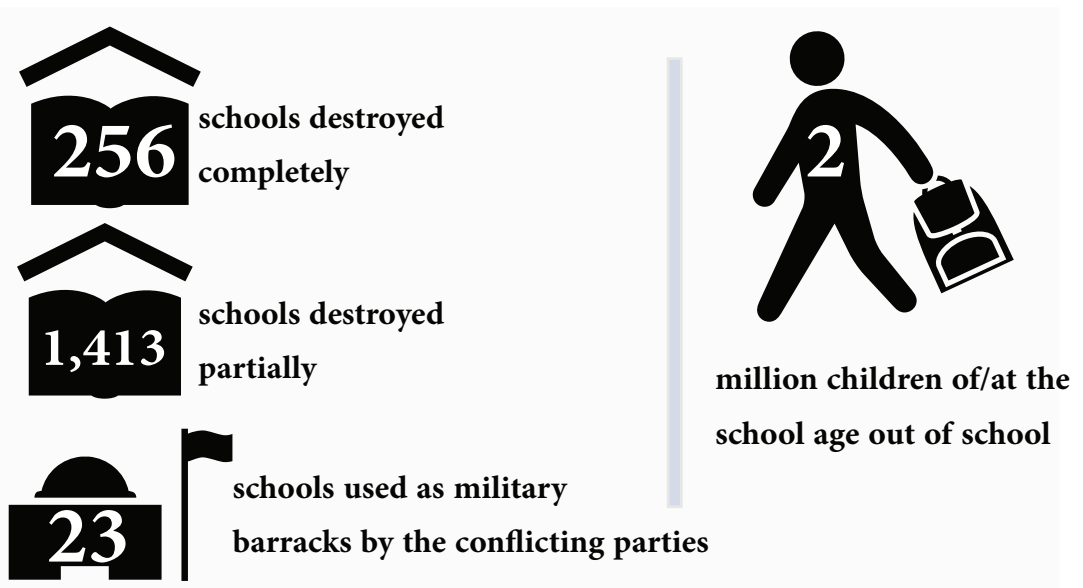
16. M
cant access
to clean
drinking
water and
Sanitation

Education

Education did not witness any improvement in 2017. Problems were rampant in this sector, most significant among which were the continued salary crisis, especially in Houthi dominions. War wrought havoc in this vital sector. Some 256 schools have been completely destroyed, 1,413 schools were partially destroyed, 150 schools are used as housing facilities to the displaced, and 23 schools are occupied by armed groups belonging to both sides of the conflict and are being used as military barracks. Around 2 million children are out of school due to harsh economic conditions and inability of parents to provide basic school requirements to their children, or due to displacement. About 3 million persons are displaced, including 300,000 children, which means that those children have no access to education. Failure to pay salaries of teachers and academics has exacerbated the problems of the education sector in Yemen. Yemeni students abroad have also faced difficulties as a result of stipend payment delays.

Education in Yemen experiences several difficulties, paramount among which:

- Low expenditure on education in relation to overall expenditure
- Many educational institutions were damaged due to war, and some were turned into military barracks or IDP housing facilities.
- Shortages in school curricula
- Large numbers of children at the school age are out of school due to the harsh economic conditions
- Many organizations have stopped supporting educational programs



Health Sector

The health sector has deteriorated further in 2017. International reports show that 50% of health institutions in Yemen have stopped working due to the war and the lack of operational expenses. Some health centers were completely or partially damaged. Around 14% of those centers are still functioning, but with a 50% of original capacity.

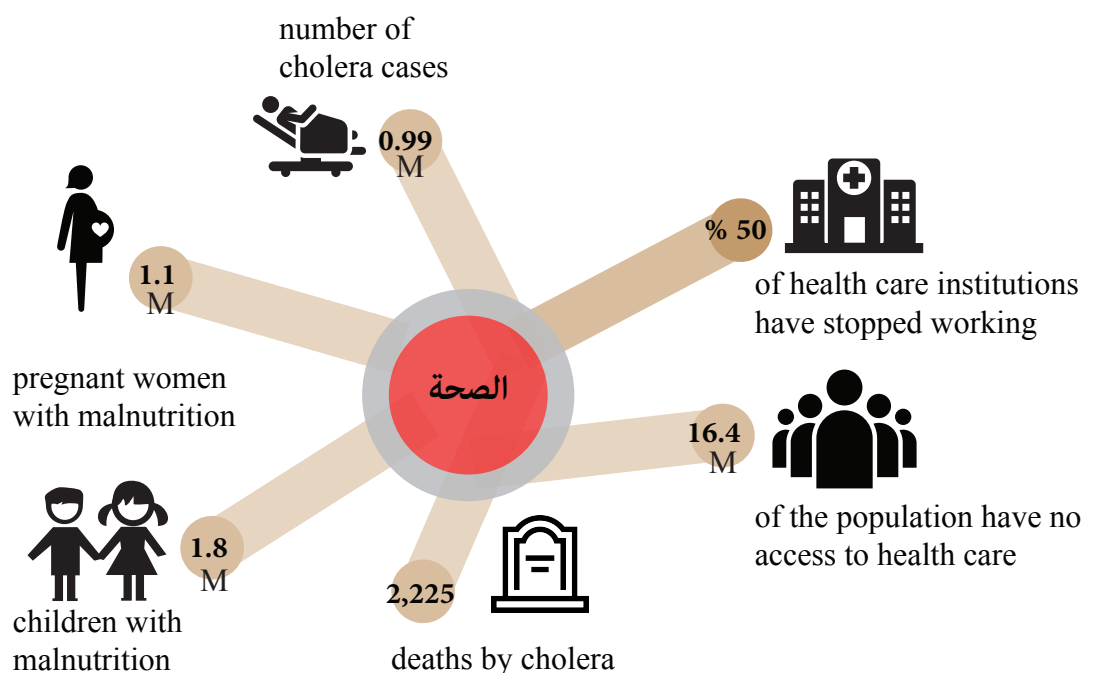
Deterioration of the health sector led to the outbreak of cholera, diphtheria, diarrhea, malnutrition, and other epidemics. According to World Health Organization reports, 994, 751 cholera cases, and 2,226 of diphtheria deaths were recorded as of 17 December 2017. These epidemics are widespread in most governorates. 333 cases of diphtheria, and 35 deaths by diphtheria were recorded. Finally, 16.4 million people lack access to health care.

Other diseases, such as cancer, diabetes, kidney failure, heart diseases and severe diarrhea, are widespread.

The majority of operating health centers are understaffed, and suffer shortages in medicines and medical equipment.

Major problems permeating the health sector include:

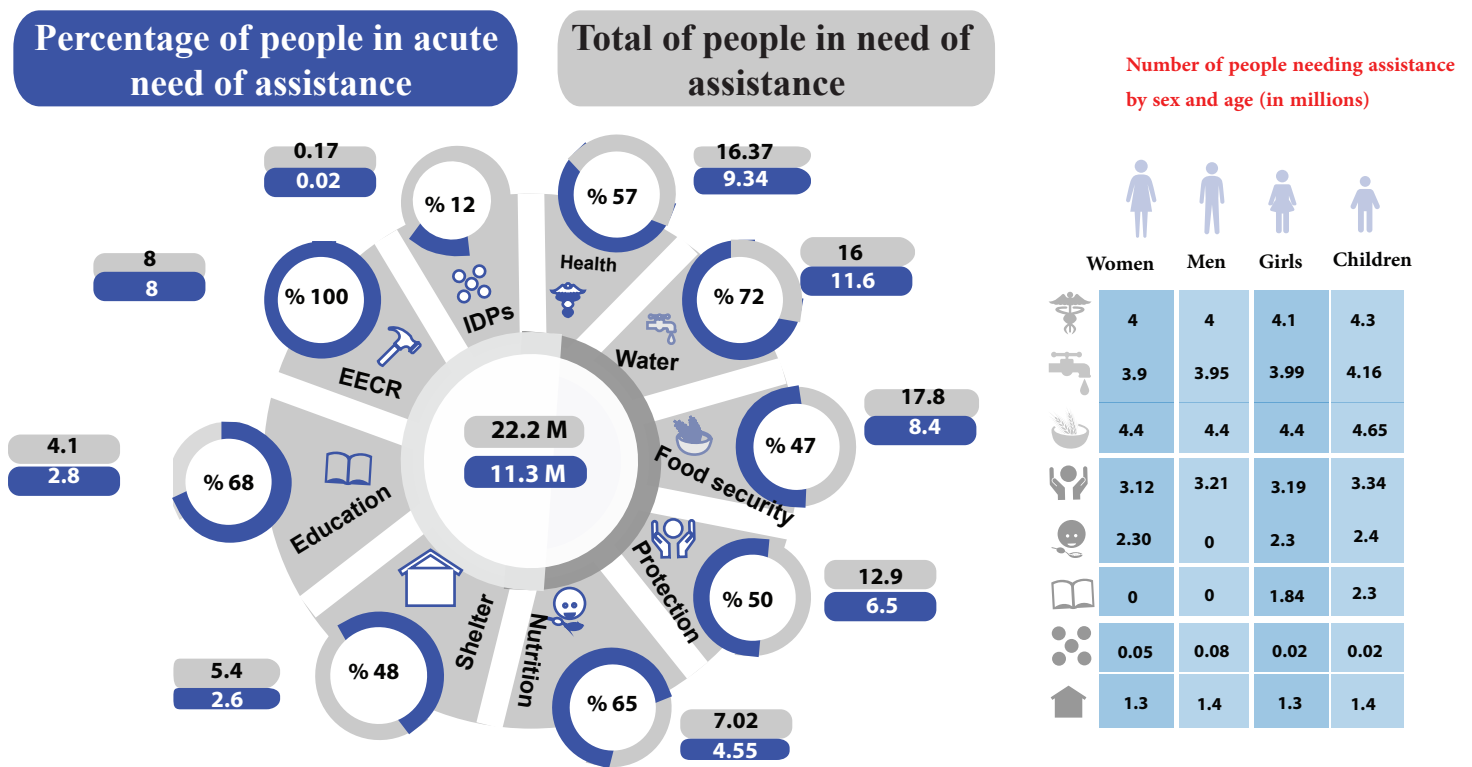
- Several health institutions were damaged and stopped working.
- Deficiencies in medical apparatus and medicine, particularly medicines of cancer, diabetes, kidney failure, and heart diseases.
- Shortages of qualified medical staff.



Humanitarian Situation

Generally, 2017 is considered the worst year in terms of the humanitarian situation in Yemen since the outbreak of the crisis. As the war continues raging, epidemic outbreaks are on the rise, and prices are skyrocketing; thus exacerbating the humanitarian crisis. About 22.2 million Yemenis are in need of humanitarian assistance in the various sectors, including nutrition, health, education, Shelter, food security, water, etc.

Percentage of people in need of assistance by sector

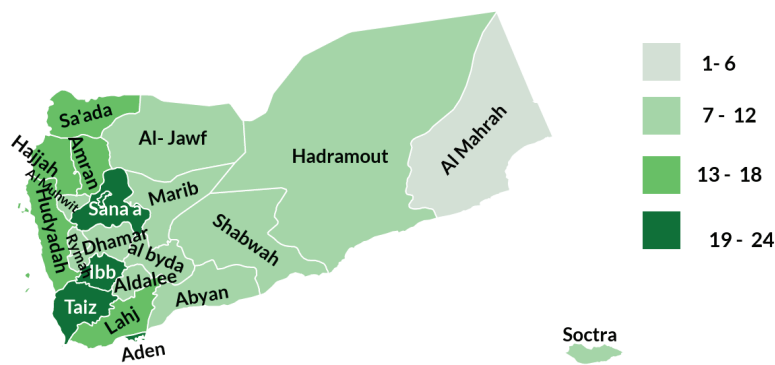


Humanitarian Organizations working in Yemen

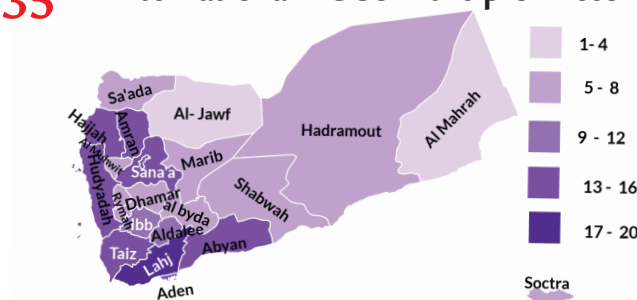
143 organizations were working in Yemen as of 31 October 2017, 100 of which were local NGOs, and 35 international NGOs and 8 UN agencies. These organizations work in the various sectors, as follows:

Food security and agriculture: 88 organizations, Health: 49, Shelter, non-food items, camp management and coordination: 9, Nutrition: 30, Water and sanitation: 43, Protection: 28, Education: 9, Refugees and IDPs: 10, Early Recovery: 10, Map showing distribution of NGOs by governorate, Number of local NGOs providing relief by governorate 100, Number of international relief NGOs by governorate 35, Number of UN agencies working in Yemen 8

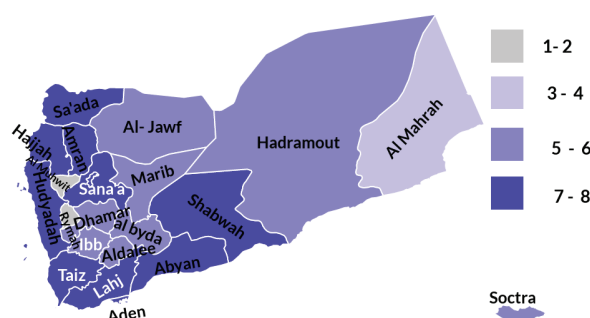
100 local NGOs in the Provinces



35 International NGOs in the provinces



8 UN Agencies in the provinces





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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