

## **Inflation Dynamics in Yemen: An Empirical Analysis**

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Yemen has had a high and volatile rate of inflation in recent years. This paper studies the underlying determinants of inflation dynamics in Yemen using three different approaches: (i) a single equation model, (ii) a Structural Vector Autoregression Model, and (iii) a Vector Error Correction Model. The outcomes suggest that inflation dynamics in Yemen are driven by international price shocks, exchange rate depreciation, domestic demand shocks, and monetary innovations. The impact of international prices and exchange rate depreciation indicate a significant pass-through of import prices. In the short run, external shocks of international prices and the exchange rate account for most variations in inflation, but domestic shocks to money supply and domestic demand explain larger variations in the medium term.