In late July, the Government resumed salary payments to public sector workers in the southern governorates. While calm returned to the parallel exchange rate markets, supported by the global weakening of the US dollar and a lower local demand for dollars, suffocating fuel supply shortages continued in the northern governorates, jeopardizing COVID-19 responses and delivery of humanitarian assistance, further compounding Yemen’s dire economic and humanitarian conditions; food security remains fragile and requires close monitoring.

On July 29, 2020, the Southern Transitional Council (STC) announced the cessation of its self-declared autonomy in the southern governorates and its commitment to the implementation of the Riyadh Agreement. The announcement was followed by the reappointment by President Hadi of Dr. AbdulMalik as Prime Minister to form a new cabinet of up to 24 members in accordance with the Riyadh Agreement. The Prime Minister-designee will continue to operate in a caretaker capacity until the formation of the new cabinet. The Riyadh Agreement—a ceasefire agreement mediated by the Kingdom of Saudi Arabia and signed between President Hadi’s government and the STC in November 2019—stipulates the formation of a coalition cabinet with equal representation between the South and North within 30 days; appointment of a new governor and security director for Aden; withdrawal of military forces from Aden; and reorganization of security and military forces.

It remains unclear if the Government has recovered public revenue diverted to the STC’s “self-rule” accounts with Al Ahli Bank. During the period of “self-management”, the STC collected revenue from several revenue-collacting government agencies through its “self-rule” accounts. While these accounts were officially closed on July 29, it is not clear how much revenue had been collected and expended by the STC, and if the Government has subsequently received unused funds, if any. The status of the unissued new banknotes confiscated in June by the STC on route to the Central Bank of Yemen (CBY) Aden is also unclear.

In July, the Government resumed payments of public sector salaries in the southern governorate. Since early 2020, salary payments to military and security personnel in the southern governorates suffered frequent delays and limited geographical coverage. However, in the run-up to the Eid Al-Adha in late July, the Government disbursed full month salaries to all civil servants as well as military and security forces in its jurisdiction. In late July, the Government also began to disburse pension payments for August in the southern governorates, while payments to pensioners residing in the northern governorates—about 31 percent of all the recipients—have remained mostly suspended in 2020.

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1 Prepared by Naoko C. Kojo (Senior Economist) and Amir M. Althibah (Research Analyst) of the Global Practice for Macroeconomics, Trade and Investment, based on information available up to August 10, 2020.
2 In April 2020, the STC declared a state of emergency and self-rule in the southern governorates that were part of an independent state prior to the 1990 unification. For further information, see Yemen Monthly Economic Update, April 2020, World Bank. For the STC’s official announcement, see https://en.stcaden.com/news/9236.
3 In early August, a new governor and a security director for Aden were appointed.
4 Last year and prior to the suspension of payment in the north following the currency ban in late December 2019, the government in Aden had resumed pension payouts in the north which covered 10 months in 2019. During January-April, in 2020, the Government transferred a total of 2-month pension payments to the north, likely covering the remaining payment arrears accumulated in 2019. No new payouts for 2020 pensions have been verified so far.
In the northern governorates, half-month salaries were paid to all public workers in late July.⁵ Reportedly, the de facto authorities withdrew some YR 8.5 billion from the CBY Hodeidah branch’s special account overseen by the UN for public salary payments. Since November 2019, taxes and customs levied on commercial importation of fuel through the Hodeidah port had been set aside in a special account with the CBY’s branch in Hodeidah under UN supervision in accordance with the Stockholm Agreement. The pooled resources, supplemented by transfer from the Government, were to be used for salary payments to all public employees nationwide, but implementation of the agreement has suffered considerable delays. Since December 2019, the Government has not made any salary payments to public workers in the north governorates. In late July, the de facto authorities in Sana’a also disbursed half-month pensions to recipients in the northern governorates.

During July, the rial remained broadly stable nation-wide, supported by the global weakening of the US dollar, tightened controls on the cash market for dollars, and a lower demand for dollars due to difficulty in executing imports (Figure 1). In the southern governorates, the rial remained broadly stable after the reopening in early July of exchange bureaus, all of which had been closed since June 20 in protest against the measures that the CBY (Aden) imposed in early June to curb speculation and stem downward pressure on the currency (Box 1). The disbursement of public sector salaries by the Government in July did not immediately trigger a renewed depreciation of the rial, indicating that some countervailing force on dollar demand was at work. The rial was trading at around YR 745-757 per US dollar compared with YR 700-750 in June in Aden. Although month-to-month movement has been small, since January 2020 the rial has depreciated by nearly 25 percent against the US dollar in the areas controlled by the Government. Given Yemen’s heavy reliance on imported food and other essential goods, the weakening of the rial has serious implications for the country’s socio-economic conditions. Up in the north, the rial also stabilized after recovering slightly to YR 595-600 per US dollar from YR 600-625 in June. In the northern governorates, the exchange rate of the rial has remained virtually unchanged except for a brief period in June, as limited availability of old banknotes has helped contain demand for foreign exchange and the reduced fuel imports lowered local demand for the US dollar (see below).

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Box 1. Chronology of Exchange Control Measures Implemented by CBYs

Faced with increasing downward pressure on the rial, both CBY headquarters in Aden and CBY Sana’a branch introduced measures to contain market speculation and restore stability in the parallel exchange market. This Box summaries the key measures implemented by both authorities.

**CBY (Aden)**

June 9. Launched an open-end extensive supervision campaign to ensure compliance and transparency on currency trading and CBY regulations on licensing. The campaign initially focused on banks, money exchangers and local money transfer networks in Aden before expanding to other southern governorates. As part of the campaign, the CBY (Aden) issued several instructions, including a temporary trade suspension, restriction on non-cash transactions for currency trading (i.e., via overdraft facilities or on credit), and imposition of a specific exchange rate.

June 14. Instructed banks and money changers to accept the new YR 200 denomination banknotes, banned trade with any networks/bureaus not licensed by the CBY Aden, and eliminated other possible avenues for currency speculation, such as the use of overdraft and currency trading via payment networks.

June 22. Minimum business hours were set to prevent speculative currency trading outside business hours. Enforced reopening of closed shops that are compliant with regulations. Published a list of authorized payment networks (15 financial payment networks).

June 28. Banned all exchange bureaus from trading with non-licensed and unauthorized networks by the CBY (Aden). Non-compliance with this instruction would result in legal actions, including de-licensing and large fines.

July 3. Instructed exchange bureaus with financial payment networks to establish interconnection with the CBY (Aden) to enable real-time supervision and inspection of accounting and payment systems. Non-compliance with this instruction would result in legal actions, including de-licensing.

July 15. The supervision campaign was extended to other governorates under the control of the Government.

August 9. Announced the release of US$ 61.5 million from Saudi Arabia’s deposit to finance essential food imports.

**CBY (Sana’a)**

Early June. On-site inspections to tighten controls over payment networks to prevent non-cash based transactions and speculative currency trading.

June 15. Arranged through Payment Committee the sale of SR 40 million (about US$10.7 million) to finance essential food imports in the northern governorates.

June 18. Tightened controls on domestic payments networks to prevent speculative trading and non-compliance with trading regulations, including a ban on non-cash payment transactions, and requirement for same-day cash settlements for payment or currency transactions through payment networks or banks.

June 21. Instructed all banks and money changers to accept “white” US dollar notes (notes issued before 2009) without discounts, and prohibiting sales, use or transactions based on crypto currency or non-authorized electronic payments.b

July 6. Tightened control on access to foreign exchange by prohibiting exchange bureaus from selling foreign currency directly or indirectly to merchants and importers of four sectors (fuel; food; poultry, chicken and animal food; construction materials), whose foreign exchange needs are covered by the Payment Committee of the CBY (Sana’a).

August 9. Announced reactivation of its checks’ clearing house for foreign currency based transactions between financial institutions. The CBY’s clearing house function, which was suspended in 2016, has recently been reconfigured with a new real-time automated system infrastructure.

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b. Due to their limited circulation, “blue” US dollar notes are preferred to “white” notes, which are more widely circulated and less valued in Yemen.
Over all, while strict controls over currency trading enforced by both CBYs may have helped to arrest speculative activity, a sharp drop in the relative value of the US dollar, which began in mid-June, have likely played a larger role in the stabilization of the rial (Figure 2). In August, with the stabilization of the US dollar globally, the rial began to slide again in the southern governorates. In the northern governorates, the rial has remained stable, as logistical difficulties in fuel importation through the Hodeidah port appears to have compressed traders’ demand for dollars. In light of a marked decline in oil prices, there have been serious concerns that workers’ remittances from the Gulf Cooperation Council (GCC) countries may have plunged, causing significant downward pressure on the rial. Despite the lack of data for Yemen, available evidence thus far suggests relative resilience of remittance outflows from the GCC countries, the main source of remittances to Yemen.6

The exchange rate gap between Sana’a and Aden widened further, reaching nearly YR 159 (26.5 percent) at the end of the July, compared with YR 134 (21.6 percent) a month earlier. Commercial banks and exchange bureaus continued to raise fees for local currency transfers from the southern to northern governorates to deal with the widening exchange rate wedge.7 Local currency transfers from northern to southern Yemen (i.e., conversion of old banknotes to new banknotes) are not very common, and do not incur extra charge of discount. Lately, people in the northern governorates began to make transfers in hard currency to recipients in southern governorates, where hard currency is trading at a higher value vis a vis the rial. The diverging exchange rates of the rial and recent tightening of exchange controls and payment networks in both sides have increasingly fragmented financial markets in the country, distorting incentives and affecting households and businesses that need domestic transfer services.

Crippling fuel shortages continued unabated in the northern governorates, disrupting basic services, response to COVID-19, and humanitarian operations. Little progress has been made in resolving disputes over the management of revenue from fuel imports through the Hodeidah port and subsequent detention of fuel vessels in the Red Sea.8 According to OCHA Yemen Humanitarian Update (July 2020), skyrocketing fuel costs in the informal market, long queues at petrol stations, and inflated costs for water, transport, have caused a reduction and suspension of some aid programs, including distribution of food and hygiene kits, water projects, immunization with the potential to put many Yemeni lives at risk.9 Yemen Petroleum Company (YPC)—the only distributor of imported fuel in the northern governorates—continued to distribute available quantities of fuel products via strict rationing systems. Since July 15, each vehicle is allowed to purchase 40 liters of gasoline per week at a limited number of petrol stations, where one has to queue for more than 24 hours. Diesel is no longer available at petrol stations, and YPC distributes diesel directly to recipients in the order of sector priorities to minimize disruptions to basic service delivery.10 In early August, the YPC stated that 400 hospitals and 5,000 health clinics and centers would be forced to close, if no fuel, particularly diesel, arrived before mid-August. A fuel shortage also hit the southern

6 July 2020 data confirm continued robust increases in remittance inflows through the official financial system (including mobile remittance transfers) to Bangladesh and Pakistan—both of which, like Yemen, receive a predominantly large share of remittances from the GCC countries, reversing the downward trend witnessed earlier in 2020.

In particular, remittances from the Kingdom of Saudi Arabia rose sharply in July. For more discussion, see Yemen Monthly Economic Updates, May and June 2020, World Bank.

7 For example, fees charged by Al Kuraimi bank for under YR 200 thousand transfers from Aden to Sanaa reached around 26 percent in late July 2020.

8 For further information, see Yemen Monthly Economic Updates for June 2020, World Bank.

9 OCHA Yemen Humanitarian Update # 7 July 2020.

10 According to the YPC, the order of priority is: (1) health, (2) water, (3) waste management, (4) electricity, (5) telecommunication, and (6) transport.
governorates in mid-July, leading to a closure of pump stations and long power outages. The fuel situation in the south appeared improving in late July following the lifting a strike of workers in Aden Refineries Company over delayed disbursement of salaries.

Fuel imports discharged through the port of Hodeidah remained significantly low in July. Although data from the United Nations Verification and Inspection Mechanism (UNVIM) suggest a moderate recovery of total fuel imports, the data breakdown explains the reason why the acute fuel shortages have continued in northern Yemen (Figure 3 and Box 2). During June-July, only two fuel tankers were permitted to enter the Hodeidah port to discharge 57.4 thousand metric tons (mt) of gasoline. The whole amount, equivalent to only 26 percent of minimum monthly consumption needs in the northern governorates, was distributed by the YPC for public consumption. During the same period, a total amount of 74.5 thousand mt of diesel was offloaded at Hodeidah, of which 45.2 thousand mt (29 percent of minimum monthly consumption requirements in the northern governorates) was for public consumption. The remaining amount of diesel (29.3 thousand mt) was imported by the private sector and cement factories, and not for public consumption. According to the YPC in Sana’a, as of August 1, there were 17 detained fuel vessels awaiting the Government’s approval to enter the Hodeidah port after having been inspected and cleared by the UNVIM (Box 3). Some ships have been detained since March 2020 following the inspection and clearance by the UNVIM. Detailed information on the detained fuel vessels is updated daily on the YPC website.12

11 The minimum monthly consumption needs of gasoline and diesel in the northern governorates is estimated at 114 thousand mt and 130 thousand mt, respectively.
12 http://www.ypcye.com/newsmore.php
Box 2. Discharged Fuel Vessels during June and July 2020

Seven fuel vessels with a total of 177,577 metric of oil derivatives were discharged from the port of Hodeidah during June-July 2000. However, out of the discharged volume, only 114,137 mt was gasoline and diesel for public distribution by YPC in the northern governorates (Table B1). The remainder of the discharged fuel composed of kerosene and mazut (non-pump fuel products) imported for LPG (cooking gas) and cement factories, and fuels imported by privately owned factories.

Table B1. Discharged Fuel Vessels during June and July 2020

<table>
<thead>
<tr>
<th>Fuel Type</th>
<th>Volume (metric ton)</th>
<th>Discharged Vessel Information</th>
<th>Discharge Date</th>
<th>UNVIM Clearance Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gasoline</td>
<td>28,239</td>
<td>BRIZO</td>
<td>19-Jul-20</td>
<td>28-May-20</td>
</tr>
<tr>
<td></td>
<td>29,134</td>
<td>SUZETTE</td>
<td>4-Jul-20</td>
<td>11-May-20</td>
</tr>
<tr>
<td>Diesel</td>
<td>29,262</td>
<td>DYNASTY</td>
<td>28-Jun-20</td>
<td>25-Mar-20</td>
</tr>
<tr>
<td></td>
<td>27,502</td>
<td>SEA-HEART</td>
<td>4-Jul-20</td>
<td>26-Apr-20</td>
</tr>
<tr>
<td></td>
<td>12,761</td>
<td>TAHO-SPRIT (Imported by private firm and not for YPC public distribution)</td>
<td>20-Jul-20</td>
<td>26-Jun-20</td>
</tr>
<tr>
<td></td>
<td>4,974</td>
<td>ARENA (this also contained mazut, imported for cement factories)</td>
<td>23-Jul-20</td>
<td>13-May-20</td>
</tr>
<tr>
<td>Kerosene</td>
<td>8,300</td>
<td>EUGENIA GAS (for LPG consumption (cooking cylinders)</td>
<td>7-Jul-20</td>
<td>4-May-20</td>
</tr>
<tr>
<td>Mazut</td>
<td>26,926</td>
<td>HAFEYDH</td>
<td>3-Jul-20</td>
<td>6-May-20</td>
</tr>
<tr>
<td></td>
<td>10,479</td>
<td>ARENA</td>
<td>23-Jul-20</td>
<td>13-May-20</td>
</tr>
</tbody>
</table>

Source: Yemen Petroleum Company in Sanaa

Box 3. Fuel vessels detained after inspection & clearance by UNVIM*

As June 1: 15 vessels carrying 419,789 mt of fuel, with a total detention period of 700 days since UNVIM inspection & clearance.
- Gasoline: 259,833 mt (10 vessels):
- Diesel: 159,956 mt (5 vessels)
- Mazut: 0 mt
- Kerosene (LPG): 0 mt

As of July 1: 22 vessels carrying 504,079 mt of fuel, with a total detention period of 1,383 days since UNVIM inspection & clearance.
- Gasoline: 259,833 mt (10 vessels)
- Diesel: 177,691 mt (7 vessels)
- Mazut: 37,405 mt (2 vessels)
- Kerosene (LPG): 29,150 mt (3 vessels)

As of August 1: 17 vessels carrying 405,689 mt of fuel, with a total detention period of 1,432 days since UNVIM inspection & clearance.
- Gasoline: 199,467 mt (8 vessels)
- Diesel: 125,327 mt (5 vessels)
- Mazut: 60,045 mt (2 vessels)
- Kerosene (LPG): 20,850 mt (2 vessels)

Importation of food items through the Hodeidah and Saleef ports continued to recover in July (Figure 4). The significant backlog of offloading witnessed in April appears to have been moderated. The total volume of food imported and discharged through Hodeidah and Saleef ports during the first 7 months of 2020 amounted to 1.9 million metric tons (including food imported by agencies) exceeded that in the same period in 2019 slightly. This is a positive development in that the volume of food imports in 2019 was particularly high owing to Saudi Arabia’s import facility and scale-up in humanitarian food assistance. Nevertheless, anecdotal evidence suggests that imports of wheat flour and grains through all ports remained low. Going forward, close monitoring of food imports is necessary given the depletion of the Saudi Arabia’s deposit and scaling down of humanitarian operation in the northern governorates.

In July, food price inflation moderated at the national level, but the price trend differed significantly by governorates. According to the FAO-FSIS & MoPIC-FSTS Market Bulletin (July 2020), the national average cost of the Minimum/Survivable Food Basket (MFB) increased by 1.3 percent in July month-to-month and by 17 percent since the beginning of 2020. With the stabilization of the rial, the increases in the MFB cost softened in the southern governorates. However, there were reports of sharp increases in the price of bread and many other food commodities in the southern governorates during July, which are not directly captured in the MFB. A subsequent intervention by the Government to control the prices resulted in the closure of as many as 50 percent of bakeries. In the northern governorates, the MFB cost increases were modest in July, despite the severe fuel crisis, which could have raised food price through disruptions in food supply and higher transport cost.

13 Delays in entering the port also have contributed to reduced food imports in early 2020.
15 According to the FAO-FSIS & MoPIC-FSTS Market Bulletin (July 2020), the MFB cost in Aden declined by 5.5 percent in July after an 18.5 percent increase in June, while the MFB cost in Sana’a continued to fall. Since April, the MFB cost in Sana’a has declined by over 20 percent.
16 On July 7, the Ministry of Industry and Trade in Aden instructed bakeries to sell bread by weight at YR 500 per kg instead of a loaf. Prior to the announcement, cost of single loaf of bread reached YR 300 (roughly YR 600 per kg). Similar instructions in the past were not sustainable.
Yemen’s food security situation remains fragile. According to the Integrated Food Security Phase Classification (IPC) Partial Analysis released on July 22, 2 million people (25 percent) out of the total population of 7.9 million people in the 133 surveyed districts were estimated to be highly food insecure (IPC Phase 3 and above) during the period February-April 2020.¹⁷ The February-April 2020 food security situation compares favorably to the 2018/2019 results with more than half a million people having transitions to below IPC Phase 3 (i.e., minimally food insecure or in stress). However, given the fragility of food security, these gains could be reversed with a continued deterioration of the economic conditions (including the availability of fuel), cut back in humanitarian food assistance, increased violence, as well as repeated natural disasters, such as the torrential rains that swept through parts of the country in early August for the third time in 2020.¹⁸ The IPC Analysis predicts that the population facing high levels of acute food insecurity (IPC Phase 3 and above) would increase from 2 million to 3.2 million during July-December 2020 in the 133 districts it analyzed, if humanitarian food assistance was kept at the current levels and called for increased funding support.

¹⁷ Yemen: Acute Food Insecurity Situation February - April 2020 and July - December 2020 (Partial Analysis), IPC.
¹⁸ From late July to early August, for the third time this year, heavy rains with strong winds hit several parts of the country, causing flooding, loss of human lives and damage to infrastructure and dwelling. Most affected governorates include Amran, Abyan, Hodeidah, Hajjah, Ibb, Marib, Raymah, Sana’a, and Taiz. The impact of the rains will be covered in the next edition.