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The Saudi Development and
Reconstruction Program for Yemen

The Impact of the Saudi Deposit

On the Recovery of Yemen's Economy 2020

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The Impact of the Saudi Deposit On the Recovery of Yemen's Economy 2020

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The Impact of the Saudi Deposit on the Recovery of Yemen's Economy

Introduction:

Since 2015, the Yemeni economy has suffered from a severe collapse as a result of the internal conflict due to the cessation of economic activities, the spread of poverty, and the high rates of unemployment and inflation. At the end of 2017, the exchange rates began to rise rapidly and reached its highest levels at an exchange rate of 800 Yemeni rial / American dollar at the beginning of October of 2018, which negatively affected the livelihood of the Yemeni citizen. In March 2018, the Kingdom of Saudi Arabia provided support to the Yemeni government by depositing an amount of 2 billion US dollars to the Central Bank of Yemen, a deposit designated to cover the import of basic food commodities, and these commodities include (wheat grains, wheat flour, rice, milk, cooking oil, sugar) at an exchange rate of 440 Yemeni rial / dollar. This deposit comes as an extension of the Kingdom's support for the Yemeni people, bringing the total of what was provided to the Central Bank of Yemen to 3 billion US dollars during the period from 2012 to 2018. This support contributed to strengthening the financial and economic situation of the Republic of Yemen, especially the exchange rate of the Yemeni rial, and this reflected positively on the living conditions of Yemeni citizens due to the decrease in food commodity prices and the increase in purchasing power, and the increase in spending rates, which contributed to the growth of the gross domestic product and the recovery of the Yemeni economy In the last quarter of 2018 until the end of 2019. The following is a detail of the impact of the Saudi deposit on the recovery of the Yemeni economy during the years 2018-2019.



1- Deposit allocation to Support Commodities Policy:

First: The Kingdom of Saudi Arabia government has taken a set of measures seeking to provide commodity support that benefits all Yemeni people, regardless of their income, whether they are from low, middle or high income classes. Therefore, the Kingdom allocated a large amount of its resource (the depository) to support the prices of basic food commodities in an attempt to reduce the increase in their prices. It worth noting that, before the conflict, Yemen imported food commodities about 90% of its total imports, and in 2017, the proportion of food imports decreased by 13.3%, while the total food imports in 2019 were (3,631,327 metric tons), which is higher compared to the same period in 2018 (3,097,559 Metric tons) and an increase of 17.2% over the previous year. Therefore, the big increase in food imports was due to the benefit from deposit payments.

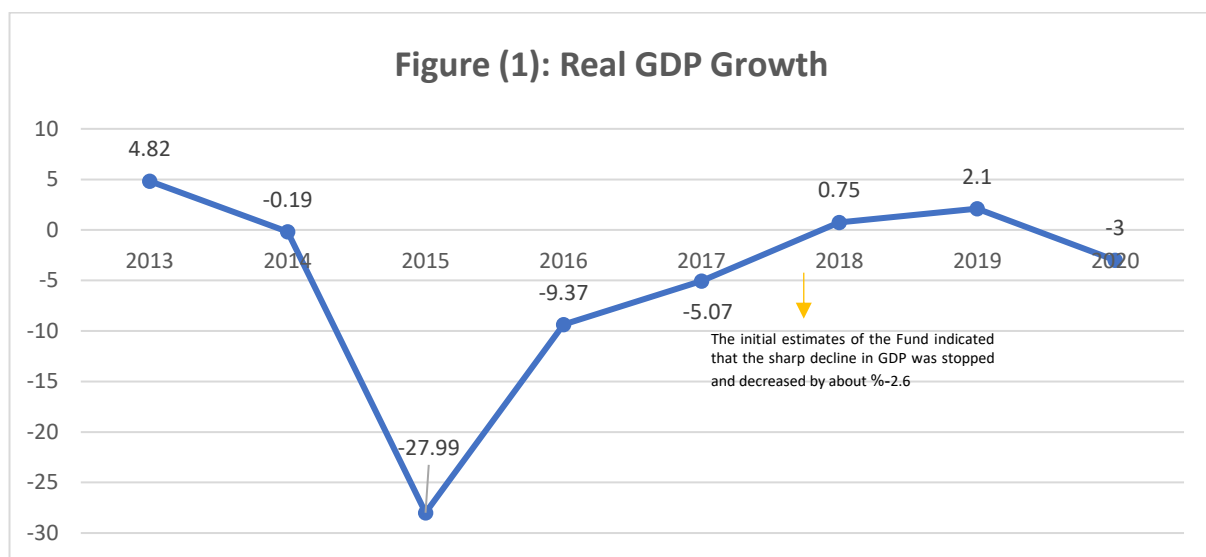
Among the most important economic and social goals for using the deposit are the following:

1. Maintaining the stability of the general level of essential commodity prices.
2. Improving the living conditions of the citizen in Yemen.
3. Maintaining an adequate stock of basic commodities subject to sharp fluctuations in their prices.
4. Work to stop the currency collapse and stabilize exchange rates.
5. Enhancing the direction of capital to invest in the productive sectors.
6. Enhancing the value of the local currency and limiting speculation.
7. Supporting merchants and the private sector by setting a preferential exchange rate of 440 Yemeni riyals / dollar, which is less than 120 Yemeni riyals on the market.
8. Restore confidence in the central bank and its ability to intervene in the exchange market.



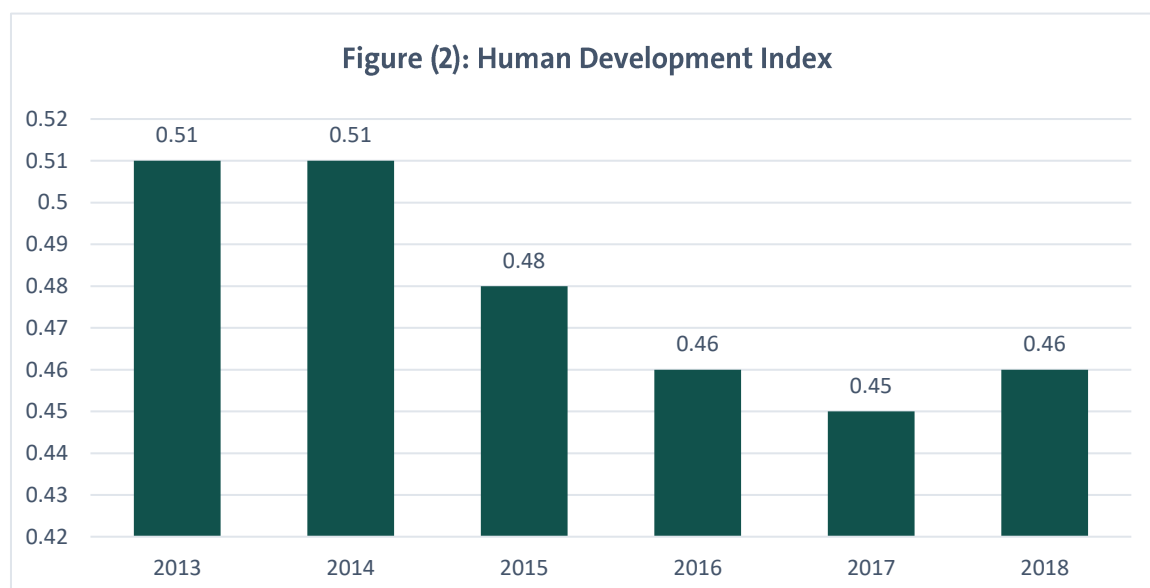
2- Increasing GDP Growth:

The real GDP growth rate during 2018 and 2019 witnessed an increase by about 0.75% for 2018 and 2.1% for 2019 according to the estimates of the International Monetary Fund (Figure 1). The initial estimates of the Fund indicated that the sharp decline in GDP was stopped and decreased by about %-2.6. One of the most important reasons for the recovery of GDP growth, contrary to the expectations of the International Monetary Fund, was the exchange of the Saudi deposit to cover the import of basic food commodities, which contributed to the increase in government spending. This was reflected in the improvement in consumer and investment spending, affected by the growth of GDP. In addition, the exchange from the deposit contributed to stabilizing exchange rates and helped the Yemeni government focus on boosting oil exports, and all of this led to an economic recovery at the end of 2018 until the end of 2019.



3- Human Development Index:

As a result of the GDP growth, the per capita share of the gross domestic product increased during 2018, and this was reflected in an improvement in the Human Development Index for 2018 as indicated in the chart below (Figure 2) and a relative improvement in the ranking of Yemen in the Human Development Report issued by the United Nations Development Program (UNDP) (Table No. 1).



Source: UNDP

Table (1): The following table shows the ranking of the Republic of Yemen in the international human development reports for the years 2013-2019

Issue Date	Number of countries in the report	Yemen's ranking in the Human Development Index	Yemen development level according to Human Development Index
2014	186	154	Low development
2015	187	160	Low development
2016	188	168	Low development
2017	188	172	Low development
2018	189	178	Low development
2019	189	177	Low development

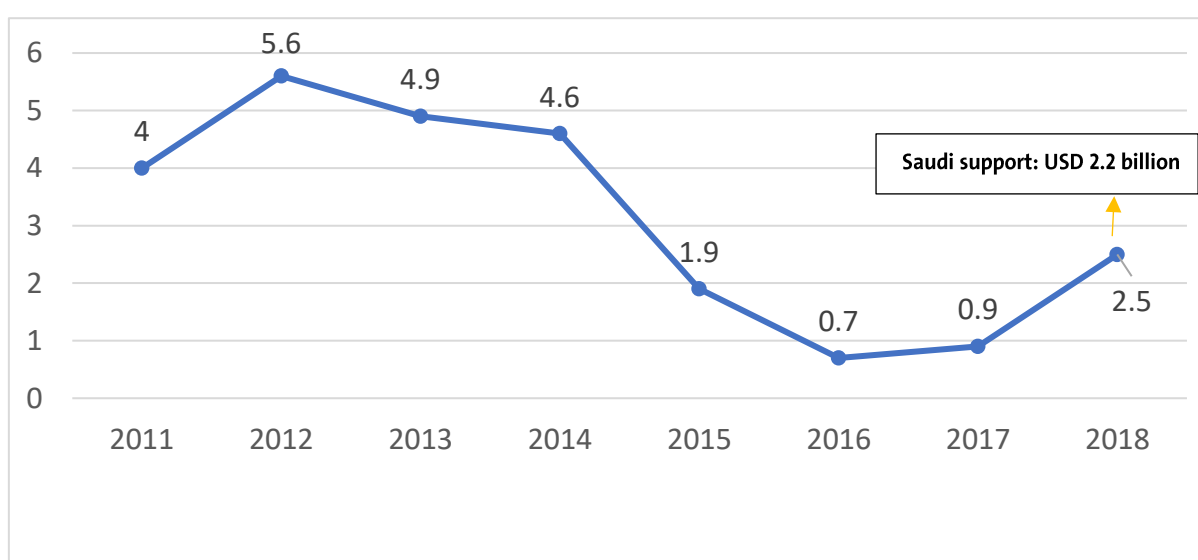
Source: UNDP



4- Strengthening the Central Bank's Foreign Exchange Reserves

The expected depletion of the foreign reserves of the Central Bank of Yemen and the significant decline in export revenues from oil and gas were the main reason for the increase in exchange rates during the period from January to October of 2018, and reached their highest levels of about 800 Yemeni rials / dollar in the beginning of October 2018. During the period from November to December of the same year, the exchange rate decreased significantly due to the increase in the Central Bank's foreign exchange reserves, after Saudi Arabia deposited USD 2 billion in the Central Bank and USD 200 million AS a grant from Saudi Arabia to the Central Bank of Yemen. The chart below shows the change in the reserves of the Central Bank of Yemen due to the Saudi deposit and the grant (Figure 3). The registration of the aforementioned Saudi deposit in October of 2018 on the budget of the Central Bank made it possible to better respond to import financing needs, reduce the demand for foreign currencies, increase confidence in the local currency, and provide foreign currencies to support imports of basic commodities for the Yemeni people.

Figure (3): Total cash reserves with the Central Bank of Yemen (billion)



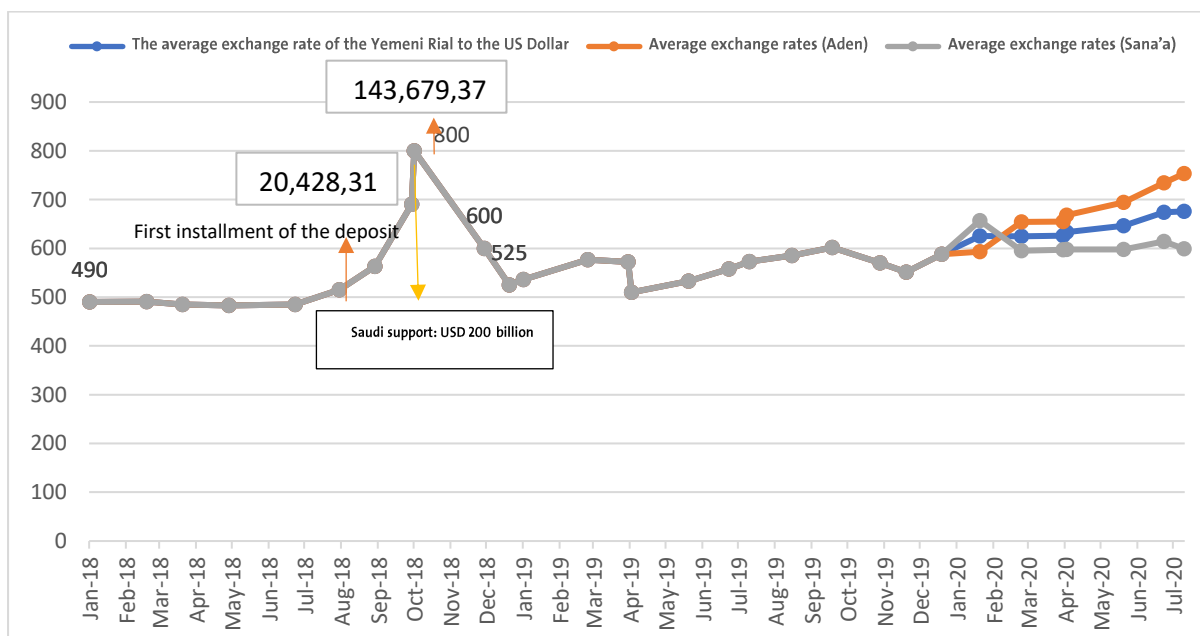
Source: IMF



5- Currency collapse Halt and Stabilized Exchange Rate:

The chart below (Figure 4) shows the average exchange rates during the period from January 2018 to July 2020, and the effect of the Saudi deposit in limiting the exchange rate increase in October 2018 is evident. During 2019, the Central Bank of Yemen succeeded in fixing the Yemeni rial exchange rate at about 500 Yemeni rials / US dollar. The deposit also contributed to reducing and limiting speculation in the foreign exchange market by protecting citizens from the risks of declining exchange rates or the fear of importers from the unavailability of foreign currencies to repay imports of basic commodities. With the decrease in the deposit significantly with the beginning of the year 2020, we notice a difference in the exchange rates between Aden and Sana'a, and an increasing gap between the two.

Figure (4): Average exchange rates during January 2018 and July 2020



6- Exchange Rate before and After the Saudi Deposit:

The rate of change in exchange rates during the 12 months preceding the actual use of the Saudi deposit amounted to about 87%, and the percentage of withdrawals from the deposit was only 2% (Table 2). After the actual use of the deposit, the rate of change in the exchange rate decreased to about -20%, and the difference in the exchange rate decreased from 332 to 146 Yemeni rial / one dollar at its highest and lowest levels, and the percentage of withdrawals from the deposit by the end of 2019 was about 98%. See (Table 3).

Table (2)

From	To	Exchange rate (start of the period)	Exchange rate (End of the period)
October 1 st 2017	December 30 th 2018	381	713

The amount withdrawn from the deposit during the period	The percentage withdrawn from the deposit	The exchange rate differential	The percentage change in the exchange rate
31,634,154	%2	332	%87

Table (3)

From	To	Exchange rate (start of the period)	Exchange rate (End of the period)
October 1 st 2018	December 30 th 2019	713	567

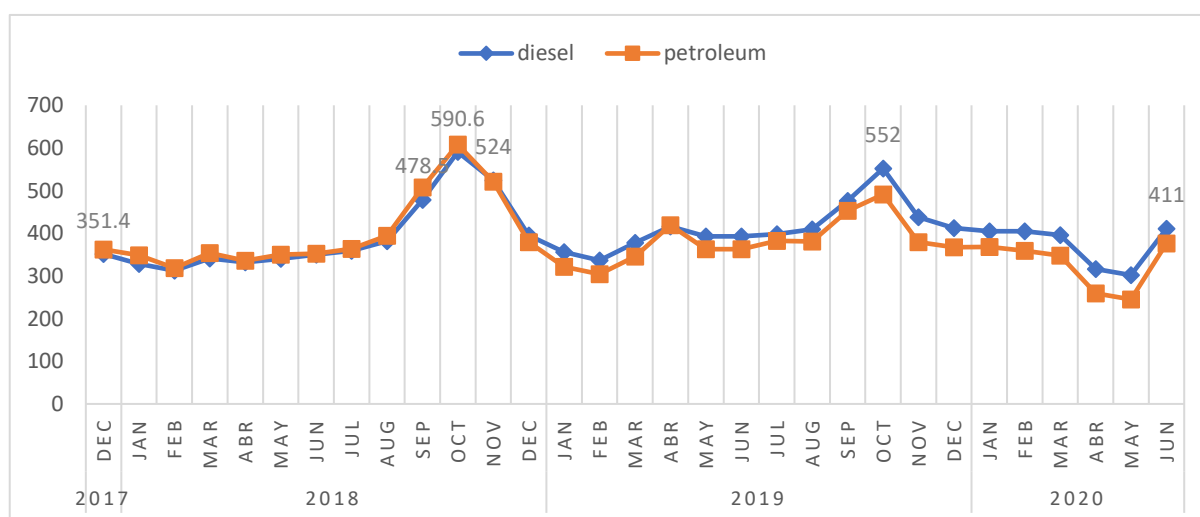
The amount withdrawn from the deposit during the period	The percentage withdrawn from the deposit	The exchange rate differential	The percentage change in the exchange rate
1,364,045,292	%98	-146	%-20



7- Low Fuel and Diesel Prices:

The decline and relative stability in the exchange rate due to the use of the Saudi deposit in importing a group of basic commodities indirectly led to a gradual decrease in the prices of fuel and diesel in all markets. The average prices of diesel and petroleum decreased in October 2018 from about 590.6 Yemeni riyals / liter to 379 riyals in December 2018, which directly affects the transportation costs and thus the prices of all commodities, especially foodstuffs. Fuel prices in the local market are affected by international oil prices and monopolistic activities inside Yemen.

Figure (5): Average retail price for petroleum and diesel (Rial/Liter)

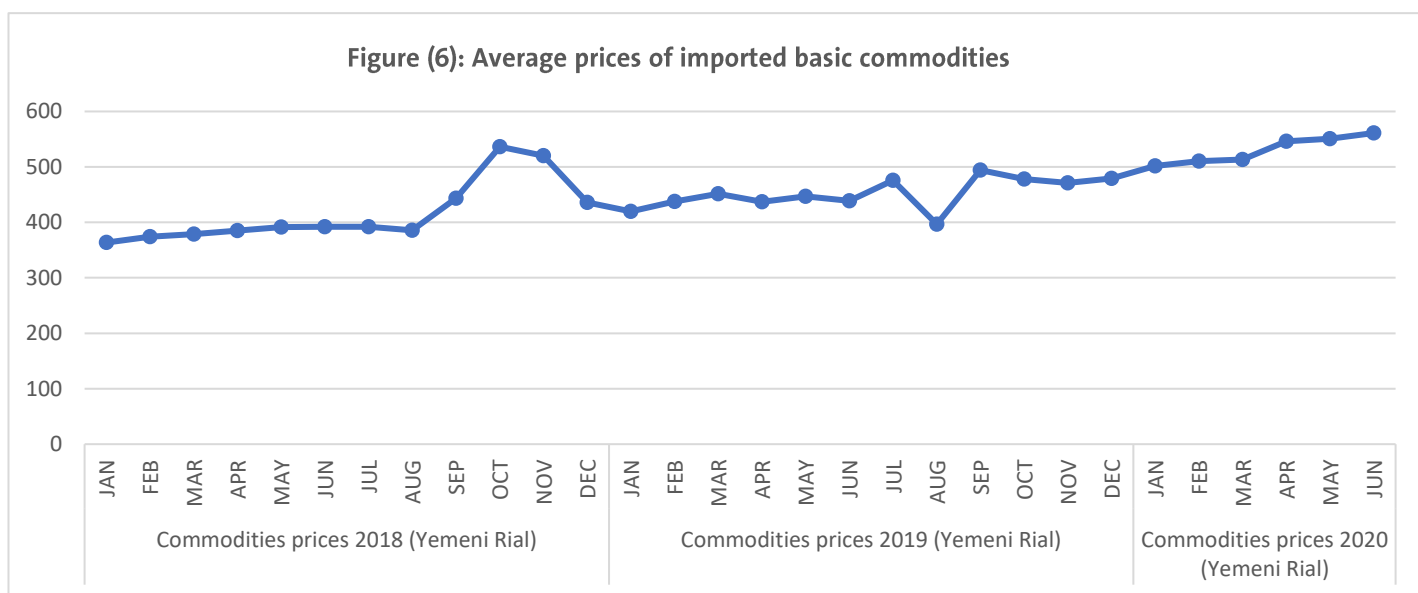


Source: FAO



8- The Impact of the Saudi Deposit on the Living Standards

The Saudi deposit has contributed in an increase of the amount of food commodities in Yemen which lead to a decrease in prices of the imported food commodities as illustrated in figure 6. Prices in general have decreased after it reached its peak in October 2018.

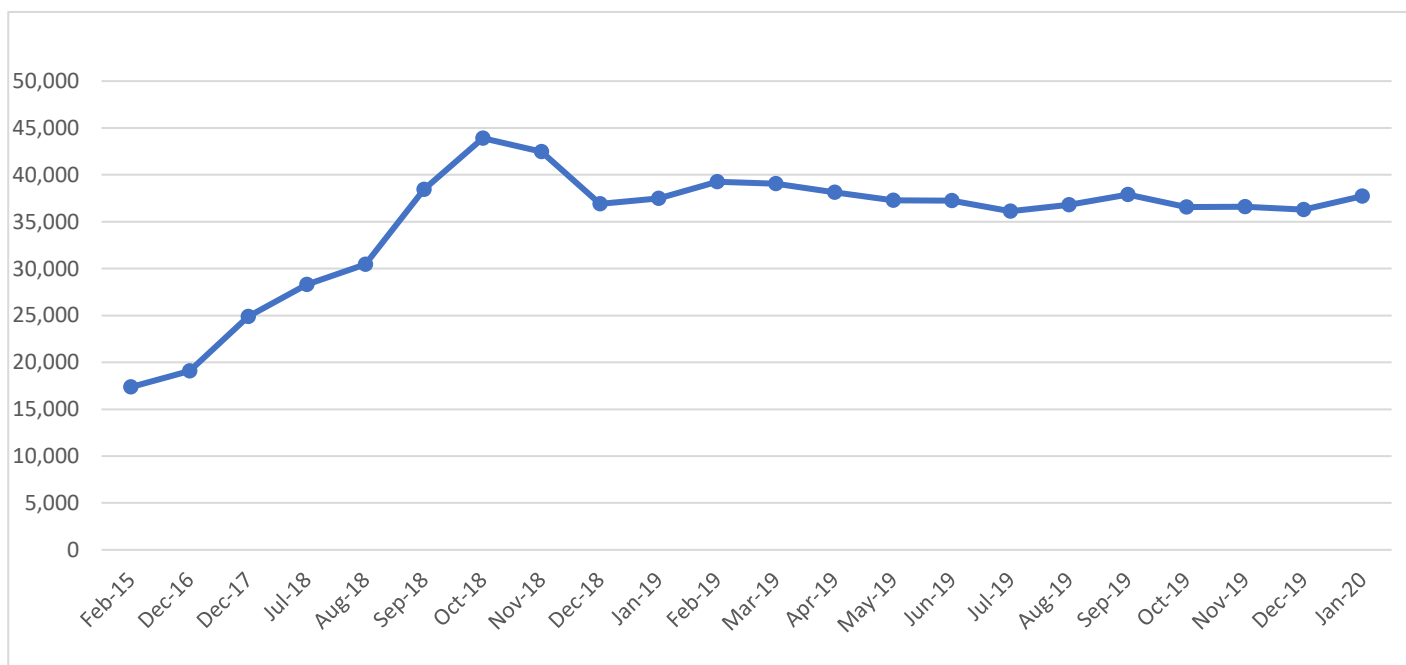


Source: FAO



The average prices of local goods decreased in parallel with the prices of imported goods, which lead to an increase of purchasing power and diversification of food commodities of the Yemeni consumer. (Figure 7) illustrates a 3% decrease in the average cost of the lowest food basket in November 2018 compared to October 2018, after it maintained its stability until the end of 2019.

Figure (7): Average cost of the Minimum/Survival Food Basket (7 members per month)



Source: FAO



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