Central Bank of Yemen

# Quarterly Bulletin
# Economic and Monetary Developments

## Issue No.9 (December 2022)

Quarterly Bulletin – December 2022

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# Foreword

The ninth issue of the Quarterly Bulletin (December 2022), which is divided into four chapters, reviews the most significant monetary and economic developments in Yemen. The first chapter examines the current state of the local and global economies, while the second chapter looks at the most recent monetary and banking developments. The third and fourth chapters, respectively, cover public financial and external sector changes.

The Yemeni economy recorded a contraction of 1 percent in 2021 and is expected to achieve positive growth of 2 percent at the end of 2022, it is also expected to grow by 3.2 percent in the year 2023. Crude oil activities contributed significantly to this growth with the global market's continuous rise in crude oil prices, in addition to the gradual recovery from the Covid pandemic and the restoration of trade exchanges to their usual pattern.

Inflationary pressures - which were largely the result of imported inflation resulting from the devaluation of the national currency and the remarkable rise in food and oil derivatives prices in global markets - remained a macroeconomic challenge, and therefore required a coordinated and sustainable response to monetary policy aimed at price stability and providing sufficient liquidity for the economy to maintain seamless financing of the public and private sectors needs in line with the main legal mission of the Central Bank as clearly stipulated in Article (5) of the Central Bank Law.

The rise in crude oil export revenues contributed to the improvement of government financial indicators. However, financing the state budget deficit remains a critical issue that needs to be addressed soon in close coordination among all relevant government agencies. Strengthening public financial management, developing the domestic debt market, and fiscal deepening will remain among the top priorities of the reforms envisaged in the coming years.

The average exchange rate of the rial against the US dollar in the parallel market amounted to 1134.9 rials per dollar in September 2022, compared to 1255 rials per dollar at the end of December 2021. Note that the lowest level of the national currency value was recorded in November 2021, when the average exchange rate was 1500 rials/dollar.

The Central Bank of Yemen has taken a series of measures and reforms to help restore stability in the foreign exchange market, and these measures culminated in launching a weekly currency auction, starting in November 2021, through the Refinitiv platform to ensure transparency and competitiveness in line with the foundations and standards regulating the free market. These auctions enabled the Central Bank to withdraw liquidity for an envelope of 867.9 billion rials, or 19.6 percent of the monetary base at the end of September 2022, which constitutes an important step towards effective liquidity management using monetary policy tools based on open market principles.

Achieving exchange rate stability and maintaining price stability, in general, requires concerted efforts from all relevant authorities to revive economic activity, enhance export revenues, build secure balances of foreign reserves, and raise the efficiency of collecting domestic resources while intensifying coordination between monetary and fiscal policy to ensure Macroeconomic stability.

God bless,

Ahmed Ahmed Ghalib

Governor

# Executive Summary

Based on the IMF World Economic Outlook (October 2022), global economic growth is expected to decline to 3.2 percent in 2022, compared to achieving a positive growth rate of 6.0 percent in 2021.

The noticeable slowdown in global growth during 2022 is due to the repercussions of the Russian-Ukrainian crisis, which resulted in record increases in global food and energy prices, which had a significant impact on the slowdown in real GDP growth in advanced economies by 2.4 percent, and emerging and developing economies by 3.7 percent. It is also expected that the global gross domestic product would increase by $4.5 trillion in 2022 to reach $101.56 trillion, compared to $97.08 trillion in 2021.

The IMF expects the global growth rate to decline in 2023 to 2.7 percent. This is due to the decline in the growth of advanced economies by 1.1 percent due to the widening range of price pressures resulting from the Russian-Ukrainian crises, in which inflation rates are expected to record 7.2 percent in 2022 compared to 3.1 percent in 2021. It is expected that the growth of emerging and developing economies will remain at 4.4 percent. Inflation rates are expected to rise to 9.9 percent in 2022, compared to 5.9 percent in 2021.

At the domestic level, real GDP is expected to achieve positive growth in 2022, at 2 percent, according to preliminary data issued by the IMF. The IMF also expects real GDP to grow by 3.3 percent in 2023. In the context of the Russian-Ukrainian crisis and its repercussions on the countries of the Middle East and North Africa (MENA), including Yemen, which is excessively dependent on food and energy imports, the effects of the crisis will be tangible, particularly at levels of food security, especially wheat, as Yemen depends on nearly 40 percent of its wheat needs from Ukraine and Russia. Therefore, the search for alternative food sources may be more costly, given the high prices of wheat globally, which requires strengthening internal and external support to limit these repercussions. In addition, the rise in the prices of oil derivatives will lead to higher prices of all commodities as a result of the high costs of transportation, shipping, and insurance.

The general level of prices dynamics witnessed an upward pattern as a result of the unprecedented rise in food and energy prices in global markets, in addition to the great pressures on the national currency, which were reflected in their entirety on the prices of imported basic food commodities, which represent about 90 percent of the total food consumed in the Republic of Yemen. In light of this, the average cost-of-living index for the food basket in the Republic of Yemen increased from 65,144 rials in September 2021 to 83,591 rials in December 2021 and recorded 117,957 in September 2022. This reflected a YoY food inflation of 81.1 percent.

The average exchange rate of the rial against the dollar in the parallel market amounted to 1134.9 rials/dollars in September 2022, compared to 1255 rials/dollars at the end of December 2021. Note that the lowest level of the national currency value was recorded in November 2021, when the average exchange rate amounted to 1500 rials/dollar.

The Central Bank of Yemen has taken a series of measures and reforms to help restore stability in the foreign exchange market, these measures culminated in launching a weekly currency auction, starting in November 2021, through the Refinitiv platform to ensure transparency and competitiveness in line with the foundations and standards regulating the free market. The total offers submitted by the Central Bank since the start of the auctions until the end of September 2022 amounted to USD 1,015 million. While the total value of the bids was USD 855.6 million, the value of the bids constituted 84.3 percent of the total value of the offers, and the allocated amounts amounted to USD 778 million until the end of September 2022.

From the aforementioned operations, the Central Bank was able to absorb YER 867.9 billion, equivalent to 19.6 percent of the monetary base at the end of September 2022, thus constituting an important step towards effective liquidity management using monetary policy tools based on open market principles.

1 In this report, all years discussed are calendar years.

Concerning public financial developments, the state's public revenues increased in September 2022 by 1145.1 billion rials, or 185.2 percent, to reach 1763.3 billion rials, compared to an increase of 172.2 billion rials, or 38.6 percent in September 2021. On the other hand, public expenditures rose in September 2022 by 1162.4 billion rials, or 125 percent, to record 2092.3 billion rials, compared to an increase of 3.1 billion rials, or 0.3 percent in September 2021.

While the position of the state's general budget in September 2022 showed a cash deficit of 3752.6 billion rials, compared to a cash deficit of 311.6 billion rials in the same period of the previous year. It is noted that the percentage of revenue coverage of public expenditures reached 84 percent in September 2022, compared to 66.5 percent in September 2021.

The local public debt recorded a total value of 3752.6 billion rials in September 2022. The Central Bank's share of the total value of the internal public debt was about 94.6 percent in September 2022. Commercial and Islamic banks represented 5.4 percent of the total value of the internal public debt in September 2022.

Regarding external sector developments, the balance of payments recorded a total deficit of USD 803 million in 2022, and preliminary estimates indicate that the total deficit will record more than USD 1,145 million in 2023. The deficit in the balance of payments is primarily due to the widening of the current account deficit as a result of the rise in the commodity import bill, against the limited exports of national commodities.

of the total value of the internal public debt in June 2022.

Regarding external sector developments, the balance of payments recorded a total deficit of 2.1 billion US dollars in 2021, and preliminary estimates indicate that the total deficit will record more than 1.9 billion dollars in 2022. The deficit in the balance of payments is primarily due to the widening of the current account deficit as a result of the rise in the commodity import bill, against the limited exports of national commodities.

# CHAPTER I

## Current Situation and Economic Prospects

## I.1 World Economic Growth

The global outlook deteriorated significantly in early 2022, largely because of the Russian Ukrainian crisis. The war's economic effects are spreading widely worldwide through commodity markets, trade, and financial linkages. Russia and Ukraine are major suppliers of oil, gas, metals, wheat, and other grains. The declining supply of these commodities has already driven their prices up sharply. Lower-income countries, including Yemen, are the hardest hit by the food and fuel price increases.

The IMF World Economic Outlook (October 2022) projected global growth at 3.2 percent in 2022 and 2.7 percent in 2023—0.4 and 0.9 percentage points lower than in the April 2022 update. The downgrade largely reflected the war's direct impacts on Russia and Ukraine and the associated global spillovers. It is worth noting 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 the 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 markets 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 7.2 percent in advanced economies and 9.9 percent in emerging market and developing economies—1.5 and 1.2 percentage points higher than projected in April 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 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 | 6.0 | 3.2 | 2.7 |
| Growth rate (advanced economies) | 5.2 | 2.4 | 1.1 |
| Growth rate (emerging and developing economies) | 6.6 | 3.7 | 3.7 |
| Growth rate (Middle East and Central Asia) | 4.5 | 5.0 | 3.6 |
| Growth rate (Middle East and North Africa) | 4.1 | 5.0 | 3.6 |
| Growth rate (low-income developing countries) | 4.1 | 4.8 | 4.9 |

**Source: IMF, World Economic Outlook, October 2022.**

## I.2 Growth and Price Developments in Yemen

As life has resumed its regular course, the expansion of vaccination campaigns against Covid-19, the end of total and partial closures, and the return of transportation, the IMF recently expected that the Yemeni economy would achieve positive growth in real GDP by 2 percent in 2022 compared to a 1 percent contraction in the previous year. It is also expected that the growth rate will reach about 3.3 percent in 2023.

On the other hand, prices of basic commodities witnessed an upward pattern as a result of the unprecedented rise in food and energy prices in global markets, in addition to the great pressures on the national currency, which were reflected in their entirety on the prices of imported basic food commodities, which represent about 90 percent of the total food consumed in the Republic of Yemen. In light of this, the average cost of living index for the food basket in the Republic of Yemen increased from 65,144 rials in September 2021 to 83,591 rials in December 2021 and recorded 117,957 rials in September 2022. This reflected a YoY food inflation of 81.1 percent in September 2022.

As for the expected developments, the rise in global grain and energy prices and the economic repercussions of the Russian-Ukrainian conflict will continue to create a state of uncertainty and increase upward pressure on domestic market prices, assuming the rest of the variables remain constant.

The implementation of the budget for 2022 has shown a significant improvement in public revenues. This can be attributed to the increase in crude oil export revenues and the contributions from various other sources. It will help boost the country's economic activity and improve its growth rate.

Regarding public expenditures, efforts have recently been intensified to contain them, which is a step in the right direction. Maintaining this trend will avoid resorting to excessive overdrafts to finance the general budget deficit, which will help stabilize exchange rates and prices in general, and thus put public finances on a sustainable path.

The balance of payments recorded a deficit of USD 803 million in 2022. The total balance of payments deficit at the end of 2023 is expected to reach more than USD 1,145 million, which requires more external financial support to enhance the currency reserves, achieve price stability, and ensure food security in light of the difficult situation in the Yemeni economy since the outbreak of the war.

- ### Fish Production

Fish production increased by 32.3 thousand tons in quantity and YER 20.1 billion in value in 2021. The quantity of fish produced in the first quarter of 2022 was 45.5 tons, valued at YER 43.3 billion. Fish and marine life production including shallow-water and deep-water fish, as well as diversified fish and other marine life, are presented in the following:

| | 2020 | | 2021 | | Q1 2022 | |
|---|---|---|---|---|---|---|
| | Quantity | Value | Quantity | Value | Quantity | Value |
| Shallow-Water Fish | 19.1 | 22.0 | 60.4 | 31.8 | 21.0 | 7.4 |
| Deep-Water Fish | 97.1 | 111.7 | 120.1 | 146.9 | 22.9 | 32.0 |
| Diversified Fish | 39.5 | 32.0 | 7.7 | 7.4 | 1.4 | 2.4 |
| Other Marine Life | 2.4 | 4.2 | 2.1 | 4.9 | 0.2 | 1.4 |
| Total | 158.1 | 169.9 | 190.4 | 191.0 | 45.5 | 43.3 |

Source: Ministry of Fish Wealth
Quantities in thousand tons

Table I.2 Fish production (in YER billion)

## • Agricultural Production

The production of cereal decreased by 38 percent in 2021. The area planted with grain, fodder, fruits, cash crops, vegetables, legumes and qat as well as the related production is presented in the Table below.

Table I.2.a Agricultural production

| Agricultural Production | | 2020 | 2021 | Q1 2022 |
|---|---|---|---|---|
| **Grain** | **Area** | 554,687 | 549,411 | 137,353 |
| | **Production** | 789,527 | 489,520 | 122,380 |
| **Fodder** | **Area** | 142,602 | 142,407 | 35,602 |
| | **Production** | 1,789,006 | 1,678,923 | 419,731 |
| **Fruits** | **Area** | 93,421 | 95,718 | 23,930 |
| | **Production** | 962,155 | 989,120 | 247,280 |
| **Cash Crops** | **Area** | 72,644 | 85,981 | 21,495 |
| | **Production** | 77,318 | 89,122 | 22,281 |
| **Vegetables** | **Area** | 71,001 | 72,782 | 18,196 |
| | **Production** | 904,492 | 920,321 | 230,080 |
| **Legumes** | **Area** | 50,559 | 49,976 | 12,494 |
| | **Production** | 99,273 | 97,561 | 24,390 |
| **Qat** | **Area** | 169,848 | 170,523 | 42,631 |
| | **Production** | 241,309 | 247,451 | 61,863 |

Source: Ministry of Agriculture and Irrigation.

## • Animal Production:

In 2021, the livestock sector witnessed a remarkable increase in total number, reaching 22,195,362 heads of livestock, an increase of 481,771 or 2.2 percent over the previous year. The total number of livestock recorded during the first quarter of 2022 was 5,548,840.

Table I.2.b Animal production (livestock)

| Animal Production | 2020 | 2021 | Q1 2022 |
|---|---|---|---|
| **Sheep** | 9866017 | 9900120 | 2475030 |
| **Goats** | 9562881 | 9987990 | 2496997 |
| **Cows** | 1835801 | 1850931 | 462733 |
| **Camels** | 448892 | 456321 | 114080 |
| **Total** | 21713591 | 22195362 | 5548840 |

Source: Ministry of Agriculture and Irrigation

In terms of animal products by ton it developed as follows.

Table I.2.c Animal production (in tons)

| | 2020 | 2021 | Q1 2022 |
|---|---|---|---|
| **Chicken** | 193,086 | 195,178 | 48,795 |
| **Number of Eggs (in million)** | 1,449 | 1,556 | 389 |
| **Leather** | 16,986 | 17,200 | 4,300 |
| **Wool** | 4,855 | 4,950 | 1,238 |
| **Honey** | 2,823 | 2,950 | 738 |

Source: Ministry of Agriculture and Irrigation

# 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 half of 2022, growing by YER 653.3 billion or 8.1 percent since December 2021 to reach YER 8,743.7 billion. Table II.1 presents the key components of the CBY balance sheet.

### •Assets

The CBY's net foreign assets (NFAs) decreased by YER 107.6 billion in 2021, an 11.9 percent YoY decline. NFAs stood at YER 1,015.1 billion (USD 2,537 million) at the end of 2021. As of June 2022, it had decreased by YER 972.8 billion YoY, or 95.8 percent, reaching a negative value of YER 1,987.9 billion or USD 1,756.1 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 official overvalued exchange rate of YER 400 per dollar.

As a share of total assets, the total external assets rose to 21.1 percent as of June 2022 from 8.5 percent in December 2021 and 5.3 percent in December 2020.

Net claims on the government (NCOG) increased by YER 767.4 billion in 2020 (18.3 percent YoY), and by YER 504.5 billion in 2021 (10.2 percent YoY). As of June 2022, NCOG had decreased by YER 272.5 billion YoY, or 5 percent, to YER 5,201.2 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.

(ii) The decrease in foreign assets as a result of the disbursement of the remaining balance of the Saudi deposit.

As of September 2022, base money had decreased by YER 4.4 billion compared to June 2022, or 0.1 percent, to a record YER 4,428.5 billion.

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

| | Dec-20 | Dec-21 | Jun-22 | Sep-22 |
|---|---|---|---|---|
| **Foreign assets** | 387.8 | 684.0 | 1,843.5 | 1,429.1 |
| **Domestic assets** | 6,898.5 | 7,406.4 | 6,900.2 | 7,235.8 |
| Government | 5,398.9 | 5,816.4 | 5,561.8 | 5,865.4 |
| Public enterprises | 309.5 | 309.5 | 309.5 | 309.5 |
| Banks | 0.0 | 0.0 | 0.0 | 0.0 |
| Fixed and other assets | 1,190.1 | 1,280.5 | 1,028.9 | 1,060.9 |
| **Assets=liabilities** | 7,286.3 | 8,090.4 | 8,743.7 | 8,664.9 |
| **Base money** | 3,948.2 | 4,490.7 | 4,432.9 | 4,428.5 |
| Banknotes issued | 3,327.5 | 3,802.7 | 3,691.5 | 3,683.0 |
| Banks | 620.6 | 688.0 | 741.4 | 745.5 |
| Government | 429.7 | 342.7 | 360.6 | 337.2 |
| Public enterprises | 60.3 | 61.9 | 82.6 | 98.4 |
| Social Security Fund | 58.7 | 58.7 | 58.7 | 58.7 |
| Certificates of deposit | 0.0 | 0.0 | 0.0 | 0.0 |
| **Foreign liabilities** | 1,295.3 | 1,699.1 | 2,771.4 | 2,751.9 |
| **Other liabilities** | 1,494.1 | 1,437.3 | 1,037.5 | 990.2 |

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). As of September 2022, total assets of the banking system reached YER 4,832.5 billion, or 5.2 percent increase compared to December 2021.

### • Assets

The NFAs of commercial and Islamic banks increased by YER 57.3 billion (or 6.5 percent) in 2021 to a total of YER 938.5 billion. This increase was due primarily to the YER 21.2 billion YoY rise in correspondent accounts, the YER 18.6 billion YoY rise in foreign exchange, and YER 17.5 billion rises in foreign investments. Total foreign assets rose in 2021 by YER 54.8 billion, or 6 percent, reaching YER 971.0 billion. This was equal to over 21 percent of the total assets that year.

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

Bank loans and advances decreased slightly, by YER 1.7 billion (0.1 percent), in 2021, ending up at YER 2,303.7 billion.

## • Liabilities

In 2021, total deposits grew by YER 144.1 billion (about 4.1 percent) YoY to YER 3,660.2 billion. 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 number of other liabilities rose by YER 23.5 billion (over 2.7 percent) during 2021, reaching a total of YER 902.1 billion. This rise reflected, in part, an increase in the capital and reserves of the country's commercial and Islamic banks, which grew by YER 10.2 billion (2.8 percent YoY) in 2021, reaching YER 368.2 billion.

## • Deposits

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

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

As of September 2022, total deposits amounted to YER 3,828.3 billion, or a 4.6 percent increase compared to December 2021.

## • Loans and advances

The banking sector's credit portfolio totaled YER 2,303.7 billion in 2021, compared with YER 2,305.4 billion in 2020, a slight decline by YER 1.7 billion. While loans to the public sector increased by YER 39.4 billion (2.2 percent YoY) to reach YER 1,859.1 billion, loans to the private sector decreased by YER 41.1 billion (8.5 percent) to reach YER 444.6 billion.

As of September 2022, total loans totaled YER 2,196.1 billion, or a 4.7 percent decrease compared to December 2021.

| | Dec-2020 | Dec-2021 | Jun-2022 | Sep-2022 |
|---|---|---|---|---|
| **Assets** | 4,429.7 | 4,594.8 | 4,683.9 | 4,832.5 |
| Foreign assets | 916.2 | 971.0 | 965.5 | 963.6 |
| Foreign currency | 116.4 | 135.0 | 133.6 | 148.6 |
| Banks abroad | 468.1 | 486.8 | 488.3 | 471.3 |
| Nonresidents | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign investment | 331.7 | 349.2 | 343.6 | 343.8 |
| **Reserves** | **821.1** | **938.3** | **974.3** | **1,053.0** |
| Local currency | 142.5 | 233.9 | 211.3 | 224.4 |
| Deposits with the CBY | 678.6 | 704.4 | 463.0 | 828.7 |
| Gross loans and advances | 2,305.4 | 2,303.7 | 2,150.8 | 2,196.1 |
| Government | 1,762.2 | 1,798.1 | 1,806.4 | 1,852.7 |
| Public enterprises | 57.5 | 61.0 | 60.4 | 58.3 |
| Private sector | 485.7 | 444.6 | 284.0 | 285.1 |
| **Certificates of deposit** | **0.0** | **0.0** | **0.0** | **0.0** |

| | | | | |
|---|---|---|---|---|
| **Treasury bills purchased from the CBY** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Other assets** | **387.0** | **381.8** | **593.3** | **619.7** |
| **Liabilities** | **4,429.7** | **4,594.8** | **4,683.9** | **4,832.5** |
| **Deposits** | **3,516.1** | **3,660.2** | **3,750.7** | **3,828.3** |
| Government | 0.0 | 0.0 | 0.0 | 0.0 |
| Demand | 851.0 | 910.5 | 889.0 | 920.6 |
| Time | 838.8 | 859.2 | 874.3 | 893.7 |
| Saving | 276.3 | 286.9 | 292.6 | 296.0 |
| Foreign currency | 1,497.0 | 1,552.7 | 1,632.1 | 1,635.9 |
| Earmarked | 53.0 | 50.9 | 62.8 | 82.1 |
| **Foreign liabilities** | **35.0** | **32.5** | **25.5** | **38.9** |
| Banks abroad | 35.0 | 32.5 | 25.5 | 38.9 |
| Nonresidents | 0.0 | 0.0 | 0.0 | 0.0 |
| Borrowing from banks | 0.0 | 0.0 | 0.0 | 0.0 |
| **Other liabilities** | **878.6** | **902.1** | **907.7** | **965.3** |
| Loans from the CBY | 6.7 | 6.8 | 6.8 | 6.8 |
| Other liabilities | 513.9 | 527.1 | 504.7 | 541.8 |
| Capital and reserves | 358.0 | 368.2 | 396.2 | 416.7 |

Source: CBY.

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

## II.3 Monetary Survey

A rise in net domestic assets, combined with a decline in NFAs, led to an estimated overall rise in the money supply (M2) to YER 7,229.0 billion in 2021, a YoY increase of YER 528 billion (7.9 percent). In addition, initial estimates indicate that, as of September 2022, broad money reached YER 7,286.9 billion, a slight increase of about 0.8 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 2021 and in the course of 2022.

When analyzing the dynamics of the money supply components in 2021, it is worth noting that narrow money (M1) increased by 443.4 billion (11 percent YoY), while quasi-money rose by YER 84.6 billion (3.2 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 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 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.

Table II.3 Decomposition of Broad Money

| | 2020 | 2021 | Jun-2022 | Sep-2022 |
|---|---|---|---|---|
| **Broad money (M2), billion Rials** | **6,701.0** | **7,229.0** | **7,230.9** | **7,286.9** |
| Broad money, annual % change | 12.2 | 7.9 | 0.1 | 0.8 |
| **Quasi-money, billion Rials** | **2,665.1** | **2,749.8** | **2,861.7** | **2,907.7** |
| Quasi-money, annual % change | **4.0** | **3.2** | **4.1** | **5.7** |
| % ,Quasi-money/broad money | **39.8** | **38.0** | **39.6** | **39.9** |
| Foreign currency deposits, billion Rials | **1,496.9** | **1,552.7** | **1,632.1** | **1,635.9** |
| Foreign currency deposits, annual % change | **4.2** | **3.7** | **5.1** | **5.4** |
| Foreign currency deposits, as % of total deposits | **42.6** | **42.4** | **43.5** | **42.7** |
| **Narrow money (M1), billion Rials** | **4,035.9** | **4,479.3** | **4,369.2** | **4,379.2** |
| Narrow money, annual % change | 18.3 | 11.0 | -2.5 | -2.2 |
| Narrow money, as % of broad money | 60.2 | 62.0 | 60.4 | 60.1 |
| Demand deposits, billion Rials | 850.9 | 910.5 | 889.0 | 920.6 |
| Demand deposits, annual % change | 30.1 | 7.0 | -2.4 | 1.1 |
| Demand deposits, as % of broad money | 12.7 | 12.6 | 12.3 | 12.6 |
| **Currency in circulation, billion Rials** | **3,185.0** | **3,568.8** | **3,480.2** | **3,458.7** |
| Currency in circulation, annual % change | 15.5 | 12.1 | -2.5 | -3.1 |
| Currency in circulation, as % of broad money | 47.5 | 49.4 | 48.1 | 47.5 |

**Source: CBY.**

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 April 2022 will likely help further control money creation and stabilize prices and exchange rates.

## II.4 Building a Solid Framework for Conducting Monetary Policy

The main mission of the CBY, as outlined 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.

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.

The monitoring of the annual monetary plan's implementation revealed that, overall, the CBY was successful in its mission to control money supply growth until September 2022. Indeed, during this period, base money declined by 1.4 percent (equal to YER 62.2 billion), well below the target of 15.6 percent. This reflected a 3.1 percent decrease in monetary emissions (equal to YER 119.7 billion), combined with an 8.4 percent increase in bank reserves (equal to YER 57.5 billion). Broad money (M2) growth rate until September 2022 is estimated at 0.8 percent, well below the annual target of 18 percent considered in the annual monetary plan.

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 in 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 YER700/USD1 at the end of 2020, up from YER591/USD1 at the end of 2019. The exchange rate crossed the YER900/USD1 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 pressure 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 YER860/USD1 at the end of the first quarter of 2021. During the second quarter, the exchange rate crossed the YER900/USD1 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 YER1,200/USD1 by the end of September 2021. The peak was recorded in November 2021, at YER1,700/USD1. Hence, the average exchange rate reached YER1,032.5/USD1 in 2021 up from YER735.2/USD1 in 2020. The value of the Rial improved and its volatility reduced in the course of 2022. The average exchange rate of the Rial against the dollar was about YER 1,134.9 in September 2022 compared to YER 1,000 in May 2022 and YER 934 in June 2021.

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 armed conflict. The cost of the national minimum food basket (MFB) in Yemen — an indicator of the cost of living — reached YER 95,015 in areas under IRG control in December 2021, compared with YER 55,952 in December 2020, a roughly 69.8 percent YoY increase. Food prices continued their upward trend during the first half of the CY 2022 to reach YER 117,957 in September 2022 in areas under IRG control against 65,144 in September 2021, equivalent to an 81.1 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.

In response to these downward pressures and 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 platform.

A single price system was used to allocate a maximum envelope of USD 15-30 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 as 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 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 noting that during the first half of 2022, the adoption of a market exchange rate for oil revenues along with the global increase in oil prices, reduced considerably the need for monetary financing of the budget deficit.

## III.1 Public Revenues

Total revenues and grants reached YER 1,097 billion in 2021, a YER 373 billion YoY increase. The increase resulted from the YER 138 billion increase in oil revenues and the YER 235 billion 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 398 billion in 2021, an increase of YER 138 billion, 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 YER 699 billion in 2021, a YoY increase of YER 235 billion (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 YER 581 billion in 2021, a YoY increase of YER 291 billion, 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 YER 56 billion (32 percent YoY), totaling YER 119 billion, and representing 11 percent of total public revenues and 0.6 percent of GDP.

The rise in non-oil revenues in CY 2021 was mainly attributable to the adjustment of the customs exchange rate from YER 250: USD 1 to YER 500: USD 1, and to the relative recovery of economic activity and improvement in tax collection.

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

| | Dec-2020 | *Dec-2021 | Sep-2021* | Sep-2022* |
|---|---|---|---|---|
| **Total revenues and grants** | **724** | **1,097** | **618.2** | **1,763.3** |
| **Oil revenues** | **259** | **398** | **300.8** | **1,107.7** |
| **Non-oil revenues** | **465** | **699** | **317.5** | **655.6** |
| Tax revenues | 290 | 580 | 311.3 | 650.5 |
| Other revenues | 175 | 119 | 6.1 | 5.1 |
| **Grants** | - | - | - | - |

* Budget Execution, subject to change.

- = No data available.

Source: CBY.

## III.2 Public Expenditures

Public expenditures increased slightly in 2021 to reach YER 1,629 billion, compared with YER 1,619 billion in 2020 (a YoY increase of 1 percent). They accounted for 8.3 percent of GDP in 2021.

## Current expenditures

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

## Capital expenditures

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

Table III.2 Public Expenditures (YER billion)

| | Dec-2020 | *Dec-2021 | *Sep-2021 | *Sep-2022 |
|---|---|---|---|---|
| **Total expenditures** | **1,619** | **1,629** | **929.9** | **2,092.3** |
| **Current expenditures** | **1,594** | **1,599** | **913.0** | **2,061.5** |
| Wages and salaries | 699 | 566 | 316.3 | 670.0 |
| Goods and services | 489 | 632 | 337.9 | 504.3 |
| Interest payments | 67 | 63 | 46.5 | 84.4 |
| Subsidies and transfers | 303 | 302 | 190.9 | 771.6 |
| Other expenditures | 36 | 36 | 21.4 | 31.2 |
| **Capital expenditures** | **25** | **30** | **16.8** | **30.8** |

* Budget Execution, subject to change.

Source: CBY.

## III.3 Overall Balance

The budget execution data indicated a public deficit of YER 532 billion (approximately 2.7 percent of GDP) in 2021, compared with the deficit in 2020 of YER 896 billion (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.

The preliminary data on budget execution on September 2022 showed an overall deficit of YER 329 billion linked to the global oil price surge along with the adoption of a market exchange rate for oil revenues since January 2022.

Table III.3 Overall Balance (YER billion)

| | Dec-2020 | *Dec-2021 | *Sep-2021 | *Sep-2022 |
|---|---|---|---|---|
| Total public revenues and grants | 724 | 1,097 | 618.2 | 1,763.3 |
| Total public expenditures | 1,619 | 1,629 | 929.9 | 2,092.3 |
| Overall balance | -895 | -532 | -311.7 | -329 |

Source: CBY.

## III.4 Public Domestic Debt

In the wake of the ongoing decline in public resources and foreign loans, internal public debt has increased from approximately YER 1,534 billion in 2018 to YER 3,689 billion as of December 2021, and it kept increasing to YER 3,752.6 billion in September 2022.

The primary source of domestic public financing is a direct borrowing from the CBY. This equaled YER 2,909 billion in 2020 or 96.7 percent of the total public internal debt. Wakala deposits and certificates of deposit constituted the remaining portion (3.3 percent) of the domestic debt. The same trend was evident during CY 2021. In this regard, the internal debt stock rose to YER 3,689 billion 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. As of the end of September 2022, internal public debt increased to YER 3,752.6 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)

| | Dec-2020 | Dec-2021 | Sep-2021 | Sep-2022 |
|---|---|---|---|---|
| **Internal public debt** | 3,009 | 3,689 | 3,597.7 | 3,752.6 |
| CBY financing of the government (overdraft) | 2,909 | 3,498 | 3,406.9 | 3,551.8 |
| Commercial and Islamic bank financing of the government (certificates of deposits and Wakala deposits) | 100 | 190.8 | 190.8 | 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 stabilize at the end of 2022, in wake of public revenue improvement and ongoing fiscal consolidation in conjunction with gradual recourse to market non-inflationary financing sources.

Within this context, 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.

Unexpectedly, the year 2021 witnessed a surplus in the overall balance, as a large deficit was expected as a result of rapid and radical deterioration of economic fundamentals due to the adverse effects of the COVID-19 pandemic and the related negative economic fallout. 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 revenues, 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

All the balance-of-payment indicators reflected Yemen's challenging economic position heading into 2022. The deficit in the current account amounted to USD 3,238 million in 2022, equal to 11.7 percent of GDP; the net capital and financial accounts recorded a deficit of USD 66 million in 2022. The total balance-of-payments deficit at the end of 2022 is projected to reach over USD 803 million.

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

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| Current deficit | -6.2 | -1.8 | -11.7 |
| Exports | 5.9 | 7.3 | 5.2 |
| Oil exports | 3.4 | 5.0 | 3.4 |
| Remittances | 19.7 | 20.3 | 16.1 |
| Imports | 44.6 | 45.2 | 45.0 |
| Humanitarian assistance | 12.9 | 15.9 | 12.11 |
| Oil imports | 11.0 | 11.9 | 12.4 |
| Food imports | 16.5 | 17.2 | 20.5 |

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 645 million in 2020, equivalent to an approximately 54.1 percent YoY increase. According to CBY preliminary actual data, revenues generated from crude oil and gas exports amounted to approximately 976 million USD through September

2022 compared to 272 million USD for the same period of the previous year, an increase of $704 million, or 258.8 percent

### - Non-oil exports

The value of non-oil exports registered a fixed value at USD 468 in both 2020 and 2021, a reflection of an early-stage effort underway to diversify the country's exports. While it is projected to amount to USD 505 million in 2022.

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 9,004 million in 2021, a YoY increase of almost USD 596 million, or slightly over 7.1 percent.

### - Imports of oil products

At nearly USD 2.4 billion in 2021, the value of oil derivative imports had increased by USD 298 million, a YoY increase of over 14.4 percent. While the imports of oil derivatives are projected to reach USD 3,419 million in 2022.

### - 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. Projected at a total of USD 5,656 million, the cost of food imports increased by over 65 percent YoY in 2022.

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 are projected to increase to USD 7,773 million in 2022, a YoY increase of USD 587 million, or 8.2 percent. This increase, in turn, reflected an increase in both humanitarian assistance and worker remittances. Remittances increased as a result of the end of the Covid-19 pandemic and all associated lockdowns in all Yemeni diaspora countries.

## Capital and financial accounts

In 2022, Yemen's capital account recorded a small surplus of USD 7 million, and the financial account recorded a deficit of USD 73 million.

### Overall balance

The overall balance recorded an unexpected surplus of USD 570 million in 2021, a YoY increase of USD 1,112 million, or almost 205.2 percent. This was chiefly due to the significant decrease in the current account's deficit. The deficit in the total balance of payments for 2022 is projected to decrease by USD 1,373 million YoY, reaching over USD 803 million (Table IV.2)

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

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| Exports of goods and services | 1,113 | 1,461.8 | 1,450.2 |
| Hydrocarbon | 645 | 993.8 | 945.2 |
| Other exports | 468 | 468 | 505 |
| Imports of goods and services | 8,408 | 9,004 | 12,461 |
| Hydrocarbon | 2,074 | 2,372 | 3,419 |
| Food | 3,114 | 3,425 | 5,656 |
| Other imports | 3,220 | 3,207 | 3,386 |
| **Balance of goods and services** | -7,295 | -7,542 | -11,011 |
| Balance of incomes and transfers | 6,122 | 7,186 | 7,773 |
| Incomes | -19 | -17 | -25 |
| Transfers | 6,141 | 7,203 | 7,798 |
| Remittances | 3,708 | 4,043 | 4,454 |
| Humanitarian assistance | 2,433 | 3,160 | 3,344 |
| **Current account** | -1,173 | -356 | -3,238 |
| **Capital and Financial inflows net** | -36 | -13 | -66 |
| Capital inflows net | 29 | 31 | 7 |
| Financial inflows net | -65 | -44 | -73 |
| Errors and omissions | 667 | 939 | 2,501 |
| **Overall balance** | -542 | 570 | -803 |

**Source: IMF.**

The balance of payments deficit is expected to persist over the coming months, as the effects of the war continue to reverberate. This deficit will weaken the local currency unless the structural causes are addressed in the short term. 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 Q3 2022 will serve to feed inflationary and exchange rate depreciation pressures and erode citizen purchasing power. This underscores the importance of the 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

The external public debt database was only accessible at the Central Bank branch in Sana'a. The Central Bank of Yemen's headquarters in Aden has recently acquired the debt management and financial analysis system (DMFAS) program from UNCTAD and started preparing a comprehensive database for external debt. Despite the difficult situation since the onset of the conflict, the Republic of Yemen continued to service its debt vis-à-vis the International Development Agency (IDA) so that its funding and aid to the Yemeni people would not be cut off. Payments to IDA for the period January-September 2022 reached an amount of USD 60.9 million, compared to USD 63.0 million 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.

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Website: https://www.cby-ye.com
E-mail: **rsd@cby-ye.com**