Central Bank of Yemen

Quarterly Bulletin
Economic and Monetary Developments

Issue No.6 (March 2022)

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Foreword

The Central Bank of Yemen (CBY) is pleased to present the Quarterly Economic Bulletin – Issue No.6 (March 2022). The Bulletin provides readers and researchers interested in economic and monetary developments in the Republic of Yemen with insights on major developments across all sectors of the economy.

This issue of the Bulletin reviews key developments during 2021 across critical macro-financial performance and policy areas, and it discusses their implications for the Yemeni economy. The first chapter looks at global and local macroeconomic developments. The second chapter outlines recent monetary and banking sector developments. The third chapter focuses on public finances, and the fourth on external sector developments.

While the ongoing conflict, which began in 2015, has resulted in a prolonged contractionary phase, the Yemeni economy witnessed favorable growth rates in 2018 and 2019, owing to a significant surge in oil production before plunging into a recession in 2020 under the impact of the COVID-19 crisis. The outbreak of the pandemic in early 2020 and the subsequent lockdowns and collapse in oil prices badly disrupted global markets and created severe recessionary pressures internationally. Oil price drops and the spread of the pandemic have had significant adverse effects on Yemen›s economic activity, with real GDP estimated to have contracted by approximately 8.5 and 2 percent in 2020 and 2021, respectively. In addition to these shocks, the January 2020 ban on newly printed banknotes in the region under Houthi control continues limiting the government›s ability to pay salaries in this area and complicating monetary policy operations. This has increased the cost of financial transactions, reduced market transparency, and widened exchange rate gaps between Aden and Sanaa.

Inflationary pressures, triggered primarily by the higher prices of imports, remained strong. Around 90 percent of Yemen›s basic consumable goods come from overseas, posing an ongoing macroeconomic management challenge. In line with the legal mandate of the CBY, as stated in Article 5 of the Central Bank Law, a concerted and sustained monetary policy response aimed at stabilizing prices and providing sufficient liquidity is needed to maintain the adequate funding of public and private sector needs. The monetary control measures adopted over the past two years represent an essential initial step in this direction.

Yemen›s fiscal position has improved primarily due to increased oil exports during the last few years, although these remain far below pre-war levels. However, expenditure rationalization and fiscal deficit financing are still critical issues to be addressed through close coordination among all government entities. A small portion of the fiscal deficit was financed through domestic market borrowing, while the lion›s share of the fiscal deficit was funded mainly through CBY monetary emissions, which were controlled overall in a manner that helped keep inflation under control. Enhanced public financial management, domestic debt capital markets development, and financial deepening will remain top reform priorities in the coming years.

Yemen›s external position has continued to deteriorate since the outset of the war, which has led to a significant weakening of the value of the local currency. The only exception to this trend was in 2019, when drawdowns from a June 2018 Saudi deposit of USD 2 billion helped stabilize the Rial exchange rate. Reviving economic activity, boosting export earnings, building up a buffer of foreign reserves, and working to limit further debt monetization are the main pillars of our macro-financial stabilization policy over the upcoming period.

The high level of commitment and quality output from Bank management and staff, which have facilitated the smooth and efficient functioning of the CBY, merit deep appreciation. Moreover, we could not have published this Bulletin without the strong contributions of other government agencies.

God bless,

Ahmed Ahmed Ghalib

Governor

Executive Summary

The Yemeni economy witnessed improvements in 2019, following the deep contraction at the start of the conflict in 2015. This contraction was primarily attributed to declines in the hydrocarbon sector, which makes up a significant share of domestic output. In 2020, the dual shocks of the COVID-19 pandemic and a steep decline in oil prices severely affected economic activity.

The economy is expected to recover gradually in 2021 and 2022. Meanwhile, inflation increased markedly in 2021, as restrictions were relaxed and demand accelerated, but supply was slower to respond. Basic commodity prices also rose significantly compared with their past levels. Price pressures are expected to persist due to elevated food and oil prices, and to exchange rate depreciation, which raised the prices of imported goods.

Achieving price stability is the primary objective of monetary policy. The primacy of this objective is clearly stated in the Central Bank of Yemen (CBY) Law No. (14) of 2000 that's why tremendous efforts are being deployed by the central bank in concert with the relevant government entities and the assistance of the international community to face the persistent adverse macroeconomic conditions. In this regard, the CBY is proactively steering monetary policy in a manner designed to maintain macro-financial stability, while providing adequate financing to ensure that critical public financing needs are met.

To attain low and stable inflation, the CBY attaches great importance to controlling the money supply. This is achieved by constructing a solid framework for monetary targeting and adopting a comprehensive toolkit of indirect and market-based instruments for liquidity management.

Inflationary conditions worsened somewhat in 2021 and 2020, after relative stability in 2019. The significant depreciation of the Rial, adverse external shocks (oil and food prices spike in international markets), the lack of foreign reserve buffers at the CBY disposal, growing uncertainty, and increased dollarization contributed to inflationary pressures. Market surveys indicate that average food-price inflation slightly exceeded 50 percent in 2021. The annual inflation rate was estimated at around 35 percent in 2021 and 25 percent in 2020, up from an estimated average rate of 10 percent in 2019.

The CBY designed robust annual monetary programs for 2021 and 2020, the first since its relocation to Aden. These programs helped rationalize money supply parameters and limited high inflationary pressures stemming from monetary creation.

Monetary aggregates have expanded at a reasonably stable clip during the last three years. Broad money grew by 7.9 percent in 2021 (12.2 percent in 2020 and 8.5 percent in 2019), down from a growth rate of 28.5 percent in 2018. Reserve money increased by 13.7 percent in 2021 (13.3 percent in 2020 and 11.5 percent in 2019), down from a growth rate of 28.3 percent in 2018. Narrow money (M1) increased by 11 percent in 2021 (18.3 percent in 2020 and 10.6 percent in 2019), compared with a 33.1 percent growth rate in 2018.

Currency in circulation, which accounted for about 80 percent of narrow money and constitutes the main driver of M1 growth, grew by 12.1 percent in 2021 (15.5 percent in 2020 and 10.3 percent in 2019), below the 36.6 percent growth rate in 2018.

From the CBY balance sheet perspective, monetary expansion was contained through a 11.9 percent decline in net foreign assets in 2021. Concerning domestic assets, the overall net growth rate declined from 26.8 percent in 2019 to 18.8 percent in 2020 and 13.4 percent in 2021. Net credit to the government grew by 10.2 percent in 2021 compared to 18.3 percent in 2020, 19.6 percent in 2019 and 27.3 percent in 2018. This constituted the major source of overall monetary growth.

The CY 2022 annual monetary plan projected broad and reserve money to grow by 18 and 15.6 percent, respectively. Within this framework, the currency in circulation is projected to grow by 18.4 percent.

The monitoring of the annual monetary plan implementation revealed that the CBY successfully controlled the money supply growth over the first quarter of the current year.

In this report, all years discussed are calendar years.

Reserve money decreased by YER 61.8 billion (or 1.4 percent); reflecting a YER 101.3 billion decrease in currency in circulation and YER 39.5 billion in increased bank reserves. CBY success in containing monetary emissions is attributable to the positive effect of liquidity absorption operations conducted through FX sales' which totaled USD 233.7 million (YER 248.3 billion) in the first quarter of CY 2022. The target growth rate of reserve money according to the 2022 monetary plan was projected at 15.6 percent. Net credit to the government has decreased by 4.6 percent (equal to YER 252.9 billion) since the beginning of the year. Thus, the CBY›s balance sheet expansion through 2022Q1 indicates that the CBY is well on track to achieving its annual target.

Regarding broad money (M2), it grew by 0.7 percent over the first quarter of the current year, well below the annual target of 18 percent considered in the annual monetary plan for CY 2022. Overall monetary growth remains well within the parameters established in the annual monetary plan for 2022. Maintaining this pace will prevent any acceleration of currency emission during the current year and will help stabilize exchange rates and prices.

The deterioration of macroeconomic conditions since 2015 has severely affected the government›s fiscal position. Consequently, fiscal consolidation through further expenditure rationalization and an increase in the revenue base from hydrocarbon and non-hydrocarbon activities remain the key macroeconomic policy priorities.

Data related to the budget execution in 2021 indicated a significant reduction of the deficit as a result of increase of revenues, associated with the oil price increase as well as the gradual recovery of the economic activity, and decline of expenditures compared to the same period of the previous year. Investment expenditures made up a negligible share, and the majority of expenditures were utilized to cover current spending needs. Expenditure containment efforts were intensified in 2021 while revenue collection improved from both oil and non-oil sources. Maintaining this trend will prevent excessive recourse to debt monetization during the current year and beyond and will help stabilize exchange rates and prices and putting public finance on a sustainable path.

Going forward, more fiscal discipline, rationalization of public expenditures, improved efficiency, and the identification of noninflationary means of financing government expenditures are all urgently important for promoting sustainable fiscal consolidation and macroeconomic stability.

The external sector has continued to deteriorate in 2021. The overall balance of payments deficit reached about USD 1.7 billion in 2021. This is due mainly to the increase of the food and fuel prices. Dependence on humanitarian aid has continued to increase significantly. Furthermore, the recent volatility of commodity prices in the international market highlights the importance of reducing Yemen›s dependence on imports of basic commodities and the necessity to diversify the economy.

The current account deficit continues to require significant levels of external financing. Recall that in 2019, as well as in 2020, the deficit was mainly financed through a drawdown of official foreign reserves in the amount of USD 890 million and USD 465 million, respectively. The current account deficit widened significantly in 2021, reaching approximately USD 1.7 billion compared to USD 1.1 billion in 2020. This trend is being driven largely by the negative impact of the rising international food and fuel prices.

The strong correlations of fiscal revenues and current account with oil prices increased the sensitivity of fiscal and external balances to fluctuating oil prices. External imbalances will need to be addressed through increased export earnings and progress toward economic diversification to restore macroeconomic stability. It is also hoped that improvements in the stability of the political economy and security conditions may help attract additional capital inflows over time.

CHAPTER I

Current Situation and Economic Prospects

I.1 World Economic Growth

The global economy is entering 2022 in a weaker position than anticipated as supply disruptions have continued to weigh on activity and the Omicron variant led to increased mobility restrictions and financial market volatility at the end of 2021. Global growth is expected to moderate from 5.9 in 2021 to 4.4 percent in 2022—half a percentage point lower for 2022 than in the October 2021 International Monetary Fund World Economic Outlook (WEO), largely reflecting forecast markdowns in the two largest economies (USA and China). A gradual consolidation of the fiscal policy, earlier withdrawal of monetary accommodation, and continued supply shortages produced a downward 1.2 percentage-points revision for the United States. In China, pandemic-induced disruptions and protracted financial stress among property developers have induced a 0.8 percentage-point downgrade.

In 2023, global growth is expected to slow to 3.8 percent in2023. Although this is 0.2 percentage point higher than in the previous forecast, the upgrade largely reflects a mechanical pickup after current drags on growth dissipate in the second half of 2022. The forecast is conditional on adverse health outcomes declining to low levels in most countries by end-2022, assuming vaccination rates improve world-wide, and therapies become more effective.

Inflation is expected to remain elevated in the near term, averaging 3.9 percent in advanced economies and 5.9 percent in emerging market and developing economies in 2022. The rapid increase in fuel prices is also expected to moderate during 2022–23, which will help contain inflation. Futures markets indicate oil prices will rise about 12 percent and natural gas prices about 58 percent in 2022 before retreating in 2023 as supply-demand imbalances diminish further. Food prices are expected to increase by more than 4.5 percent in 2022, especially in light of the adverse impacts of the war in Ukraine.

Table I.1 Global Growth Forecasts (%)

		Projections	
	2021	2022	2023
Global growth rate	5.9	4.4	3.8
(Growth rate (advanced economies	5.0	3.9	2.6
(Growth rate (emerging and developing economies	6.5	4.8	4.7
(Growth rate (Middle East and Central Asia	4.2	4.3	3.6
(Growth rate (Middle East and North Africa	4.1	4.4	3.4
(Growth rate (low-income developing countries	3.1	5.3	5.1

Source: IMF, World Economic Update, January 2022.

I.2 Growth and Price Developments in Yemen

After contracting by an estimated 45 percent from 2014 to 2017, economic activity in Yemen began to improve in 2018, reflecting growth sparked primarily by the hydrocarbon industry. Real GDP increased by an estimated 1.4 percent in 2019, up from 0.8 percent in 2018, despite slowing global growth and tightening financial conditions.

Yemen›s 2019 growth was accompanied by a decrease in the inflation rate from the 20-30 percent range recorded during 2015-18 to approximately 10 percent. Inflation in Yemen has traditionally resulted from both imported inflation (increases in import prices due to currency depreciation) and local factors; but the monetary policy adopted in 2019 has thus far been successful in controlling the money supply in a manner consistent with the pace of economic activity. In addition, the Rial exchange rate was stabilized after an exchange rate crisis in the fall of 2018 that saw the Rial depreciate to unprecedented levels. International and domestic economic conditions further eased inflation in 2019, including the slow growth in international prices for non-oil commodities and modest domestic demand, which played a role in cutting inflation by more than half.

The economic picture changed for Yemen in 2020, as it did for the rest of the world. As an oil-dependent state, Yemen experienced a significant negative impact from declining oil prices and the contractionary effects of the pandemic: The GDP contracted by 8.5 percent in 2020, and is estimated to contract by 2 percent in 2021, before reverting to a positive growth rate over 1 percent in 2022.

Inflationary conditions also worsened somewhat in 2020 after relative stability in 2019. The annual inflation rate was estimated at 20-25 percent, up from an estimated average rate of 10 percent in 2019. The significant depreciation of the Rial, the related lack of foreign reserve buffers at the CBY, growing uncertainty, and increased dollarization contributed to increasing inflationary pressures. Inflation exceeded 30 percent in 2021 in light of oil and food prices increase. High inflation has direct and immediate costs for consumers, since roughly 90 percent of Yemen›s total consumable goods are imported. Regarding food inflation developments, the cost of the national minimum food basket (MFB) in Yemen — an indicator of the cost of living — reached YER 73,607 in December 2021, compared with YER 84,708 in November 2021 and YER 47,458 in December 2020. Food prices thus declined by 13.1 percent in from November to December 2021; this occurred in the wake of the recent improvement of the value of the rial in the FX market. However, the YoY food inflation rate in 2021 amounted to 55 percent.

CHAPTER II

Monetary Developments

This chapter analyzes the development of base money and broad money aggregates in Yemen to show the linkages between money and other macroeconomic variables. To this end, we review the CBY balance sheet in detail, the commercial and Islamic banking survey, and the overall monetary survey.

The monetary survey was developed in 2019 as part of technical-assistance, capacity-building, and institutional-strengthening support given to the CBY by the United States Agency for International Development (USAID). Putting this tool at the disposal of the CBY was an important accomplishment. The CBY needs accurate reporting to make proper monetary decisions. The monetary survey will help it formulate and implement effective monetary policies by providing a thorough picture of the financial system.

Money supply growth was contained in 2019, 2020 and 2021 following the CBY›s adoption of a more appropriate monetary policy based on a monetary programming framework designed to ensure adequate economic absorptive capacity and money creation.

The impact of this ongoing reform has become evident in the significant decline of the currency issuance growth rate: This was 12.4 percent in 2019, 15.1 percent in 2020 and 14.3 percent in 2021, an improvement over 2018, when it was 35.8 percent, and 2017 when it was 37.6 percent. The money supply (M2) rose by 8.5 percent in 2019 and 12.2 percent in 2020. The same trend was observed in 2021 with a growth rate of 7.9 percent down from a growth rate of 28.5 percent in 2018.

II.1 Central Bank Balance Sheet

The CBY balance sheet reached 8,090.4 billion Rials in 2021 compared to 7,286.3 billion Rials in 2020, an increase of 804.1 billion Rials or 11 percent year over year. Table II.1 presents the CBY key balance sheet components.

•Assets

The CBY's net foreign assets (NFA) decreased by 107.6 billion Rials in 2021, a 11.9 percent YoY decline. NFA stood at 1015.1 billion Rials (USD 2.537 billion) at the end of 2021. There were two leading causes for these trends: First, Yemen›s ongoing political instability slowed oil exports. Second, the steep decline in oil exports since the outbreak of the war deprived the country of its primary source of foreign assets.

Also, worth to note that both foreign assets and foreign liabilities increased substantially in August 2021 following the SDR allocation decided by IMF for Yemen (about 660 million USD or 264 billion YER based on an exchange rate of YER400:1USD).

As share of total assets, the total external assets rose to 8.5 percent as of December 2021 from 5.3 percent in 2020.

Net claims on the government (NCOG) increased in 2021 by 504.5 billion Rials (10.2 percent YoY) and by 767.4 billion Rials in 2020 (18.3 percent YoY).

•Liabilities

Base/reserve money grew by 13.7 percent over the 2021 calendar year against a target of 19.1 percent. As of December 2021, base money had increased by 542.5 billion Rials YoY to a record 4,490.7 billion Rials. More specifically, the currency issued grew by 14.3 percent, and bank reserves grew by 10.8 percent over the year. These increases are mainly attributed to two factors: (i) the net effect of the increase in loans to the government, in the form of direct financing of the budget deficit, and (ii) the decrease of foreign assets as a result of the disbursement of the remaining balance of the Saudi deposi

Table II.1 Balance Sheet for the CBY (YER billion)

	Dec-19	Dec-20	Dec-21
Foreign assets	**628.4**	**387.8**	**684.0**
Domestic assets	**5,930.4**	**5,708.4**	**6,125.9**
Government	4,532.3	5,398.9	5,816.4
Public enterprises	309.5	309.5	309.5
Banks			
Fixed and other assets	1,088.6	1,190.1	1,280.5
Assets=liabilities	**6,558.8**	**7,286.3**	**8,090.4**
Base money	**3,484.7**	**3,948.2**	**4,490.7**
Banknotes issued	2,890.5	3,327.5	3,802.7
Banks	594.2	620.6	688.0
Government	330.6	429.7	342.7
Public enterprises	48.5	60.3	61.9
Social Security Fund	58.7	58.7	58.7
Certificates of deposit			
Foreign liabilities	**1,230.9**	**1,295.3**	**1,699.1**
Other liabilities	**1,405.4**	**1,494.1**	**1,437.3**

Source: CBY.

II.2 Consolidated Balance Sheet of Commercial and Islamic Banks

The consolidated balance sheet of the commercial and Islamic banks in Yemen totaled 4,594.8 billion Rials in 2021, an increase of 165.2 billion Rials, or about 3.7 percent, over 2020 (Table II.2).

• Assets

The NFA of the commercial and Islamic banks increased by 57.3 billion Rials (or 6.5 percent) in 2021 to a total of 938.5 billion Rials. This increase was due primarily to the 21.2 billion Rial YoY rise in correspondent accounts, 18.6 billion Rial YoY rise in foreign exchange and 17.5 billion Rials rise in foreign investments. The total foreign assets rose by 54.8 billion Rials, or 6.0 percent, reaching 971.0 billion Rials. This was equal to over 21 percent of the total assets in 2021.

In 2021, bank reserves (cash in vaults and account balances at the CBY) increased by 117.2 billion Rials (14.3 percent) to 938.3 billion Rials. This increase resulted from a 91.4 billion Rial (64.1 percent) YoY increase in local currency held, and from a 25.8 billion Rial (3.8 percent) YoY increase in reserves held with the CBY. Central Bank reserves as a share of total deposits equaled 25.6 percent in 2021.

Bank loans and advances decreased slightly by 1.7 billion Rials, or 0.1 percent, in 2021, reaching 2,303.7 billion Rials.

• Liabilities

In 2021, total deposits grew by 144.1 billion Rials (about 4.1 percent) YoY to 3,660.3 billion Rials. This increase reflected growth across several deposit categories: Demand deposits increased by almost 7 percent YoY, savings deposits by 3.8 percent, time deposits by 2.4 percent and foreign deposits by 3.7 percent.

The amount of other liabilities rose by 23.5 billion Rials (by over 2.7 percent) during 2021, reaching a total of 902.1 billion Rials. This rise reflected, in part, an increase in the capital and reserves of the country's commercial and Islamic banks, which grew by 136.9 billion Rials (38.2 percent YoY) in 2021, reaching 494.9 billion Rials.

• Deposits

CBY 2021 data indicate increases in deposits across the board. Time deposits rose by 20.4 billion Rials (over 2 percent YoY) to 859.2 billion Rials, or about 24 percent of total deposits; demand deposits increased by 59.5 billion Rials (7 percent YoY) to 910.5 billion Rials, accounting for 25 percent of total deposits; saving accounts increased by 10.6 billion Rials (3.8 percent YoY) to total 286.9 billion Rials, equal to almost 8 percent of total deposits; while earmarked deposits decreased by 2.1 billion Rials (4 percent YoY), making up about 2 percent of total deposits.

Similarly, deposits denominated in foreign currencies recorded an increase of 55.7 billion Rials, or 3.7 percent, in 2021, to a total of 1,552.7 billion Rials and a 41 percent share of total deposits.

• Loans and advances

The banking sector portfolio of credit totaled 2303.7 billion Rials in 2021 compared to 2305.4 billion Rials in 2020, a slight decline by 1.7 billion Rials . While loans provided to the public sector increased by 39.4 billion Rials (2.2 percent YoY) to reach 1859.1 billion Rials, loans to the private sector decreased by 41.1 (8.5 percent) to reach 444.6 billion Rials.

Table II.2 Balance Sheet for Commercial and Islamic Banks (YER billion)

	Dec-2019	Dec-2020	Dec-2021
Assets	**4,408.9**	**4,429.7**	**4,594.9**
Foreign assets	**909.8**	**916.2**	**١.971**
Foreign currency	97.4	116.4	١.135
Banks abroad	470.9	468.1	486.8
Non-residents	0.0	0.0	0.0
Foreign investment	341.5	331.7	349.2
Reserves	**774.5**	**821.1**	**938.3**
Local currency	133.3	142.5	233.9
Deposits with the CBY	641.2	678.6	704.4
Gross Loans and advances	**2,319.4**	**2,305.4**	**2,303.7**
Government	1,720.8	1,762.2	1,798.0
Public enterprises	20.4	57.5	61.0
Private sector	578.2	485.7	444.6
Certificates of deposit	**1.0**	**0.0**	**0.0**
Treasury bills purchased from the CBY	**0.0**	**0.0**	**0.0**
Other assets	**404.2**	**387.0**	**381.8**
Liabilities	**4,408.9**	**4,429.7**	**4,594.9**

Deposits	**3,249.3**	**3,516.1**	**3,660.3**
Government	32.8	0.0	0.0
Demand	653.9	851.0	910.5
Time	815.7	838.8	859.2
Saving	260.9	276.3	286.9
Foreign currency	1,436.1	1,497.0	1,552.7
Earmarked	49.9	53.0	50.9
Foreign liabilities	**36.6**	**35.0**	**32.5**
Banks abroad	33.6	35.0	32.5
Non-residents	3.0	0.0	0.0
Borrowing from banks	0.0	0.0	0.0
Other liabilities	**1,123.0**	**878.6**	**902.1**
Loans from the CBY	13.5	6.7	6.8
Other liabilities	775.8	513.9	400.4
Capital and reserves	333.7	358.0	494.9

Source: CBY.

II.3 Monetary Survey

A rise in net domestic assets, combined with a decline in NFA, led to an estimated overall rise in the money supply (M2) to 7,229.1 billion Rials in 2021, a YoY increase of 528 billion Rials (7.9 percent). In addition, initial estimates indicate that, as of March 2022, broad money reached 7,278.4 billion Rials, an increase of 0.7 percent during the first quarter of the current year, well below the annual target of 18 percent, as considered in the annual monetary plan. Thus, money supply indicators show that stable monetary expansion trends continued in 2021 and early 2022.

When analyzing the dynamics of money supply components in 2021, it is worth noting that narrow money (M1) increased by 443.4 billion Rials (11 percent) YoY, while quasi-money rose by 84.6 billion Rials (3.2 percent). Taken together, this represents an increase in money across all sectors of the financial system. The rise in narrow money reflected an increase in the currency in circulation and demand deposits. The upward trend in quasi-money was due to the increases that year in time and foreign deposits.

The predominance of currency in circulation, which accounted for 49.4 percent of the total money supply in 2021, is evidence that Yemen continues to rely heavily on cash as its primary means of financial intermediation. This reflects the ongoing institutional and access constraints characterizing the nation›s financial system and generates high costs at both the consumer and institutional levels. In this regard, the overreliance on cash limits intermediation capacity and prevents access to sophisticated payment systems. Table II.3 shows the overall composition of Yemen›s money supply.

A significant fraction of Yemen›s net monetary emissions has been utilized to finance the government deficit. In recent years, the deficit has spiked due to the deterioration of oil export revenues, alongside persistently high public wages that continue to represent the bulk of government expenditures. It should be noted that drawdowns from the Saudi Letter of Credit deposit, which was utilized to help finance urgently needed imports, helped the CBY bring broad money growth down to 8.5 percent in 2019 (from 28.5 percent in 2018), to 12.2 percent in 2020 and to 7.9 percent in 2021.

Table II.3 Decomposition of Broad Money

	2019	2020	2021
Broad money (M2), billion Rials	**5,973.7**	**6,701.0**	**7,229.1**
Broad money, annual % change	8.5	12.2	7.9
Quasi-money, billion Rials	**2,562.6**	**2,665.1**	**2,749.8**
Quasi-money, annual % change	5.9	4.0	3.2
% ,Quasi-money/broad money	42.9	39.8	38.0
Foreign currency deposits, billion Rials	**1,436.1**	**1,496.9**	**1,552.7**
Foreign currency deposits, annual % change	5.8	4.2	3.7
Foreign currency deposits, as % of total deposits	44.6	42.6	42.4
Narrow money (M1), billion Rials	**3,411.1**	**4,035.9**	**4,479.3**
Narrow money, annual % change	10.6	18.3	11.0
Narrow money, as % of broad money	57.1	60.2	62.0
Demand deposits, billion Rials	**653.9**	**850.9**	**910.5**
Demand deposits, annual % change	11.9	30.1	7.0
Demand deposits, as % of broad money	10.9	12.7	12.6
Currency in circulation, billion Rials	**2,757.2**	**3,185.0**	**3,568.8**
Currency in circulation, annual % change	10.3	15.5	12.1
Currency in circulation, as % of broad money	46.2	47.5	49.4

Source: CBY.

II.4 Building a Solid Framework for Conducting Monetary Policy

The main mission of the CBY, as set forth in Law No. (14) of 2000, is to maintain price stability by keeping inflation rates low. In pursuing these objectives, the CBY plays a critical role in regulating the country›s economic health.

To comply with its legal mandate regarding price stability, the CBY began targeting the growth rate of the money supply (broad money) as an intermediate target; base money, controllable by the CBY, is used as an operational target. There is a strong analytical foundation for this framework, based on empirical estimations conducted by the CBY with the technical assistance from USAID. It was determined that base money is positively and significantly correlated with inflation, which underscores the strong relationship between the monetization of the government deficit and high inflation. This further suggests that an increase in the money supply has a persistent positive effect on inflation rates. With this in mind, the CBY›s mission looking ahead will be to smooth variability in the money supply to achieve price stability and provide an adequate volume of monetary resources to support inclusive growth.

The CBY emphasizes adherence to this monetary targeting framework for monetary policy operations in order to achieve macroeconomic objectives. Starting in 2020, it specified quantitative targets for broad and base money, using the monetary planning framework established with the assistance of external technical support, and closely monitored their trajectory to keep inflation in check. For CY 2021, the annual monetary plan projected broad and base money to grow by 18.3 percent and 19.1 percent, respectively, consistent with the average inflation rate of approximately 25 percent. Designed with technical support from USAID, this plan was the second since the CBY relocated to Aden. The plans have focused on controlling the money supply in a manner consistent with the real economic needs of both the public and private sectors.

Monetary planning remains a core part of CBY›s strategy moving forward. In the absence of a foreign reserve buffer, a strong commitment to the annual monetary-plan targets remains the only tool at CBY›s disposal in its effort to contain inflationary pressures and stabilize exchange rate movements. The CBY remains committed to the effective implementation of its 2022 annual monetary plan as well. Recall that 2022 monetary plan projected broad money and reserve money to grow by 18 and 15.6 percent, respectively.

The monitoring of the annual monetary plan's implementation revealed that, overall, the CBY has been successful in its mission to control money supply growth over the two first months of 2022. Indeed, during this year's first two months, base money decreased by 0.4 percent, while broad money (M2) grew by 1.7 percent.

Under current macroeconomic conditions, and given how prices have soared since 2014, the CBY›s plan to restore macro-financial stability relies on several indispensable objectives: tightening monetary policy and improving monetary impulse transmission to the real sector, addressing external imbalances by promoting private sector exports and competitive import substitution activities, and allowing greater exchange rate flexibility while building up foreign reserves.

The CBY is working to set up a combination of well-coordinated monetary policy instruments to achieve its monetary policy objectives. A comprehensive market-based toolkit of monetary control instruments was designed recently including open market operations, a discount window, and a structured reserve requirement system as the main pillars of the new monetary policy operational framework.

Under this framework, the exchange rate will be allowed to adjust gradually, and the current system of multiple exchange rates will be gradually abandoned. Formalized interventions in the foreign exchange market, using a transparent and rule-based auctioning system, will smooth out the high exchange-rate volatility.

In addition, nominal and real exchange rate movements will be considered in designing monetary policies. The exchange rate channel works through changes in monetary flows, exchange rates, and aggregate demand and supply. Any excessive increase in the money supply will typically lead to a depreciation of the exchange rate, increasing the prices of imported goods and services and thereby raising domestic prices and inflationary pressures.

II.5 Exchange Rate Policy Developments

The US dollar exchange rate against the Yemeni Rial reached about 700 Rials per dollar at the end of 2020, up from 591 Rials per dollar at the end of 2019. The exchange rate crossed the 900 Rials per dollar threshold several times during the last quarter of 2020. This significant depreciation, in turn, led to a substantial shortage of foreign currency in the local foreign exchange market, which is needed to cover essential goods. Multiple shocks that hit Yemen›s economy in early 2020 caused this dramatic depreciation; among them, the fall in oil prices, the decline in remittances due to the COVID-19 pandemic, and the depletion of the 2018 Saudi deposit. These shocks put serious downward pressures on the exchange rate, rolling back the progress made over the previous year.

The downward pressure on the exchange rate, which has worsened due to the pandemic crisis, persisted during the first three quarters of 2021, considering the lack of foreign reserves available to cover the widening balance of payments deficit. The Yemeni Rial depreciated to around 860 Rials per dollar at the end of the first quarter of 2021. During the second quarter, the exchange rate has crossed the 900 Rials per dollar threshold on several occasions. These trends have led to a substantial shortage of foreign currency in the local foreign exchange market, hindering the country›s ability to finance its imports of essential goods. The exchange rate between the Rial and the US dollar surpassed YER 1,200:USD 1 as of end-September 2021. The peak was recorded in November 2021, at YER 1,700 per dollar. Hence, the average exchange rate reached 1,032.5 Rials per dollar in 2021 up from 735.2 Rials per dollar in 2020.

The depreciation of the Rial is making it substantially more challenging for the people of Yemen to afford basic food, an already difficult prospect given the disruptions to market functionality due to over seven years of conflict. The cost of the national minimum food basket (MFB) in Yemen — an indicator of the cost of living — reached 66,807 Rials in September 2021, some 41 percent higher than at the start of this year. The cost of the national minimum food basket (MFB) in Yemen — an indicator of the cost of living — reached 73,607 Rials in December 2021, compared with 47,458 Rials, some 55 percent increase YoY.

In response to these downward pressures and to the accelerating depreciation of the Rial, the CBY took a series of regulatory and institutional adjustment actions designed to help restore stability in the FX market and enhance FX management guidelines and capacity. In November 2021 this process culminated with the launch of a best practice aligned FX auction mechanism, and subsequent implementation of weekly FX live auctions since November 2021 using the Refinitiv electronic platform.

A single price system was used to allocate a maximum envelope of USD15-20 million for each auction. This system enabled CBY conducting a competitive FX management process designed to ensure transparency and promote a robust price discovery mechanism. Adjudication prices were based on the marginal clearance price (for instance YER1,411/USD1 for the November 10th first auction). So far, the auctions have included participation of 3-6 banks each week, with an average of 3 bids per bank.

Nonetheless, the downward pressures on the exchange rate are expected to persist during the current year and beyond due to a projected lack of foreign reserves available to cover the widening gap in the balance of payments. This will continue to affect Yemeni purchasing power, placing stress on consumers and institutions. Because of these challenging economic conditions, additional international support in the form of balance of payments assistance will likely be vital to Yemen›s economic health. Moving ahead, greater foreign-exchange management and pricing flexibility will enable the CBY to better absorb economic shocks (among them the pandemic›s ongoing adverse effects, external demand shocks, negative terms-of-trade shocks, and natural disasters) and to deal more effectively with high current account deficits and exchange rate risk.

CHAPTER III

Public Finance

Though economic conditions worsened in 2021 in the wake of the pandemic outbreak and the adverse impact of external shocks, greater attention to public finance management prevented excessive expenditures and held the fiscal deficit close to the previous year›s level. For CY2021, the overall deficit was approximately 532 billion Rials, about 2.7 percent of GDP. Recall that at the end of 2020, Yemen had a public deficit of 782 billion Rials, equal to nearly 5 percent of its GDP, compared with a deficit of 703 billion Rials (5.6 percent of GDP) at the end of 2019.

Yemen›s persistently high fiscal deficit must be addressed in the near term by maintaining tight controls on spending, given the limited public resources. Moreover, it is critically important to control spending in a manner designed to bring down inflation and contain additional depreciation pressures.

It will be essential to focus on fiscal consolidation in order to accomplish these objectives and effectively align public expenditures with available revenues. This should include cutting non-essential expenses, reshuffling, and prioritizing public spending in a way that frees up funds allocated to health-care spending, and minimizing tax evasion and fraud. Though under the purview of the Ministry of Finance, this process will require coordination across the government. Careful coordination with the CBY will be needed to avoid excessive monetary emission-based financing of the public deficit.

III.1 Public Revenues

Total revenues and grants reached 1097 billion Rials in 2021, a 373 billion Rials YoY increase. The increase resulted from the 138 billion Rials increase in oil revenues and 235 billion Rials increase in non-oil revenues such as taxes and customs duties.

• Oil revenues

In light of the oil price surge on international markets, oil revenues increased to 398 billion Rials in 2021, an increase of 138 billion Rials, or 53 percent YoY. They accounted for 36 percent of total public revenues and 2 percent of GDP.

• Non-oil revenues

Non-oil revenues rose to 699 billion Rials in 2021, a YoY increase of 235 billion Rials (51 percent). They made up 64 percent of total public revenues and 3.6 percent of GDP.

The composition and shifts in non-oil revenues were as follows:

- Tax revenues (including customs duties) increased to 581 billion Rials in 2021, a YoY increase of 291 billion Rials, or 100 percent. Tax receipts represented over 53 percent of total public revenues and over 3 percent of GDP.
- Non-tax revenues (which include fees and profit transfers) decreased in 2021 by 56 billion Rials (32 percent YoY), totaling 119 billion Rials, and representing 11 percent of total public revenues and 0.6 percent of GDP.

Non-oil revenues improvement in CY 2021 is mainly attributable to the adjustment of customs exchange rate from 250YER:1USD to 500YER:1USD as well as the relative recovery of the economic activity and improvement of tax collection. Public expenditures increased slightly in 2021 to reach 1,629 billion Rials compared to 1,619 billion Rials in 2020 (a YoY increase of 1 percent). They accounted for 8.3 percent of GDP in 2021.

Current expenditures

Current expenditures totaled 1,599 billion Rials in 2021, a YoY increase of 5 billion Rials, or 0.3 percent.

Capital expenditures

Capital expenditures totaled 30 billion Rials in 2021, a YoY increase of 5 billion Rials. However, they remained a fairly marginal component of public spending, accounting for under 2 percent of overall budget expenditures in 2021.

Table III.1 Public Revenues and Grants (YER billion)

	2020	*2021
Total revenues and grants	**724**	**1,097**
Oil revenues	**259**	**398**
Non-oil revenues	**465**	**699**
Tax revenues	290	580
Other revenues	175	119
Grants	**-**	**-**

* Budget Execution, subject to change.

- = No data available.

Source: CBY.

III.2 Public Expenditures

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Capital expenditures

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Table III.2 Public Expenditures (YER billion)

	2020	*2021
Total expenditures	**1,619**	**1,629**
Current expenditures	**1,594**	**1,599**
Wages and salaries	699	566
Goods and services	489	632
Interest payments	67	63
Subsidies and transfers	303	302
Other expenditures	36	36
Capital expenditures	**25**	**30**
Financial assets acquisition and liabilities repayment	**-**	**-**

* Budget Execution, subject to change.

Source: CBY.

III.3 Overall Balance

The preliminary budget execution data indicated a public deficit of 532 billion Rials (approximately 2.7 percent of GDP) in 2021 compared with the deficit in 2020 of 896 billion Rials (over 6 percent of GDP). The ratio of total revenues and grants to public expenditures reached 67 percent in 2021. While still far from the 80 percent coverage ratio commonly considered the rule of thumb for emerging markets, these ratios nevertheless represented a significant improvement over the 45 percent ratio in 2020.

Table III.3 Overall Balance (YER billion)

	2020	*2021
Total public revenues and grants	724	1,097
Total public expenditures	1,619	1,629
Overall balance	-896	-532

III.4 Public Domestic Debt

In wake of the ongoing decline of public resources as well as foreign loans, internal public debt has increased from approximately 1,534 billion Rials in 2018 to 3,689 billion Rials as of December 2021.

The primary source of domestic public financing is direct borrowing from the CBY. This equaled 1,434 billion Rials in 2018, or 93.5 percent of the total public internal debt. Wakala deposits and certificates of deposit constituted the remaining portion (6.5 percent) of the domestic debt. The same trend was evident during CY 2021. In this regard, the internal debt stock rose to 3,689 billion Rials through December 2021, with about 95 percent financed directly through monetary emissions. The remaining 5 percent was financed through Wakala Sukuks and certificates of deposit. Table III.4 presents the volume and composition of Yemen›s public internal debt for recent years.

Table III.4- Public Internal Debt (outstanding in YER billion)

	Dec-18	Dec-19	Dec-20	Dec-21
Internal public debt	**1,534**	**2,377**	**3,009**	**3,689**
(CBY financing of the government (overdraft	1,434	2,277	2,909	3,498
Commercial and Islamic bank financing of the govern-(ment (Certificates of deposits and Wakala deposits	100	100	100	191

Source: Ministry of Finance and the CBY.

The current situation poses significant challenges to the stability of public financial management. However, the Ministry of Finance is committed to achieving fiscal balance in the medium term, strengthening its institutional and governance structures, and enhancing its operational capacity to promote effective planning and the timely implementation of a sound fiscal policy framework. It is expected that the volume of outstanding domestic public debt will continue to rise in 2022, with the CBY continuing to represent the predominant source of finance for this debt.

Recently, an agreement between the government and the CBY to move strongly toward diversification of debt instruments in late 2021 and 2022 was reached. Indeed, the Ministry of Finance allowed the CBY to issue short-term securities (certificates of deposit and Wakala deposits) in 2021 for an envelope of 400 billion Rials and interest rates set at 18 percent for three months and 20 percent for six months. Closed on December 2021, an envelope of new domestic debt instruments was issued totaling YER90.8 billion (YER59.5 billion in certificates of deposits and YER31.3 billion in agency deposits)— a significant debt placement achievement in light of current macroeconomic and institutional constraints. These instruments had 3 and 6 months maturities with interest rates of 18% and 20% respectively.

CHAPTER IV

External Sector

The improvement in Yemen›s political and security situation during 2019 played a fundamental role in boosting the national economy›s performance and, more specifically, the external sector. This boost was reflected, in turn, in the status of the balance of payments as exports increased and foreign earnings rose.

In contrast, the widening balance of payments deficit witnessed during 2020 and 2021 reflects a rapid and radical deterioration of economic fundamentals due to the adverse effects of the COVID-19 pandemic and related negative economic fallouts. The sharp drop in foreign export earnings led to extensive utilization of available foreign reserves, which shrank precipitously, reflecting economic headwinds and further depreciating the national currency. The strong correlations of fiscal revenues and current accounts with oil prices increased the sensitivity of fiscal and external balances to fluctuating oil prices. Despite the increase in oil prices recently, the twin deficit will continue to be the most critical challenge to macroeconomic stability in Yemen in 2022 and onwards.

IV.1 Balance of Payments

Preliminary data indicate that Yemen experienced a deficit in the overall balance of payments of about USD 1,674 million in 2021. This deficit was reflected in the decrease in the CBY's total foreign reserves in 2021, which covered only about one month and half of imports. The deficit in the balance of payments is primarily due to the widening deficit in the current account.

All the balance-of-payment indicators reflected Yemen›s challenging economic position heading into 2021. The deficit in the current account amounted to USD 1,705 million in 2021, equal to 8.8 percent of GDP; the capital and financial accounts each recorded small surpluses of USD 31 million in 2021. The total balance of payments deficit at the end of 2022 is projected to reach over USD 1,9 billion (or 6 percent of GDP).

Table IV.1 Key Balance of Payments Indicators (% of GDP unless otherwise indicated)

	2019	2020	2021	2022
Current deficit	3.9	5.8	8.8	6.0
Exports + Imports	55.1	50.8	63.2	40.2
Oil exports	7.1	6.3	9.7	6.8
Remittances	19.4	19.7	22.1	14.1
Humanitarian assistance	17.6	12.9	13.1	6.5
Imports	47.9	44.6	53.5	33.4
Oil imports	12.5	11.0	14.4	9.8
Food imports	13.3	16.5	22.6	13.6
(Gross international reserves (USD million	1,402	937	1,402	1,402
Foreign reserves coverage, in months of imports	1.6	1.3	1.6	1.1

Source: CBY.

The following section presents the primary indicators of the balance of payments in greater detail.

Current account

The deficit in the current account (transactions related to goods and services, income, and current transfers) was USD 1,705 million in 2021, equal to 8.8 percent of GDP, and indicating a YoY decline of 55.5 percent. The trade deficit deteriorated significantly in 2021, totaling about USD 8,536 billion, compared with almost USD 7,229 billion in 2020.

- Exports of crude oil and gas

Crude oil and gas exports rose in 2021 to USD 1,418 million, due to the increase of oil prices internationally and the worsening international economic conditions, from USD 0.7 billion in 2020, equivalent to a 18.1 percent YoY decrease.

- Non-oil exports

The value of non-oil exports increased slightly in 2021 by 0.6 percent to USD 469 million, a reflection of early-stage effort underway to diversify the country›s exports.

Yemen›s dependence on imported goods is reflected in the sector›s share of GDP, which is well above global averages. The value of imports amounted to around USD 10.4 billion in 2021, a YoY decrease of almost USD 2 billion, or slightly over 23.8 percent.

- Imports of oil products

At nearly USD 2.8 billion in 2021, the value of oil derivative imports increased by USD 729 million, a YoY decline of over 35 percent from the 2022 billion Rials.

- Food imports

Food imports are a core part of Yemen›s consumer spending. The bulk of basic goods are imported, which means that worsening global conditions have significantly affected consumer expenditure. At a total of USD 4.4 billion, the cost of food imports increased by over 41 percent YoY in 2021.

Like many low-income countries, Yemen is more vulnerable to food price shocks because consumers typically spend a relatively large proportion of their income on food. An additional risk factor to global soaring of food prices is the currency depreciation against the US dollar. Given that most food commodities are traded in US dollars, countries with weaker currencies like Yemen have seen their food import bill increase significantly during the last two years.

- Balance of income and transfers

The net balance of income and transfers increased to USD 6.8 billion in 2021, a YoY increase of USD 705 million, or 11.5 percent. This decline, in turn, reflected a decrease in both humanitarian assistance and worker remittances. The decline in remittances appeared to reflect regional instability and the economic difficulties faced by the Yemeni diaspora due to the effects of the pandemic.

Capital and financial accounts

Yemen›s capital and financial accounts each recorded small surpluses of about USD 31 million in 2021.

Overall balance

The overall balance recorded a deficit of USD 1,674 million in 2021, a YoY decrease of USD 1,209 million, or almost 260 percent. This was chiefly due to the low trade balance deficit, reflecting the increase of the goods and services imports bill in light of food and fuel prices spike in international markets. As a result, the CBY’s gross foreign reserves remained under the international metric of 3-month coverage ratio of imports (1.6 months of imports). The deficit in the total balance of payments for 2022 is projected to increase by USD 254 billion YoY, reaching over USD 1,928 billion (Table IV.2).

Table IV.2 Balance of Payments, Actual and Projected (USD million)

	2020	2021	2022
Exports of goods and services	1,179	1,887	2,209
Hydrocarbon	711	1,418	1,722
Other exports	468	469	487
Imports of goods and services	8,408	10,423	10,765
Hydrocarbon	2,074	2803	3,145
Food	3,114	4,400	4,400
Other imports	3,220	3,220	3,220
Balance of goods and services	**-7,229**	**-8,536**	**-8,556**
Incomes	-19	-17	-17
Transfers	6,145	6,848	6,638
Remittances	3,721	4,301	4,538
Humanitarian assistance	2,424	2,547	2,100
Use of donor grants			
Balance of incomes and transfers	**6,126**	**6,831**	**6,621**
Current account	**-1,103**	**-1,705**	**-1,935**
Capital inflows net	29	31	7
Financial inflows net	-13		
Errors and omissions	622		
Overall balance	**-465**	**-1,674**	**-1,928**

Source: CBY.

The balance of payments deficit is expected to persist over the coming months as the effects of the war continue to reverberate. Unless the structural causes are addressed in the short term, this deficit will weaken the local currency. To combat this downward pressure and help stabilize the Yemeni economy, macroeconomic and structural policies that help revive private sector activity, boost export earnings, contribute to building up a buffer of foreign reserves, and limit debt monetization should be pillars of the government's economic policy moving forward.

To achieve macroeconomic stabilization, Yemen will need to mobilize additional external resources, while containing further exchange rate depreciations and curbing inflationary pressures in a difficult environment characterized by a significant rise in international food and fuel prices.

IV.2 Public External Debt

The lack of accurate data from public authorities and from the lending and donor countries on the size of the Yemen›s external debt is a significant, ongoing barrier to improvements in the management of the nation›s finances. To address this, a working group has been formed to collect data by communicating with lenders and to help restart Yemen's Debt

Management and Financial Analysis System (DMFAS). The group comprises representatives of the CBY, the Ministry of Finance, and the Ministry of Planning and International Cooperation, and is supported by experts from the Pragma Corp., financed by USAID and UK Aid.

The most recent IMF estimates of Yemen's external public debt indicate that the outstanding balance increased by USD 23 million (0.3 percent YoY) to a total of almost USD 6.7 billion in 2019, which equaled 29.5 percent of the GDP for that year. Due to installments and interest paid, the balance of the debt to the International Development Agency (IDA) decreased in 2019 to just over USD 1.5 billion, a drop of USD 78 million (4.8 percent). The IDA debt represented 23 percent of the balance of the outstanding external public debt in 2019.

For the entire year of 2020, total debt service to IDA equaled USD 85.9 million, of which USD 74.8 million represented principal repayments, and USD 11.1 million represented interest payments.

During 2021, total debt service to IDA equaled USD 91.9 million, with USD 80.3 million in principal repayments and USD 11.6 million in interest payments.

Appendix

Statistical Concepts and Methodology

The Quarterly Economic and Monetary Bulletin, issued by the CBY, focuses on the developments in and projections for global economic conditions, as well as on local economic and monetary developments. This issue of the Bulletin highlighted the following topics in its four chapters:

I- Current Situation and Economic Prospects

The World Economic Outlook report, issued by the IMF, is the most reliable resource for diagnosing the development of global economic conditions and their prospects. We relied on data from Yemen's Central Statistical Organization (CSO), as available, to diagnose the conditions of the national economy.

II- Money Aggregates and Monetary Policy Developments

The CBY is the main source of the country›s monetary and banking statistics. Within the CBY, the General Department of Central Accounts provides the General Department of Research and Statistics with the Central Bank's balance sheet, while the General Department for Banking Supervision provides the consolidated balance sheet for the commercial and Islamic banks and their various activities.

The General Department of Research and Statistics collects these data and periodically prepares them for publication in accordance with the 2000 Monetary and Financial Statistics Manual, issued by the IMF. The CBY treats the data it collects on the concerned institutions with strict confidentiality. The monetary data should be published in their final form, and these data are reviewed when any amendment is made related to the methodology used and the classification of the monetary data. The following is an introduction to the most important terms included in the monetary tables:

- **Banks:** All commercial and Islamic financial institutions operating in Yemen that accept deposits.
- **Banking system:** The CBY and the commercial and Islamic banks operating in Yemen.
- **Government:** The central government and the local councils.
- **Social Security institutions:** The General Authority for Insurance and Pensions, the General Organization for Insurance and Pensions, and the security and military retirement institutions.
- **Public institutions:** Public nonfinancial institutions and companies in which the government has an interest and/or voting power.
- **Nongovernmental sector:** All local sectors except government and social security institutions.
- **Resident:** A person who legally resides in Yemen on a full-time or part-time basis, or who has been in Yemen for at least one year, regardless of nationality, with the exception of international bodies and institutions and international students who reside in Yemen for more than one year.
- **Nonresident:** A person who usually resides outside Yemen and/or who has not completed one year of residency in Yemen, regardless of nationality, except for a family or individual that has an economic base in Yemen and has permanent housing, even if this family or individual resides in Yemen intermittently.
- **Net foreign assets:** The external assets of the banking system minus the external liabilities of the banking system,

based on the concept of residency. These are calculated for the CBY and the other banks in Yemen according to the external assets and liabilities listed on their balance sheets.

- **Net government borrowing:** The sum of the claims of the banking system on the central government and local councils, minus the total government deposits in the banking system.
- **Claims on the nongovernmental sector:** the total claims on public institutions and the local private sector.
- **Other items net:** The sum of the other assets of the banking system minus the sum of other liabilities of the banking system, representing items that are not included in the definition of net foreign assets, net government borrowing, or claims on the nongovernmental sector on the CBY balance sheet and on the consolidated balance sheet of the country's commercial and Islamic banks.
- **Currency issued:** The cash issued by the CBY, consisting of cash circulating outside the banks plus the cash in banks› vaults.
- **Money:** Currency in circulation plus demand deposits in Rials in the banking system belonging to both the (local) private sector and public institutions.
- **Quasi-money:** Both savings and time deposits in Rials and deposits in foreign currencies in the banking system belonging to all sectors mentioned in the definition of money , in addition to the deposits from social security institutions.
- **Money supply:** The sum of money plus quasi-money, as well as the sum of net foreign assets, net government borrowing, claims on the nongovernmental sector, and other items net.
- Banks› deposits with the CBY, comprising the following:

1) Reserve requirement: the minimum value that banks must keep with the CBY to meet the mandatory reserve ratio imposed on bank accounts.

2) Current accounts: current accounts opened by banks at the CBY in local and foreign currencies (certificates of deposit in Rials are not considered part of these accounts).

- **Bank advances:** Credit granted by commercial banks in the form of loans, facilities, and discounted securities, in addition to financing provided to Islamic banks for their investment operations.
- **Loans and advances granted to the private sector by banks:** Among others, direct loans and facilities granted by banks to the private sector and banks› investments in the shares of companies.
- **Loans and advances granted to the government by banks:** agency deposits (alternatives to Islamic bonds), certificates of deposit, and government bonds.
- **Exchange rate and monetary policy:** The CBY strives to stabilize the national currency exchange rate — a monetary anchor point — against major foreign currencies through effective monetary policies aimed at achieving a macroeconomic balance between supply and demand and at curbing price inflation. The CBY's General Department of Foreign Exchange and Exchange Affairs is the source of the relevant data and procedures.

III- Public Finance

The Ministry of Finance is the source of the state›s general budget data. In addition to these data, we rely on data from the ministry’s General Budget Department, which includes budget data on the following:

- Public revenues: oil and gas revenues; direct and indirect tax revenues, including customs duties; and non-tax revenues.
- Grants: all sums obtained as donations free of charge from allies and friendly countries.
- Public expenditures: current expenditures, including those under chapters 1, 2, and 3, according to economic classification, and development and capital expenditures, under chapters 4 and 5.
- Total balance: This represents the state›s general budget and indicates the relationship between public revenues and overall public spending.

IV- External Sector

- **Balance of payments:** The Central Bank of Yemen Law No. (14) of 2000 makes the CBY responsible for collecting the balance-of-payments statistics. The Balance of Payments Department, under the General Department of Research and Statistics, is tasked with collecting the balance-of-payments data from various ministries and government agencies and from investment company surveys.
- **External public debt:** The CBY’s Department of Foreign Loans and Aid is the source of external public debt data. In this regard, please note that the outstanding balance of the external debt represents the amounts withdrawn through external

Disclaimer

Beginning in August 2008, monetary and banking data were amended and updated in accordance with the 2000 Monetary and Financial Statistics Manual, issued by the International Monetary Fund.

In accordance with Article (45) of the Central Bank Law No. (14) of 2000, all institutional and individual data and/or information provided to the CBY is strictly confidential, to be used only for statistical purposes; and no information may be published that reveals the financial condition of any bank or financial institution.

The data in this report that came from sources such as ministries and government agencies are preliminary in nature, and thus subject to change.

We used projections made by the IMF when the relevant information and/or data were not available from national sources.

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