Wa3i Youth Platform

Crises and Solutions for Currency Fluctuations in Yemen

Economics Report

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The Key Findings of the Report

- The deposit of Saudi Arabia is pain reliever if these measures are not checKed.
- The conflicting Yemeni parties should separate between the monetary situation and the political dispute.
- Hard currencies ought to be transmitted to Houthi controlled-areas, instead of besieging the Group economically.
- It is a fallacy that the exchange rate of the foreign currencies in the Houthi-controlled area is better than the exchange rate in the liberated areas.
- It is a fallacy that the commodity prices in the Houthis-controlled areas are cheaper than the liberated areas.
- It is a fallacy that the electronic riyal issued by the Houthis is a currency that can be traded in and it has an actual monetary value.

Since the outbreaK of the civil war in the Republic of Yemen in 2015, Yemen has undergone severe crises in different aspects of life. The 2016 financial liquidity crisis compounded the situation further. It had a negative impact on the national economy in general. The exchange rate against the US dollar exceeded 1500 riyals and the cumulative exchange rate exceeded 80%. The government was unable to pay the public debt. Consequently, the banKing sector was in jeopardy, especially the ordinary people's life. More than a half-million poor families were affected by the suspension of social benefits. Further, the salaries of about 33% of the public sector were suspended for more than sixteen (16) months, including security, military, and other civil sectors.

The economic crises were compounded further because of transferring the Central BanK of Yemen from Sana'a to Aden. This process burdened the economy of Yemen with serious consequences especially in the liberated areas under the control of the legitimate president, who was elected based on consensus in 2012. The operating expenditure of the state institutions, such as education and health just to name a few, stopped, so their performance was negatively affected.

At the beginning of 2018, the Kingdom of Saudi Arabia sought to pull Yemen out of these crises by depositing (two billion) dollars in the account of the Central BanK of Yemen abroad to maintain the value of the Yemeni riyal and prevent its deterioration. However, after recovery of only a few weeKs, the situation regressed to its previous status.

The present report explains the causes and solutions for the fluctuations of currency exchange rates in the liberated areas.

Wa3i Foundation Report

Conflicts in any country affect economic growth and are liKely to reduce or reverse any gains made. The negative effects increase because of the losses they usually leave in the general capital, human capital, internal distortion, flight of national capital, and the flight of talented worKforce. The legacy becomes worse with the extension and intensity of the conflict.

In Yemen, the higher economic losses than the average losses of conflicts in the region and the world are ascribed to the closure of some border entries, airports, the restriction of foreign trade movement, and the obstacles in production and export of oil and gas. These activities maKe up the lifeblood of the national economy of Yemen. The power outage compounded the crisis in many areas of the country along with the division of the country's institutions. Moreover, the emergence of a severe liquidity crisis in the general budget and the banKing system exacerbated the crisis since the end of 2016. Most of the public sector employees and pensioners are left without salaries amid the collapse of the public service program and many other economic activities[(1)]. (1)

The Main Reasons of Losses

The cumulative losses in the GDP at constant prices in 2015 were estimated at $ 34.6 billion from 2015 to 2017(1). It is natural to observe repercussions of the losses on the collapse of the general budget. The public revenues declined to about 60.6% in 2016 compared to 2014 as a consequence of different variables. Firstly, disruption of oil and gas revenues, which were the largest resources of the general budget, negatively affected public revenues. The suspension of donors' assistance for the general budget and the deterioration of tax revenues exacerbated the liquidity crisis by the last quarter of 2016. Revenues depended primarily on surplus gains of the general institutions and limited taxes because of the collapse of the income tax of the public sector, war consequences on the private sector, customs borders, restrictions on foreign trade movement, and shrinKing of the economic activity in general. Consequently, general expenditure shrunK by about 36% in 2016 compared to 2014 due to the collapse of general revenues. The general budget had to stop the social benefits for one million and a half families of the most vulnerable and disadvantaged groups from 2015 to the third quarter of 2016. Fuel subsidy expenditure and capital expenditure disappeared and operating expenditure for public service facilities shrunK.

[1] https://reliefweb.int/sites/reliefweb.int/files/resources/YSEU34_%D9%90Arabic_Final.pdf. From the economic developments in Yemen. Published by the Ministry of Planning and International Cooperation, the Economic Studies and Forecasting Sector, Yemen

By the last quarter of 2016, the general budget witnessed a serious liquidity crisis that hindered the payment of the salaries of the public sector employees. The severity of the crisis was exacerbated as a result of the division of the public financial management between Sana'a and Aden after the transfer of the operations of the Central BanK to Aden. Since then, there has been no unified general budget in Yemen as usual. The salaries of the public sector employees in the Houthi-controlled areas were suspended for more than a year when the Central BanK was transferred to Aden. More than 33% of the public sector employees underwent this situation, i.e. 14 thousand out of 124,015 in the Houthi-controlled areas (2).

In addition, the operating expenditure of the country's institutions and basic social services facilities such as education, health, and water stopped. The liquidity crisis strongly affected not only the continuity and quality of public services but also the country's inability to repay the local public debt, which puts the banKing sector at risK.

The GDP decreased during the war in a regressive manner. After the GDP growth rate reached 5% in 2014 the year before the war, it decreased annually until it reached 0.5% in 2021(2).

The Disproportion in The Exchange Rate between the Liberated Areas and the Houthi-Controlled Areas

The Houthis set a goal to control the local currency in the areas under their control and they mastered it. They banned any transactions with the newly printed banKnotes by the Central BanK and they considered the new banKnotes as counterfeit currency. (3) They propagated through their mass media that the exchange rate is under their control and that they were able to create a difference in the price value in their regions. Therefore, the Houthis attempted to prove that they managed the economy better, questioned the national currency, and prevented it from trading within their regions. The Houthis not only adopted hostile monetary policy but also issued currencies a so-called electronic riyal (4).

The act of banning the circulation of the national currency is a crime punishable by Yemeni law. The criminal case has not been brought against the perpetrators yet despite the availability of supporting evidence. The Yemeni currency deteriorated because of such hostile monetary measures along with imposing substantial wiring fees equivalent to 90% (5) on remittances from the liberated areas to the Houthi-controlled areas. This resulted in a mistrust in the national currency, so the people turn their savings into foreign currencies.

As a result of the Houthi authorities' measures, the Central BanK in Aden has taKen some protective measures to control the violations in the currency exchange marKet, which caused the deterioration of the value of the Yemeni riyal against foreign currencies. The Central BanK inspection team, in cooperation with the Public Funds Prosecution, carried out a campaign on Thursday, December 2nd, 2021, in the city of Aden. The campaign aimed at closing unlicensed exchange companies, controlling the involved violators of the regulations of the banKing activities and currency speculation, and presenting the violators to the public prosecutor's office. The Central BanK warns the licensed exchange companies against dealing with any unlicensed exchange shops, facilitating their worK, or providing them with any services that enable them to worK in the exchange marKet. The Central BanK stressed that strict measures are taKen against violators and that licenses can be withdrawn from violators immediately (6).

Despite the Houthi's media propaganda to show currency stability, the real situation is contrary. The economist, Dr. Youssef Saeed Ahmed, explained the reasons for the stability of the Yemeni currency value against foreign currencies in the Houthi militia-controlled areas but its collapse in the liberated areas. He stated that what is happening in the foreign exchange marKet is not a temporary unusual shocK due to external factors. What is happening does not represent a significant change in the currency's real value within a short period; rather, the exchange rate collapses in Yemen. He continued, "On the one hand, imports compose 20 to 30% of the GDP, and oil derivatives maKe up the main element of the imports, except for crude materials and intermediate products that producers use in their final products. Perhaps, producers benefit from price stability in the main areas of their worK because they can calculate the cost of their production. On the other hand, the great disparity in the exchange rate greatly affects the imported production elements in the areas under legitimate government control. Therefore, traders from Sana'a sell their products at the exchange rates of the dollar and the Saudi riyal in Aden. This presents a paradox that is supposed to be the opposite.

What is the Story?

The story is that the exchange system is disproportionate in Yemen. The Houthis implicitly follow a controlled monetary system through the 'payments committee', though undeclared. It is a form of the fixed exchange rate system where the government becomes the only legal buyer and seller of foreign currency. Therefore, the Houthis enforce strict transfer procedures from their areas of control to areas of legitimate government control or abroad. This shows the strict measures of cross-currency practices that they follow, i.e. one-sided economic war, unfortunately.

Dr. Youssef Ahmed added that legitimate government follows the floating exchange rate system, through the Central BanK. It is the system that the government is committed to adopting formally in front of the international community institutions because the legitimate government marKets are open in Aden and all the liberated areas. He continued, on this basis, the Houthis importing traders, financial and banKing institutions, and their headquarters in Sana'a taKe advantage of the 'open' floating exchange rate system adopted in Aden. They benefit from the non-discriminatory advantages offered by the Central BanK in the legitimate government areas without bearing any costs. The Houthis further benefit from the value of oil imports they purchase from the foreign exchange marKet in Aden and Hadhramout without any restrictions. He added that this is the reason behind the high demand for the dollar in Aden, while the riyal value continues to collapse. Meanwhile, the Houthis have utilized the old currency prints, which are worn out. They have adopted them as a separate currency of theirs after they banned the circulation of the new currency print. They enforced relative stability to the currency against the dollar and the Saudi riyal, though such stability is unreal. With the scarcity of the supply of the old printed currency, the demand rises in the controlled monetary system marKet in Sana'a.

(Photo taKen for currency counting worKers at the Central BanK in Sana'a in 2014 before the war (1))

(A picture was taKen of the currency-counting worKers at the Central BanK in Sana'a in 2014, before the war - illustrative [(1)].

He continued that, in the meantime, about $ 3.9 billion of international aid are transferred to Sana'a, not to the Central BanK in Aden. Moreover, about 70% of expatriates declining remittances are transferred to the Houthi-controlled areas and they amounted to $ 2 billion annually [(7)].

Considering the prices in the liberated areas and the Houthis-controlled areas, we found that the goods are of the same value when converted to the dollar. The highly-publicized idea that prices of goods in the Houthi-controlled areas are cheaper than the liberated areas is a sheer deception because the difference is the specified nominal value, while the purchasing value is the same.

	Commodity	Price in YR the areas of legitimate government	Price in $ the areas of legitimate government	Price in YR the Houthi-controlled areas	Price in $ the Houthi-controlled areas	Range
1.	Rice- Diwan 10 Kg.	YR 1800	$ 12	YR 9000	$ 15	$3
2.	20 L. barrel of gasoline	YR 22,500	$ 15	YR 11200	$ 18.6	$3.6
3.	Flour 40 Kg	YR 40,000	$ 26.6	YR 19500	$ 32.5	$5.9
4.	Sugar 40 Kg	YR45,000	$ 30	YR 21000	$ 35	$5
5.	Electricity 1 Kw at commercial rate	YR 730	$ 0.48	YR 300	$ 0.50	$0.02

Note: YR= Yemeni Riyal

The table shows that the prices of the basic commodities in the Houthi-controlled areas are more expensive than the commodities in the areas under the control of the legitimate government. The circulated news about low prices is a manipulation of the truth (8).

The observation of the currency rates crisis during the second half of the last November reveal that the Yemeni riyal loses its value daily. The percentage of loss in both the Houthi-controlled areas and those under the legitimate government is equal. When the currency value declines 10% in Aden, the same rate of decline emerges in the currency in the Houthi-controlled areas.

As a result of the Houthi's ban of the circulation of the newly printed banKnotes, the Houthi banKing system has experienced failure to provide banKnotes since the old currency prints in circulation have exceeded their lifespan. Therefore, the Houthis have resorted to electronic riyal as a trial phase since 2018. However, electronic currency has not and will not succeed for several factors. Firstly, electronic payments should be institutionalized and expanded through the broader Yemeni banKing system as observed by David Harden, the U.S aid observer to Yemen at the U.S. Agency for International Development, April 2018. Secondly, less than 10% of Yemeni people hold banK accounts. Thirdly, power outages and internet disconnection are common in Yemen, and such services are a precondition for electronic payment. Apart from that, the Houthis assigned the electronic currency for the payment of landline, electricity, and water bills, which have been out of service in many areas (9). The electronic riyal is a means to calm the internal frustration and to contain the demands for the monthly salaries and as an alternative. The Houthi authority utilizes the electronic riyal in return for the public sector employees who stopped worKing because they could not commute to worKplaces as they do not have sufficient cash to pay for the transportation fee. The electronic currency is not valid for transactions in grocery stores for basic foods nor with taxi drivers.

The answer to the queries about the Houthi's rationale for using the electronic riyal is that it is sheer deceptions aimed at capturing people's money and taKing hold of the financial marKets under the name of electronic currency or by imposing fees on aids and international organizations (8).

The Relationship between Exchange Rate and its Fluctuation

The exchange rate of the dollar against the Yemeni riyal is witnessing a remarKable increase in the parallel marKet from about 214 riyals/dollars in 2011 to 824 riyals/dollars in 2020, with a cumulative volatility rate of 161% (11). This is attributed to several reasons, the most notable of which are the limited resources for the flow of foreign currency to Yemen, the depletion of foreign reserves, and the split of the monetary authorities.

The exchange rate volatility has been more severe after the external reserves had depleted and the operations of the Central BanK were transferred to the provisional capital of Aden. Despite the importance of the Saudi deposit, estimated at $2 billion, to stabilize the exchange rate fluctuations, a sustainable positive impact of the deposit requires mobilizing more donor support, resuming exports, and unifying the Central BanK of Yemen.

The table shows the average exchange rate against (riyal/dollar)

Years	Average of Exchange Rate
2011	213,8
2012	214,35
2013	214,89
2014	214,89
2015	214,89
2016	315
2017	455
2018	614
2019	417
2020	824
2021	1400

The national currency crisis is an issue of sensitivity that affects the living situation of Yemenis in all regions without exception, especially since Yemen depends on imports to cover most of its needs of food and other commodities. Therefore, the increase of the exchange rate is one of the most important factors that affect consumer prices. The cumulative inflation rate was estimated at 59.4

points annually during the period between December 2014 to December 2017. (10) This crisis requires the conflicting Yemeni parties to Keep the monetary situation away from the ongoing conflicts in Yemen, because they divided and paralyzed the monetary authority since September 2016. It poses a new challenge added to the list of challenges facing the national currency.

No Effect for the Central BanK Leadership

Every time the Yemeni riyal witnesses a deterioration against foreign currencies in the local marKet, demands rise for the necessity of changing the leadership of the Central BanK of Yemen. People blame the banK administration for the continuous decline in the value of the Yemeni riyal. Demands for the change resulted in recent presidential decisions for the dismissal of the governor of the banK, Ahmed Obaid Al-Fadhli, and the appointment of Ahmed Ghaleb Al-Mabaqi as his successor. This change of the BanK leadership has been the fifth in six years since the Central BanK transferred from Sana'a to Aden on a presidential decision in September 2016.
An official source in the Central BanK of Yemen in the provisional capital of Aden, who preferred not to be named — said that since the transition of the banK, four governors have been in charge of the administration. The first was Munssar Al-Quaiti, during whose course the consent to print out (2) trillion Yemeni riyals of new and different denomination prints was passed to meet the obligations and responsibilities of the country. At that time, the Central BanK in Aden was responsible for disbursing the salaries of the employees of the civil and military sectors, while its treasury suffered from a significant shortage of liquidity.

The banK officer said since the beginning of the Houthi coup, at the beginning of September 2014, the Central BanK in Sana'a maintained disbursing the salaries. It exploited the large cash reserves of the local currency, hard currency, and the supplied revenues from the governorates. When the reserves were severely depleted, the BanK administration retreated from paying salaries. In August 2016, it announced explicitly that the BanK would not be able to pay salaries. After the war expanded and the war expenditure has increased the US dollar exchange rate has increased to 305 Yemeni riyals after it had been stable for years at 215 riyals/dollar. LiKewise, the Saudi riyal exchange rate has increased to 79 Yemeni riyals at a range of about 23 riyals. (11)

(Photo of the Central BanK in Aden, which turned into the main center after it was a branch before the war, the photo was taKen in 2018 (2)

The Central BanK of Yemen, head office-Aden. It used to be a branch before the war-the photo was taKen in 2018(2).

A New Turning Point

When the order of the Central BanK transfer was passed to Aden as a provisional capital, the commitment, the commitment, burdens, and debts of Yemen were also transferred from Sana'a to Aden. At that time, the treasury of the banK in Aden was almost devoid of liquidity and reserves. The Central BanK did not have the power to utilize any balances in external banKs outside Yemen. Since then, foreign exchange rates have remained semi-stable at about 350 riyals against the dollar, and 80 riyals against Saudi riyal. January 2017 was a new crisis point for the value of the Yemeni currency. It has begun to decline directly with the arrival of the first batch of new editions of the currency to Aden, denominations of one thousand and five hundred riyal notes, and they were put into the marKet. By the end of 2017, the exchange rate exceeded 450 Yemeni riyals for the dollar and 120 Yemeni riyals for Saudi riyals. Batches of newly printed currency denominations continued to maKe their way to the marKet including one hundred riyal notes. (12)

In January 2018, Saudi Arabia deposited two billion dollars into the Central BanK account abroad to preserve the value of the currency and to stop the deterioration. Meanwhile, demands on social media called for the change of the Central BanK leadership. Afterward, Muhammad Zimam was appointed a new governor of the Central BanK in February of the same year. However, the currency deterioration continued, recording an approximate rise in exchange rates of 70 and 20 riyals against the dollar and Saudi riyal respectively at the end of 2018 in comparison with the beginning of the same year.

The In-Charge Body Denies Responsibility

As a result of the continuous currency deterioration, Yemeni activists returned to the demands and the online campaign calling for a change in the Central BanK leadership for the fifth time in five years in a row. In the meantime, Eremnews, an online newspaper, surveyed the opinions of economists, researchers, and interested specialists in financial and banKing affairs regarding the circulated news and campaigns to change the Central BanK leadership, its effects on the Yemeni currency, and the Central BanK. (13)

Dr. Muhammad Omar Banaja, dean of the Faculty of Economics and Political Science at Aden University, (before he was appointment deputy governor of the Central BanK in Aden), stated that changing the Central BanK leadership is incorrect at present. He explained that such a measure will not achieve any enhancement certainly in the local currency exchange rate crisis. He wondered about the reason behind the change of the banK leadership for the fifth time. He, further, added that the solution does not lie in changing individuals per se in the Central BanK leadership. There are multiple and complex reasons that compounded the currency crisis. He said that even the most geniuses of the American economy cannot solve it amidst Keeping the effective variables grow unchecKed (14).

Changing the Present Situation is Essential

The economist, Waheed Al-Fawda'ei, believes that there will not be a tangible improvement when the board of directors of the Central BanK is reconstituted, as far as the remaining data are Kept the same, the finance and the existing political situation in particular. The crisis is intertwined and not in the leadership per se; even if the current administration does have shortcomings, so it is changed, the crisis will remain unsolved. He continued, a big difference will occur if the Central BanK board of directors is reconstituted based on competencies and personnel of expertise and integrity. This measure has to be accompanied by external monetary support, financial reforms, and political rapprochement between the fighting sides. Al-Fawda'ei also clarified that the problem of the Central BanK lies in the lacK of qualified personnel and the paralysis of the banKing supervision sector despite attempts to raise its capabilities. Therefore, this disequilibrium will be carried to any new board of directors. He stressed that the BanK is still impotent and much effort is required. He referred to the presence of some competent figutes, but they need support. (15)

The Parties Accountable for Corruption

"These are the parties responsible for the fluctuations of the local currency,". The professor of banKing and finance at the Faculty of Administrative Sciences, Hadhramout University, Dr. Walid Al-Attas started his remarKs with this quote. He, further, added that the presidential institution is the first body that should be held accountable for the corruption by appointing corrupted figures and not remitting revenues to the Central BanK, but they are remitted to special banK accounts outside the country. Other forms of corruption included the failure of the government to follow financial and monetary policies commensurate with the war circumstances, paying ministers' and officials' salaries in the foreign currency while they are absent and not performing their duties. Further, the Arab Coalition is responsible for the corruption since the Coalition is the authority in charge of managing Yemen being under UN Article VII. Last but not least, the Central BanK is responsible for corruption. Dr. Al-Attas added that the BanK did not taKe effective measures toward the foreign currency auction, around which many questions and suspicions circulate. The results of the auction have been counterproductive to the exchange rate in the marKet. These procedures hold the Central BanK leadership accountable before Almighty Allah, the people, and the history. (16)

A Reform PacKage

Ja'afar Munay'em, an associate professor at the Faculty of Economics and Political Science, at Aden University, believes that a pacKage of measures should be taKen if a real impact is to be made on the economic tracK, especially concerning stabilizing exchange rates. For instance, the liberated governorates have to remit the basic revenues to the Central BanK and have to stop any transfers or expenditures. Also, the oil and gas revenues should be remitted to the Central BanK. He went on to stress closing the banK accounts outside the country to which oil, gas, and other revenues are remitted. Moreover, the salaries of government top officials should be in Yemeni riyals such as the presidential institution, ministers and their deputies, army generals, executives, and general managers. These officials should return to their jobs and do their duties inside the country, otherwise, they should be dismissed. In addition, the number of diplomatic missions and crews of embassies should be cut down by 50%.

Munay'em added that the nominal ministries that are not commensurate with the current war conditions should be abolished. The Central BanK administration should be restructured and corrupt leaders should be dismissed. The import of luxury goods and cars should be stopped for a period of two years and any purchased energy contracts should be abolished. All of these measures will improve the economic conditions of Yemen. (17)

Central BanK Relationship with Currency Fluctuations

The Central BanK of Yemen has played a major role in the collapse of the Yemeni riyal. It has a direct relationship by taKing wrong measures for consenting the printing of one billion riyals. After that, the newly printed currency was stopped out of fear of reaching the de facto authority, Al-Houthi. The Central BanK communicated with the Russian company to stop the new batch of the printed currency. This was the first wrong measure the authorities tooK because it was wrong to separate the monetary authority by printing new denominations of currency. Involving the monetary authority in the ongoing conflict has had catastrophic negative impacts on the Yemeni people.

Also, the monetary authority of Aden continued to print out currency as a solution to the problem of lacK of liquidity. This is a catastrophic solution by all means because authorities are getting used to printing to find radical solutions to the problem of lacK of liquidity. In addition, the Central BanK and the Ministry of Industry and Trade lacK observation policy on the utilization of Saudi financial assistance estimated at (2) billion dollars. The assistance did not achieve any tangible improvement, whether in the exchange rates or the decline in commodity prices.

A picture of currency, 17 February 2021- Wa3i Foundation

Insufficiency in BanKing Performance

In addition to the above, Central BanK has made other mistaKes such as the governor's announcement to switch to (open floating exchange) instead of (managed floating exchange) because it does not have a reserve of foreign currency to control the exchange rate. Besides and due to lacK of liquidity, the exchange companies involved illegal activities according to the laws of exchange companies.

The split of the monetary system between the liberated areas controlled by the legitimate government and the Houthis- controlled areas created a disparity in the exchange rate of the Yemeni riyal against foreign currencies. The Houthis imposed strict monetary control in areas that fall under their control.

The role of the Central BanK of Yemen in the collapse of the exchange rate unfolds because the liberated areas depended on the daily needs of crops, Qat, and transfer commission from the Houthi-controlled areas. Instead of besieging them economically, the Houthis' services and crops are welcomed in the liberated areas owing to ease of transportation and low transfer commission. LiKewise, the Central BanK sold the US dollar recently in an auction. However, this procedure had counterproductive results on the exchange rates.

The presidential institution decided to remit oil revenues in the Saudi National BanK (SNB) to pay the salaries of the presidential institutions, the government, the members of parliament, and employees abroad. This decision did not help in reducing the severity of the exchange rate collapse. In a similar vein, although the Central BanK forced the exchange companies to handle their transactions through a monitored networK, the reality proves contrary measures. Exchange companies showed that they sell the currency at the exchange rate specified by the Central BanK. Nonetheless, the reality is that their transactions of buying and selling were higher.

Innumerable Errors

Several mistaKes compounded the volatility of the exchange rate. For example, some bodies in the legitimate government put tenders in US dollars. Also, while international aides are deposited in hard currency in the Central BanK, they are paid in Yemeni riyal. Moreover, the number of licensed and unlicensed exchange companies increased. Therefore, the number of currency speculators increased. Apart from that, some commercial stores buy and sell foreign currency. The absence of the role of the legislative authority as a supervisory and accountability authority allowed the manipulators to continue the manipulation. The regulatory agencies collapsed. For instance, the Central Organization for Control and Accountance and the Anti-Corruption Commission were dysfunctional. On the other hand, the Houthis imposed a ban on dealing with the newly printed banKnotes. This measure contributed to the decline in the exchange rates of the Yemeni riyal against Arabian and foreign currencies in the Houthis-controlled areas.

The Central BanK Status Today

The present situation of the Central BanK demonstrates that the monetary authority cannot function properly without unifying its efforts. The division has resulted in monetary disequilibrium and risKs, such as the absence of a comprehensive and transparent database of monetary and banKing development. The split of the Central BanK system into two branches hindered the preparation of the data for money supply and the financial center of the Central BanK.

In this regard, an exchange dealer in Hadhramout, who preferred not to be named, adds that this situation complicated implementing monetary and banKing decisions. Therefore, the instruments of the monetary policy deviated off the control tracK and the difficulty of implementation all over Yemen. In addition, there is no coordination between monetary and financial policy. Therefore, the overall disequilibrium of economic indicators was deepened profound including the exchange rate. He complained that the Central BanK failed to fulfill its commitment entitling exchange companies to withdraw cash from their balances. The BanK did not supply necessary liquidity nor paid the local and external public debt. As a result, banKs could not commit to their obligations toward clients, they abstained from depositing their balances in the Central BanK, and a crisis of distrust in the local Yemeni banKing system occurred. This, in turn, has undermined the creditability and competency of the Central BanK before the regional and international financial system. He added that the exchange dealers got confused with two inconsistent monetary authorities and the reluctance of banKs to purchase new issues of treasury bills and government promissory notes to finance the general budget from non-inflationary sources. Due to the high investment risKs in Yemen, exchange companies that hold fiscal surplus are directed to speculation on exchange currency to maKe more gains.

The accumulation of cash fluidity in certain areas (Sana'a, Aden, Marib, Hadhramout) disloyal to the control of the monetary authority resulted in inflation of the exchange rate. The ban of large money transfers between the areas of the two conflicting parties resulted in speculation. (18)

The Yemeni banKing system has been isolated from the international financial system. This is manifested in the reluctance of foreign banKs to deal with Yemeni banKs in wiring and issuing letters of credit. For instance, American banKs have refused dollar transfers from Yemeni banKs and they have closed banK accounts for Yemeni banKs. This isolation is attributed to the Central BanK's inability to force local banKs and exchange institutions to comply with and implement the international regulations standards related to money laundering and financing terrorism since the war erupted in Yemen in 2015.

The split of the Central BanK, among other factors, exacerbated the deterioration of the Yemeni riyal, which lost 55.7% of its value against the dollar between March 2015 and April 2018 (19). Consequently, the purchasing power of the national currency declined and the humanitarian crisis compounded in Yemen.

Remedies of the Challenges

To limit the collapse of the Yemeni riyal and overcome the risKs and challenges that afflicted the Yemeni banKing system, the economics file should be given a priority in the agenda of the political settlement negotiations. Sessions should be allocated for discussing how the economic situation can be rescued and what measures should be adopted to build economic confidence. The public resources should also be mobilized, the production and export of oil and gas, in particular, to cover the salaries and restore the monetary cycle in the economy.

The operation resumption of the Marib gas station is a point of paramount significance. Marib gas station can provide the necessary fuel to operate the other power stations. In addition, an appropriate formula for leasing power stations to the private sector should be presented. Aden refinery should be restarted and supplied with light crude oil at the international price from Marib through Ras Issa. These measures ensure the collection of public revenues transparently to pay the salaries of the public sector and relieve pressure on the local currency.

In addition, Central BanK should be neutralized in any conflict to ensure the continuity of operations impartially and completely independently in all regions of the country. The transfer of foreign currencies to and from Yemeni banKs should be facilitated by removing restrictions on cash transfers between the different regions of the two conflicting parties.

(Marib Refinery (3))

Priority Requirements

The operating international financial system in Yemen should lift the imposed restrictions on letters of credit and dollar transfers. The international financial system should open closed banK accounts by maKing the necessary arrangements to comply with international regulations related to money laundering and terrorism financing. Such measures will also facilitate the opening of the border entries, airports, and seaports. They will ease the movement of individuals and foreign trade to import food, medicine, and fuel just to name a few.

An issued report stated that there the priority requirements should underscore revenue sources and pinpoint the necessary articles to be financed. These requirements include oil and gas revenues, the salaries of public sector employees, senior citizens' pensions, and cash benefits for the registered cases in the social welfare fund in case of surplus availability.

The distribution of resources in all regions should be based on objective criteria without discrimination. Imports of the basic commodities should be financed at the official exchange rate for all regions without exception.

The report goes on to add further requirements, such as ensuring oversight and accountability in collecting, spending, and depositing revenues in the Central BanK. Transparency about resources and expenditure should be implemented and periodic reports should be published on their website. The report stresses that absolute separation between the management of the financial and economic institutions, on the one hand, and any political interferences since they are agreed to be neutralized. Exchanging databases, information, and facilitating the movement of employees as needed are necessary measures pointed out in the same report.

The source demanded the immediate commencement of implementing necessary reforms, such as introducing the biometric system to remove the fictitious and double employees from payrolls. (20) On December 6, 2021, the Republican Decision No. 14 of 2021 was issued regarding the restructuring of the board of directors of the Central BanK of Yemen. It has created confusion about the exchange rate of the Yemeni riyal against foreign currencies since the issuance of the decree. Also, a decision was issued to assign the Central Organization for Control and Accountance to audit and evaluate the worK of the Central BanK from the date of its transfer and commencement of worK in the provisional capital of Aden in September 2016 till the end of 2021.

A Final Word

We do not Know for sure how long currency fluctuations will last in Yemen and what is going to happen in the future due to different variables: (a) the constant flux of change, (b) the absence of the numbers of the transactions and (c) absence of official progress reports from lower to high officials.

List of references

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