Central Bank of Yemen

Quarterly Bulletin
Economic and Monetary Developments

Issue No.7(June 2022)

Quarterly Bulletin – June 2022

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Foreword

The Central Bank of Yemen (CBY) is pleased to present the Quarterly Economic Bulletin – Issue No.7 (June 2022). The Bulletin provides readers and researchers interested in economic and monetary developments in the Republic of Yemen with insights into major developments across all sectors of the economy.

This issue of the Bulletin reviews key developments during 2021 and the first quarter of 2022 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 while it is expected to return to 2 percent in 2022. In addition to these shocks, the January 2020 ban on newly printed banknotes in the region under Houthi control continues to limit the government's ability to pay salaries in this area and complicates 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 prewar 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 market 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, leading to a significant weakening of the value of the local currency. The only exception to this trend occurred in 2019, when drawdowns from a June 2018 Saudi deposit of USD 2 billion helped stabilize the Rial exchange rate. The announced financial support by the KSA and UAE in April 2022 contributed to alleviating inflationary and exchange rate depreciation pressures during the second quarter of 2022 while the war in Ukraine has induced an unprecedented surge in international energy and commodity prices—including wheat and other grains— compounding the already dire conditions in Yemen with 19 million people (60 percent of the population) are projected to be food insecure by the end of 2022. 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 the 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 began to recover gradually in 2021, and is expected to continue doing so through 2022. Meanwhile, inflation increased in 2021, as monetary restrictions were relaxed and demand accelerated, while supply was slower to respond. Basic commodity prices 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. This is why tremendous efforts are being made by the CBY, 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 by adopting a comprehensive toolkit of indirect and market-based instruments for liquidity management.

Inflationary conditions worsened somewhat in 2020 and 2021, after a relative stability in 2019. The significant depreciation of the Rial, adverse external shocks (oil and food prices spiking in international markets), the lack of foreign reserve buffers at the CBY's disposal, growing uncertainty, and increased dollarization all contributed to inflationary pressures. 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. Market surveys indicate that average food-price inflation slightly exceeded 50 percent in 2021. Tracking international trends, food prices have continued their upward trend increase in Yemen -- albeit by a significantly larger magnitude that is linked to exchange rate depreciation. The average cost of Minimum Survival Food Basket (MFB) reaches 96,414 in March 2022 against 52,192 in March 2021, equivalent to 84.7 percent increase year-over-year.

The CBY designed robust annual monetary programs for 2020 and 2021, 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 with 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.

In this report, all years discussed are calendar years.

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.

Reserve money decreased by YER 61.8 billion (or 1.4 percent), reflecting a YER 101.3 billion decrease in currency in circulation and a YER 39.5 billion increase in bank reserves. CBY success in containing monetary emissions is attributable to the positive effect of liquidity-absorption operations conducted through foreign exchange (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 18.4 percent set by the annual monetary plan for CY 2022. Overall monetary growth remains well within the parameters established by 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 and the first quarter of 2022 indicated a significant reduction of the deficit as a result of an increase of revenues associated with the oil price increase, the gradual recovery of economic activity, and with the decline in expenditures compared with the same period of the previous year. Investments made up a negligible share of total expenditures; instead, most expenditures were utilized to cover current spending needs. Expenditure-containment efforts were intensified recently, 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, thus putting public finance on a sustainable path.

The need to protect vulnerable populations against high food and energy prices will make it more difficult to maintain fiscal sustainability which will likely feed into inflation and economic instability.

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 continued to deteriorate in 2021, with the overall balance of payments deficit reaching about USD 2.098 billion. This is due mainly to the increases in 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 of diversifying 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 2.129 billion, compared with USD 1.166 billion in 2020. Driven largely by the negative impact of rising international food and fuel prices, this trend is projected to continue over the CY 2022.

The strong correlations between fiscal revenues and the 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 outlook has deteriorated significantly in early 2022, largely because of Russia's invasion of Ukraine in April 2022. The economic effects of the war are spreading widely all over the world through commodity markets, trade, and financial linkages. Russia and Ukraine are major suppliers of oil, gas, metals, wheat, and other grains that's why the decline in the supply of these commodities has already driven their prices up sharply. Lower-income households—including Yemen, will be the hardest hit by the food and fuel price increases.

The April 2022 International Monetary Fund (IMF) World Economic Outlook (WEO) projected global growth at 3.6 percent in 2022 and 2023—0.8 and 0.2 percentage points lower than in the January update, respectively. The downgrade largely reflected the war's direct impacts on Russia and Ukraine and the associated global spillovers. It is worth to note that the fluid international situation means that quantitative forecasts are even more uncertain than usual. While some channels through which the war and associated sanctions will affect the global economy seem relatively clear, their magnitudes are difficult to assess especially on country-level.

In this context, inflation has become a central concern. In many advanced economies, including the United States and some European countries, inflation has reached its highest level in more than 40 years. To contain inflation, a more aggressive monetary policy tightening cycle has already started in many advanced economies. In emerging market and developing economies, increases in food and fuel prices could significantly increase inflationary and exchange rate depreciation pressures and intensify the risk of social unrest.

For 2022, inflation was projected at 5.7 percent in advanced economies and 8.7 percent in emerging market and developing economies—1.8 and 2.8 percentage points higher than projected in January forecast. However, conditions could significantly deteriorate. Worsening supply-demand imbalances—including those stemming from the war—and further increases in commodity prices could lead to persistently high inflation, rising inflation expectations, and stronger wage growth. To steer inflation towards its long-term target, central banks will likely need to react faster than currently anticipated—raising interest rates and exposing debt vulnerabilities, particularly in emerging markets.

Table I.1 Global Growth Forecasts (%)

		Projections	
	2021	2022	2023
Global growth rate	6.1	3.6	3.6
(Growth rate (advanced economies	5.2	3.3	2.4
(Growth rate (emerging and developing economies	6.8	3.8	4.4
(Growth rate (Middle East and Central Asia	5.7	4.6	3.7
(Growth rate (Middle East and North Africa	5.8	3.5	3.1
(Growth rate (low-income developing countries	4.0	4.6	5.4

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 have contracted by 2 percent in 2021, before reverting to a projected modest positive growth rate of 2 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 rising oil and food prices. High inflation has direct and immediate costs for consumers, since roughly 90 percent of Yemen's total consumable goods are imported. Regarding food inflation, the cost of the national minimum food basket (MFB) in Yemen — an indicator of the cost of living — reached YER 99,238 in December 2021, compared with YER 47,057 in December 2020, a roughly 110.9 percent YoY increase.

Average Food prices decreased to reach 79,530 in June 2022 against 56,659 in June 2021, equivalent to 30.3 percent increase YoY. Looking ahead, rising global grain and energy prices, and economic fallout from the Russia-Ukraine conflict, will continue to introduce uncertainties and heighten upward pressure on local market prices, ceteris paribus.

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.

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: It 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 over 2017, when it was 37.6 percent. The money supply (M2) rose by 8.5 percent in 2019, 12.2 percent in 2020, and 7.9 percent in 2021, all down from a growth rate of 28.5 percent in 2018.

II.1 Central Bank Balance Sheet

The CBY balance sheet reached YER 8,090.4 billion in 2021, compared with YER 7,286.3 billion in 2020, an increase of YER 804.1 billion, or 11 percent YoY. It continued to increase during the first quarter of 2022, growing by YER 867.6 billion or 10.7 percent YoY to reach YER 8,958.0 billion. Table II.1 presents the key components of the CBY balance sheet.

•Assets

The CBY's net foreign assets (NFAs) decreased by YER 96.9 billion in 2021, a 10.6 percent YoY decline. NFAs stood at YER 1,015.1 billion (USD 2,537 million) at the end of 2021. As of March 2022, it had decreased by YER 1,148.2 billion YoY, or 113.1%, reaching a negative value of YER 2,163.3 billion or USD 2,048 million. There were two leading causes for this trend: First, Yemen's ongoing political instability slowed oil exports. Thus, the steep decline in oil exports since the outbreak of the war deprived the country of its primary source of foreign assets. Second, the adoption of a market-based approach for recording FX assets and FX liabilities by the CBY since January 2022 instead of the exchange rate of YER 400 per dollar. It is also worth noting that both foreign assets and foreign liabilities increased substantially in August 2021, following the allocation of special drawing rights (SDR) decided by the IMF for Yemen (about USD 660 million). As share of total assets, the total external assets rose to 8.5 percent as of December 2021 from 5.3 percent in December 2020.

Net claims on the government (NCOG) increased by YER 766.9 billion in 2020 (18.2 percent YoY), and by YER 504.5 billion in 2021 (10.2 percent YoY). As of March 2022, net claims had decreased by YER 252.9 billion YoY or 4.6 percent, to YER 5,220.8 billion.

•Liabilities

Base/reserve money grew by 13.7 percent over 2021, against a target of 19.1 percent. As of December 2021, base money had increased by YER 542.5 billion YoY to a record YER 4,490.7 billion. More specifically, the currency issued grew by 14.3 percent, and bank reserves grew by 10.8 percent during 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 in foreign assets as a result of the disbursement of the remaining balance of the Saudi deposit. As of March

2022, base money had decreased by YER 61.7 billion YoY or 1.4 percent, to YER 4,429.0 billion.

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

	Dec-19	Dec-20	Dec-21	Mar-22
Foreign assets	**628.4**	**387.8**	**684.0**	**2055.9**
Domestic assets	**5,930.4**	**6,898.5**	**7406.3**	**6902.1**
Government	4,532.3	5,398.9	5,816.4	5645.5
Public enterprises	309.5	309.5	309.5	309.5
Banks				
Fixed and other assets	1,088.6	1,190.1	1,280.5	947.2
Assets=liabilities	**6,558.8**	**7,286.3**	**8,090.4**	**8,958.0**
Base money	**3,484.7**	**3,948.2**	**4,490.7**	**4,429.0**
Banknotes issued	2,890.5	3,327.5	3,802.7	3,701.5
Banks	594.2	620.6	688.0	727.5
Government	330.6	429.7	342.7	424.7
Public enterprises	48.5	60.3	61.9	90.4
Social Security Fund	58.7	58.7	58.7	58.7
Certificates of deposit				
Foreign liabilities	**1,230.9**	**1306.0**	**1,699.1**	**4219.2**
Other liabilities	**1,405.4**	**1483.4**	**1,437.3**	**-263.9**

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 YER 4,594.8 billion in 2021, an increase of YER 165.1 billion, or about 3.7 percent, over 2020 (Table II.2).

• Assets

The NFAs of the commercial and Islamic in March 2022 banks increased by YER 1.7 billion (or 0.2 percent) since December 2021 to a total of YER 940.3 billion. This increase was due primarily to the YER 10.2 billion rise in correspondent account or 2.1 percent, reaching 497.0 billion, and to the YER 4.4 billion fall in foreign liabilities or 13.5 percent, reaching 28.1 billion. While the foreign exchange decreased by YER 7.9 billion or 5.9 percent in March 2022, and YER 5.0 billion fall in foreign investments. The foreign assets decreased by 2.7 billion in March 2022 to a total of 968.3 billion or over 21 percent of the total assets that year. Also in March 2022, bank reserves (cash in vaults and account balances at the CBY) increased by YER 25.1 billion (2.7 percent) to YER 963.4 billion. This increase resulted from a YER 47.1 billion (6.7 percent) increase in reserves held by the CBY. While the local currency held decreased by YER 22 billion or 9.4 percent. Commercial and Islamic banks reserves as a share of total deposits amounted to 25.7 percent in March 2022.

Bank loans and advances decreased, by YER 155.3 billion (6.7 percent), in March 2022, ending up at YER 2,148.3 billion.

• Liabilities

In March 2022, total deposits grew by YER 91.6 billion (about 2.5 percent) since December 2021 to YER 3,751.9 billion. These increases reflected growth across several deposit categories: savings deposits by YER 4.6 billion (1.6 percent), time deposits by YER 11.7 billion (1.4 percent) and foreign deposits by YER 91.7 billion (5.9 percent). While Demand deposits decreased by YER 28.8 billion (3.2 percent).

The amount of other liabilities fell by YER 0.7 billion (almost 0.08 percent) in March 2022, reaching a total of YER 901.4 billion. This fall reflected, in part, in a decrease in the capital and reserves of the country's commercial and Islamic banks, which grew by YER 102.1 billion (20.6 percent) in March 2022, reaching YER 392.8 billion.

• Deposits

CBY March 2022 data indicate increases in deposits across the board. Time deposits rose by YER 11.8 billion (1.4 percent) to YER 871.0 billion, or about 23.2 percent of total deposits; demand deposits decreased by YER 28.8 billion (3.2 percent) to YER 881.7 billion, accounting for 23.5 percent of total deposits; savings accounts increased by YER 4.6 billion (1.6 percent) to YER 291.5 billion, equal to almost 7.8 percent of total deposits; While earmarked deposits increased by YER 12.5 billion (24.6 percent), making up about 1.7 percent of total deposits.

Similarly, deposits denominated in foreign currencies recorded an increase of YER 91.7 billion, or 5.9 percent, in March 2022, to a total of YER 1,644.4 billion and a 43.8 percent share of total deposits

• Loans and advances

The banking sector's credit portfolio totaled YER 2,148.3 billion in March 2022, compared with YER 2,303.7 billion in December 2021, a decline by YER 155.4 billion. While loans to the public sector increased by YER 10.2 billion (0.5 percent) to reach YER 1,869.3 billion, loans to the private sector decreased by YER 165.5 billion (37.2 percent) to reach YER 279.1 billion.

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

Source: CBY.

	Dec-2020	Dec-2021	Mar-2022
Assets	4,429.7	4,594.8	4,681.4
Foreign assets	916.2	971.0	968.3
Foreign currency	116.4	135.0	127.1
Banks abroad	468.1	486.8	497.0
Nonresidents	0.0	0.0	0.0
Foreign investment	331.7	349.2	344.2
Reserves	821.1	938.3	963.4
Local currency	142.5	233.9	211.9
Deposits with the CBY	678.6	704.4	751.5
Gross loans and advances	2,305.4	2,303.7	2,148.3
Government	1,762.2	1,798.1	1,807.7
Public enterprises	57.5	61.0	61.6
Private sector	485.7	444.6	279.1
Certificates of deposit	0.0	0.0	0.0

Treasury bills purchased from the CBY	0.0	0.0	0.0
Other assets	387.0	381.8	601.3
Liabilities	4,429.7	4,594.8	4,681.4
Deposits	3,516.1	3,660.2	3,751.9
Government	0.0	0.0	0.0
Demand	851.0	910.5	881.7
Time	838.8	859.2	871.0
Saving	276.3	286.9	291.5
Foreign currency	1,497.0	1,552.7	1,644.4
Earmarked	53.0	50.9	63.4
Foreign liabilities	35.0	32.5	28.1
Banks abroad	35.0	32.5	28.1
Nonresidents	0.0	0.0	0.0
Borrowing from banks	0.0	0.0	0.0
Other liabilities	878.7	902.1	901.4
Loans from the CBY	6.8	6.8	6.8
Other liabilities	513.9	400.4	501.8
Capital and reserves	358.0	494.9	392.8

Source: CBY.

II.3 Monetary Survey

The money supply (M2) estimated overall rise in to YER 7,241.5 billion in March 2022, an increase of YER 12.5 billion (almost 0.2 percent), well below the annual target of 18 percent, as set in the annual monetary plan. Thus, money supply indicators show that stable monetary expansion continued through the first quarter of 2022.

When analyzing the dynamics of the money supply components in March 2022, it is worth noting that narrow money (M1) decreased by 108.1 billion (2.4 percent), while quasi-money rose by YER 120.5 billion (4.4 percent). Taken together, this represents an increase in money across all sectors of the financial system. This rise in narrow money reflected an increase in the currency in circulation and in 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 48.2 percent of the total money supply in March 2022, 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 these constraints generate 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 comprise 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), then to 12.2 percent in 2020, and to 7.9 percent in 2021. Looking ahead, the announced financial support by the GCC (KSA and UAE) in 2022 will likely help further controlling money creation and stabilizing prices and exchange rates.

Table II.3 Decomposition of Broad Money

	Des 2020	Des 2021	Mar 2022
Broad money (M2), billion Rials	**6,701.0**	**7,229.0**	**7,241.5**
Broad money, annual % change	12.2	7.9	0.2
Quasi-money, billion Rials	**2,665.1**	**2,749.7**	**2,870.2**
Quasi-money, annual % change	4.0	3.2	4.4
% ,Quasi-money/broad money	39.8	38.0	39.6
Foreign currency deposits, billion Rials	**1,496.9**	**1,552.7**	**1,644.4**
Foreign currency deposits, annual % change	4.2	3.7	5.9
Foreign currency deposits, as % of total deposits	42.6	42.4	43.8
Narrow money (M1), billion Rials	**4,035.9**	**4,479.3**	**4,371.2**
Narrow money, annual % change	18.3	11.0	-2.4
Narrow money, as % of broad money	60.2	62.0	60.4
Demand deposits, billion Rials	**850.9**	**910.5**	**881.7**
Demand deposits, annual % change	**30.1**	**7.0**	**-3.2**
Demand deposits, as % of broad money	**12.7**	**12.6**	**12.2**
Currency in circulation, billion Rials	**3,185.0**	**3,568.8**	**3,489.6**
Currency in circulation, annual % change	**15.5**	**12.1**	**-2.2**
Currency in circulation, as % of broad money	**47.5**	**49.4**	**48.2**

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 this objective, the CBY plays a critical role in regulating the country's economic health.

The CBY emphasizes adherence to the monetary targeting framework for monetary policy operations in order to achieve its macroeconomic objectives. Starting in 2020, the CBY specified quantitative targets for broad and base money, using the monetary planning framework established with the assistance of external technical support, and closely monitored progress toward those targets 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, 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 the 2022 monetary plan projected broad money and reserve money to grow by 18 and 15.6 percent, respectively.

Under the 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 is allowed to adjust gradually, and the system of multiple exchange rates will be gradually abandoned. Formalized interventions in the foreign exchange market, using a transparent and rule-based auctioning system, aiming to smooth out the high exchange-rate volatility were established by CBY since November 2021.

In addition, nominal and real exchange rate movements are of paramount importance 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 FX 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 crossed the 900 Rials per dollar threshold on several occasions. These trends led to a substantial shortage of foreign currency in the local FX market, hindering the country's ability to finance imports of essential goods. The exchange rate between the Rial and the US dollar surpassed YER 1,200:USD 1 by the end of September 2021. The peak was recorded in November 2021, at 1,700 Rials 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 in 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 YER 99,238 in December 2021, compared with YER 47,057 in December 2020, a roughly 110.9 percent YoY increase. This trend continued in early 2022, with MFB reaching 96,414 in March 2022 against 52,192 in March 2021, equivalent to 84.7 percent increase YoY.

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

A single price system was used to allocate a maximum envelope of USD15-30 million for each auction. This system enabled the CBY to conduct 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 (e.g., YER1,411/USD1 for the first auction, on November 10th). So far, the auctions have included the participation of three to seven banks each week, with an average of three 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 the challenging economic conditions, additional international support in the form of balance of payments assistance will likely be vital to Yemen's economic health, including the $2 billion in envisaged KSA-UAE assistance for basic imports and the separate $1 billion fuel importation assistance facility.

Moving ahead, greater FX management and pricing flexibility will enable the CBY to better absorb any economic shocks (such 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 impacts 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 CY 2021, the overall deficit was approximately YER 532 billion, about 2.7 percent of GDP. Recall that at the end of 2020, Yemen had a public deficit of YER 782 billion, equal to nearly 5 percent of its GDP, compared with a deficit of YER 703 billion (5.6 percent of GDP) at the end of 2019.

Yemen's persistently high fiscal deficits 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 to effectively align public expenditures with available revenues. This should include cutting nonessential expenses, reshuffling, prioritizing public spending in a way that frees up funds allocated to healthcare 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.

It is worth to note that during the first quarter of 2022, the adoption of a market exchange rate for oil revenues along with global increase of oil prices, reduced considerably the need for monetary financing of the budget deficit.

III.1 Public Revenues

Total revenues and grants reached YER 508.7 billion in March 2022, a YER 376.8 billion YoY increase. The increase resulted from the YER 254.2 billion increase in oil revenues and the 122.6 billion Rial increase in non-oil revenues, such as taxes and customs duties.

• Oil revenues

In light of the oil price surge in international markets, oil revenues increased to YER 330.2 billion in March 2022, an increase of YER 254.2 billion, or 334.5 percent YoY. They accounted for 64.9 percent of total public revenues.

• Non-oil revenues

Non-oil revenues rose to YER 178.5 billion in March 2022, a YoY increase of YER 122.6 billion (219.5 percent). They made up 35.1 percent of total public revenues.

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

- Tax revenues (including customs duties) increased to YER 175.8 billion in March 2022, a YoY increase of YER 123.6 billion, or 236.8 percent. Tax receipts represented over 34.6 percent of total public revenues.
- Non-tax revenues (which include fees and profit transfers) decreased in March 2022 by YER 0.9 billion (25 percent YoY), totaling YER 2.7 billion, and representing 0.5 percent of total public revenues.

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

	Mar 2021	Mar 2022
Total revenues and grants	**131.9**	**508.7**
Oil revenues	**76.0**	**330.2**
Non-oil revenues	**55.9**	**178.5**
Tax revenues	52.2	175.8
Other revenues	3.6	2.7
Grants	**0.0**	**0.0**

* Budget Execution, subject to change.

- = No data available.

Source: CBY.

III.2 Public Expenditures

Public expenditures increased slightly in March 2022 to reach 438.7 billion Rials, compared with YER 298.2 billion in 2020 (a YoY increase of 47.1 percent).

Current expenditures

Current expenditures totaled YER 438.3 billion in March 2022, a YoY increase of YER 140.2 billion, or 47.0 percent.

Capital expenditures

Capital expenditures totaled YER 0.4 billion in March 2022, a YoY increase of YER 0.3 billion. However, they remained a fairly marginal component of public spending, accounting for under 0.1 percent of overall budget expenditures in March 2022.

Table III.2 Public Expenditures (YER billion)

	Mar 2021	Mar 2022
Total expenditures	**298.2**	**438.7**
Current expenditures	**298.1**	**438.3**
Wages and salaries	63.3	148.7
Goods and services	159.9	147.5
Interest payments	12.2	15.6
Subsidies and transfers	56.4	119.2
Other expenditures	6.3	7.4
Capital expenditures	**0.1**	**0.4**
Financial asset acquisitions and liability repayments	**-**	**-**

* Budget Execution, subject to change.

Source: CBY.

III.3 Overall Balance

The budget execution data indicated a public surplus of YER 70 billion in March 2022, compared with the deficit in March 2021 of YER 166.3 billion. The ratio of total revenues and grants to public expenditures reached 116 percent in March 2022. Which exceeds the 80 percent coverage ratio commonly considered the rule of thumb for emerging markets, these ratios nevertheless represented a significant improvement over the 44.2 percent ratio in March 2021. The overall budget surplus of YER 70 billion linked to the global oil price surge and the adoption of a market exchange rate for oil revenues since January 2022.

Table III.3 Overall Balance (YER billion)

	Mar 2021	Mar 2022
Total public revenues and grants	131.9	508.7
Total public expenditures	298.2	438.7
Overall balance	-166.3	70

Source: CBY.

III.4 Public Domestic Debt

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

The primary source of domestic public financing is direct borrowing from the CBY. This equaled YER 1,434 billion 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 YER 3,272.4 billion through March 2021, with about 96.9 percent financed directly through monetary emissions. The remaining 3.1 percent was financed through Wakala Sukuks and certificates of deposit. As of end March 2022, internal public debt outstanding increased to YER 3,530.5 billion. 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)

	Mar-21	Mar-22
Internal public debt	**3,272.4**	**3,530.5**
(CBY financing of the government (overdraft	3,172.4	3,329.7
Commercial and Islamic bank financing of the govern-(ment (certificates of deposits and Wakala deposits	100.0	200.8

Source: 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 was reached between the government and the CBY to move substantially toward a diversification of debt instruments in late 2021 and 2022. 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 YER 400 billion and interest rates set at 18 percent for three months and 20 percent for six months. Closed in December 2021, an envelope of new domestic debt instruments was issued totaling YER 90.8 billion (YER 59.5 billion in certificates of deposits and YER 31.3 billion in Wakala deposits) — a significant debt-placement achievement in light of the current macroeconomic and institutional constraints. These instruments had three- and six-month maturities, with interest rates of 18 percent and 20 percent, respectively. The authorization from the Ministry of Finance to issue domestic debt instruments for the same envelope of YER 400 billion was renewed in early 2022.

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, more specifically, in the external sector. This boost was reflected in the status of the balance of payments, as exports increased and foreign earnings rose.

By contrast, the widening balance of payments deficit witnessed during 2020 and 2021 reflected a rapid and radical deterioration of economic fundamentals due to the adverse effects of the COVID-19 pandemic and the related negative economic fallout. The sharp drop in foreign export earnings led to an extensive utilization of available foreign reserves, which shrank precipitously, reflecting the economic headwinds and further depreciation of 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 recent increase in oil prices, the twin deficits (fiscal and external) 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 2,098 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 was 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 2,129 million in 2021, equal to 10.9 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.

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

	2019	2020	2021	2022
Current deficit	3.9	6.2	10.9	9.7
Exports + Imports	55.1	50.5	61.1	33.0
Oil exports	7.1	3.4	5.1	8.6
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	22.0
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 reserve coverage (months of imports	1.6	1.3	1.6	1.6

Source: IMF.

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 2,129 million in 2021, equal to 10.9 percent of GDP, and indicating a YoY decline of 55.5 percent. The trade deficit deteriorated significantly in 2021, totaling about USD 8,960 million, compared with almost USD 7,292 million in 2020.

- Exports of crude oil and gas

Crude oil and gas exports rose in 2021 to 993.8 million USD, mainly due to the increase in oil prices internationally, from USD 647.8 million in 2020, equivalent to approximately 53 percent YoY increase. While the revenues of crude oil and gas exports, according to the preliminary actual data of the Central Bank, amounted to approximately 264.9 million dollars during the period January-March of 2022, compared to 190.1 million dollars in the same period of the previous year. An increase of $74.8 million, or 39.3%.

- Non-oil exports

The value of non-oil exports increased slightly in 2021 by 0.6 percent to USD 469 million, a reflection of an 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 23.9 percent.

- Imports of oil products

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

- Food imports

Food imports are a core part of Yemen's consumer spending. The bulk of the country's basic goods is 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 factor in the global soaring of food prices is the depreciation of many currencies against the US dollar. Given that most food commodities are traded in US dollars, countries with weaker currencies, including Yemen, have seen their food import bills 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 2,098 million in 2021, a YoY increase of USD 1,570.8 million, or almost 298 percent. This was chiefly due to the high trade balance deficit, reflecting the increase in the goods and services importation bill in light of food and fuel price spikes in international markets. As a result, the CBY's gross foreign reserves remained under the international metric of a three-month coverage ratio of imports (1.6 months of imports). The deficit in the total balance of payments for 2022 is projected to decrease by USD 170 million YoY, reaching over USD 1,928 million (Table IV.2).

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

	2020	2021	2022
Exports of goods and services	1,116	1,463	2,209
Hydrocarbon	648	994	1,722
Other exports	468	469	487
Imports of goods and services	8,408	10,423	10,765
Hydrocarbon	2,074	2,803	3,145
Food	3,114	4,400	4,400
Other imports	3,220	3,220	3,220
Balance of goods and services	**-7,292**	**-8,960**	**-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
Donor grants			
Balance of incomes and transfers	**6,126**	**6,831**	**6,621**
Current account	**-1,166**	**-2,129**	**-1,935**
Capital inflows net	29	31	7
Financial inflows net	-13	0	0
Errors and omissions	623	0	0
Overall balance	**-527**	**-2,098**	**-1,928**

Source: IMF.

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, help build 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, given the difficult environment characterized by a significant rise in international food and fuel prices.

In addition to widening Yemen's current account deficit, food and energy prices increase which intensified in the first half of 2022 will serve to feed inflationary and exchange rate depreciation pressures and erode citizen purchasing power. This underscores the importance of additional balance of payment support to enhance imports of food commodities and fuel imports, including the $2 billion in envisaged KSA-UAE assistance for basic imports and the separate $1 billion fuel importation assistance facility. It also underscores the critical importance of funneling to the maximum degree possible future financial assistance through the competitive FX auction mechanism; in a manner that maximizes the transparency and accountability with which vital BOP support resources are being allocated and tracked, and that helps directly alleviate further depreciation pressures.

IV.2 Public External Debt

Due to the fact that the external public debt database is only accessible at the Central Bank branch in Sana'a and that, despite repeated attempts, the Central Bank of Yemen's Headquarters in Aden is unable to obtain precise data on public debt from countries, organizations, and creditor funds in a way that accurately reflects the position of the actual external public debt, and In light of the exceptional circumstances that the country is going through, and despite the fact that we obtained a temporary suspension of debt service (the installments and interests due) from many countries and organizations, The Republic of Yemen continued to service the debt to the International Development Agency (IDA) so that its funding and aid to the Yemeni people would not be cut off. To reach what the Central Bank paid to service the external debt (the installments and interest due) to the International Development Association (IDA) For the period January-March 2022, an amount of 16.6 million US dollars, compared to 17.4 million US dollars during the same period in the previous year. interest due) to the International Development Association (IDA) For the period January-March 2022, an amount of 16.6 million US dollars, compared to 17.4 million US dollars during the same period in the previous year.

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 loans minus the installments paid on those loans plus the arrears on installment and interest payments.

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.

This issue of the Bulletin was published by the General Department of Research and Statistics at the CBY — Aden.

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