Central Bank of Yemen

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Economic and Monetary Developments

Issue No.1 (December 2020)

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Foreword

The Central Bank of Yemen (CBY) has the pleasure of announcing the launch of its new quarterly economic Bulletin (December 2020). The Bulletin provides readers, researchers and those interested in economic and monetary developments of the Republic of Yemen with insights on major developments across all sectors. It also directly enhances market disciplinary forces, in alignment with Basle II and Basle III third pillars.

The first issue of the Bulletin reviews the most important economic and monetary developments that the Yemeni economy witnessed during the year 2019 and the first nine months of 2020. It consists of four chapters. The first chapter discusses the current economic conditions at the global and local levels, while the second discusses the most recent monetary and banking developments. The third and fourth chapters are devoted to public finances and the external sector developments, respectively.

Despite the ongoing war since 2015, the Yemeni economy witnessed positive rates of growth in 2018 and 2019, after coming out of a long contractionary phase. The petroleum activities contributed majorly to this growth due to a significant surge in oil production. The outbreak of the Covid-19 pandemic in early 2020 and the subsequent lockdown as well as the oil price collapse affected economic activities across the globe, causing massive loss to both life and livelihood. The global economy has entered a recessionary phase, with huge consequences in terms of loss of output and employment. Within this context, Oil price drop and the spread of the pandemic are expected to have a significant adverse impact on Yemeni economic activity with real GDP expected to contract by 5% in 2020. In addition to these shocks, the ban of the new printed banknotes in the region under Houthis control, implemented since January 2020, has limited the ability of the government to pay salaries in this area and complicated the conduct of monetary policy through the cost of financial transactions, lack of transparency on market rates and a widening the exchange rates gap between the markets of Aden and Sanaa reaching 30% in some instances.

Inflationary pressures triggered largely by imported inflation, with about 90% of Yemen's food basket/basic imports coming from overseas, remained strong in the Republic. This continues to pose a macroeconomic challenge and hence, require a concerted and sustained monetary policy response aiming at stabilizing prices and providing sufficient liquidity to the economy to maintain smooth funding of public and private sector needs, in line with the CBY legal mandate as clearly stated in Article 5 of the Central Bank Law.

The fiscal position also improved during the last two years on the back of a relative rise in oil exports albeit too far from the pre-war level. Expenditure rationalization and fiscal deficit financing, however, are still considered critical issues to be addressed soon with close coordination between all government entities. Indeed, the fiscal deficit was funded largely through monetary emissions by the central bank while a small portion of the fiscal deficit was financed through domestic market borrowings with an intended objective of alleviating the pressure on debt monetization. Public finance management strengthening, domestic debt market capital markets development and financial deepening are among the top priorities of the reforms envisaged over the coming years.

The external position continued to deteriorate since the outset of the war which led to significant weakening of the value of the local currency with exception of the year 2019. The relative stabilization of the exchange rate of the rial in 2019 was helped by the availability of foreign exchange generated mainly through drawdowns from the Saudi deposit. Reviving the economic activity, boosting export earnings, building up a buffer of foreign reserves, and limiting debt monetization are the main pillars of our macro financial policy over the next period.

The high level of commitment and quality output from the management and staff of the Bank, which facilitated smooth and efficient functioning of the CBY, deserve deep appreciation. We could not have been published this Bulletin if the other departments had not been contributed their efforts and data. So, we, would like to express our special thanks to the respective departments for provided data and great supports.

It is also acknowledged with great appreciation that the CBY started receiving since 2019 technical support from our key partners led by the USAID, in performing core functions, discharging various responsibilities efficiently and building capacities through a time-framed action plan prepared in accordance with the recommendations articulated in the International Monetary Fund (IMF) Technical Assistance Diagnostic Assessment Report prepared in November 2018, covering core functional areas of the central bank operations.

God bless,

Governor

Ahmed Obaid Al-Fadhli

Executive Summary

The Yemeni economy witnessed an improvement in 2019 after deep contraction since the start of the war in 2015. This contraction was mainly attributed to the significant inch up in the hydrocarbon sector that still contributes a significant portion to the domestic output. For CY2020, the economic activity has been severely hit by the dual shock of the pandemic outbreak and the steep decline in oil prices. Since the world economy will take time to return to normality, oil prices will continue to remain under pressure, affecting hydrocarbon sector activities in the Republic.

Considering the prospects of hydrocarbon and non-hydrocarbon activities, the macroeconomic outlook for 2020 appears to be negative for both sectors. Ultimately, the persistence of the Covid-19 internationally and any significant decline in oil prices could further undermine the outlook. As per the IMF, the world economy is estimated to contract by 4.4% in 2020 before recovering somewhat in 2021. Yemen's GDP is expected to contract by 5% in 2020 before growing by 0.5% in 2021.

Inflationary conditions further strengthened in last three quarter of CY2020 after relative stability in 2019 on the back of the high depreciation of the local currency and the lack of foreign reserves buffer at CBY disposal in conjunction with increasing uncertainty and local currency substitution by foreign currency holding (US dollar and Saudi rial, mainly). Market surveys indicate that inflation exceeded 17% in September 2020 while the annual rate of inflation is projected in a range of 25-30%, compared to an estimated average rate of 10% in 2019. For 2021, inflation rate is projected to remain slightly above the 20% level.

Achieving price stability is the primary objective of monetary policy. The primacy of this objective is clearly stated in the Central Bank of Yemen (CBY) Law No. (14) of 2000 that's why tremendous efforts are being deployed by the central bank in concert with the relevant government entities and the assistance of the international community to face the persistent adverse macroeconomic conditions.

The principal objective of monetary policy is to attain low and stable inflation by ensuring adequate money supply. To this end, the central bank attaches great importance to controlling money supply through building gradually a robust framework for monetary targeting and moving towards the adoption of a comprehensive toolkit of indirect and market-based instruments for liquidity management.

Against this backdrop, monetary aggregates expanded reasonably during 2019 and the last three quarters of CY2020. Broad money grew by 8.5% in 2019 against 28.5% in 2018 while reserve money (base money) increased by 11.5% in 2019 against 28.3% in 2018. Within the broad money, narrow money (M1) increased by 10.6% in 2019 against 33.1% in the previous year. The currency in circulation, contributing more than 80% of narrow money and constituting the main driver of M1 growth, witnessed a growth by 10.6% in 2019 against 36.6% in the prior year. During 2019, the monetary expansion was contained by a decline in net foreign assets by 59.1%. Turning to domestic assets, the overall net growth declined from 24.1% in 2018 to 17.8% in 2019. Net claims on the government annual growth remained at almost the same level in 2019 as prior year (16.8%), driving the growth in money supply.

The CBY managed to design a robust monetary program for 2020, the first following relocation to Aden, which helped rationalize money supply parameters and limit high inflationary pressures stemming from monetary creation. Within this framework, broad money (M2) increased by 12.9 percent over the last three quarters of CY 2020 against an annual target of 22.2 percent. Base money grew by 11.3 percent during the same period against an annual target of 20.6 percent. Currency issued went up by 12 percent from the beginning of the current year to September 2020 against an annual target of 25.5 percent. The program is so far on target and even well below the ceilings considered in the annual monetary program.

The deterioration of the macroeconomic conditions since 2014 affected in turn the fiscal position severely which will necessitate further fiscal consolidation through expenditure rationalization and boost in hydrocarbon (Oil &Gas) as well as non-hydrocarbon revenues while at the same time giving due priority to the socio-economic outcomes.

The overall balance of the budget showed a public deficit of 703 billion rials in 2019 (7.9% of GDP) compared to a deficit of 909 billion rials in 2018 (5.6% of GDP). It is noticeable that the ratio of total revenues and grants to public expenditures was approximately limited to 57% in 2019, too far from the common rule of more than 80% coverage ratio, albeit with significant improvement compared to 2018 (45%). In terms of composition, the current expenditure constituted the highest share while the share of investment expenditure remained marginal. The fiscal deficit was estimated to 480.8 billion rials during the last three quarters of CY 2020.

In the wake of prevailing lower public revenues, Yemen’s government has relied heavily on direct borrowing from the CBY to finance a major part of the fiscal deficit over the last five years. This constitutes an important driver of inflationary pressures and local currency value losses.

Fiscal discipline, rationalizing public expenditure along with improving its efficiency, identifying non-inflationary means to finance government expenditures remain guiding principles for ensuring sustainable fiscal consolidation and macroeconomic stability.

The external sector continued deteriorating, mainly driven by a compression in oil exports and moderation in workers’ remittances while dependence on humanitarian aid increased significantly.

The balance in goods and services accounts recorded a widening deficit of about 10.7 billion dollars in 2019 against 8.8 billion dollars in 2018. Also, the current account remained in a sizable deficit and continued to pose a challenge (-4.4% of GDP in 2019 against -2.2% in 2018), especially in the backdrop of low oil prices, decreasing production of oil and gas and declining workers’ remittances. Moreover, volatility in international oil prices has considerable implications for Yemeni economy, underpinning the need to reduce dependence on the petroleum sector.

The current account deficit necessitated external financing through the capital and financial accounts. The net inflow of -78 million dollars in 2019 under the capital and financial account, however, remained insufficient compared to financing needs of the current account deficit. Consequently, a drawdown on the official foreign reserves of the country for an amount of 1065 million dollars was required in 2019 (as against 586 million dollars in 2018) to finance the current account deficit. The same trend is projected for 2020 with a balance of payments gap projected to 1079 million dollars. This trend is mainly driven by the negative impact of the Covid-19 on workers' remittances which are estimated to decline by over 20% in 2020, in light of the economic stagnation in the region and especially in KSA which accounts for around 60% of Yemeni diaspora remittances, in addition to the ongoing oil crisis and the expected decrease of foreign aid given the restrictions imposed by the pandemic.

To restore macroeconomic stability, the external imbalance should be resolved through boosting export earnings and further diversifying the economy while reducing economic and political uncertainty to attract more capital inflows.

CHAPTER I: Current Situation and Economic Prospects

I.1- World Economic Growth

According to the October 2020 issue of the IMF's World Economic Outlook report, global growth is expected to contract by 4.4% in 2020 compared to a 2.8% increase in 2019. The expected contraction in 2020 is less severe than the 4.9% contraction predicted in the June 2020 issue. This adjustment reflects better-than-expected GDP results in the second quarter (especially in advanced economies, where activity began to improve more quickly than expected after pandemic-related business closures eased in May and June) and indicates a stronger recovery in the third quarter.

Global growth is expected to reach 5.2% in 2021, slightly lower than in the June 2020 World Economic Outlook report, reflecting expectations of a moderate slowdown for 2020 and assuming a lower level of economic activity due to continued social distancing. Following the 2020 contraction and 2021 recovery, global GDP in 2021 is expected to be slightly higher than the 2019 level (a 0.6% increase). Growth projections show large negative gaps in output and a rise in unemployment rates in 2020 and 2021 for advanced, developing, and emerging market economies.

The average inflation rate decreased moderately from 2% in 2018 to 1.5% in 2019 for advanced economies, while emerging markets and developing economies saw a narrow decrease from 4.8% in 2018 to 4.7% in 2019. While considerable uncertainty surrounds future inflation projections, inflation is expected to remain low due to relatively weak aggregate demand.

Table I.1- Global Growth Forecast

		Projections	
	2019	**2020**	**2021**
Global Growth Rate, %	2.8	-4.4	5.2
Growth Rate (Advanced Economies), %	1.7	-5.8	3.9
Growth Rate (Emerging and Developing Economies), %	3.7	-3.3	6.0
Growth Rate (Middle East and Central Asia), %	1.4	-4.1	3.0
Growth Rate (Middle East and North Africa), %	0.8	-5.0	3.2
Growth Rate (Low-Income Developing Countries), %	5.3	-1.2	4.9

Source: IMF, WEO, October 2020

I.2- Growth and Price Developments in Yemen

On the domestic front, and after recording an estimated total contraction of 42% from 2014 to 2017, economic activity in Yemen began improving in 2018, especially in oil activities. GDP at constant prices increased by an estimated 2.1% in 2019 compared to 0.8% in 2018, despite slowing global growth, tightening financial conditions, and slowing growth in global trade volume.

Annual inflation in Yemen decreased to 10% in 2019 from the 20% to 30% range recorded from 2015 to 2018. Although imported inflation (increase import prices due to currency depreciation) is one of Yemen’s primary inflation determinants, local factors have also influenced inflation. However, the monetary policy adopted in 2019 has been successful in controlling the money supply in a manner consistent with the pace of economic activity, and the rial exchange rate was stabilized after the exchange crisis that Yemen experienced in the fall of 2018, when the rial depreciated to unprecedented levels. Other factors that have reduced the level of inflation include the limited increase in international prices for non-oil commodities, as well as modest domestic demand.

Declining oil prices and the COVID-19 pandemic are expected to have a significant negative impact on global economic activity in general and Yemen in specific as an oil dependent state in 2020 and 2021, with Yemen’s GDP expected to contract by 5% in 2020 before growing by 0.5% in 2021.

Furthermore, inflation increased during Q1 to Q3 of 2020 due to the Yemeni rial’s deteriorating exchange rate, reaching levels not seen since the 2018 crisis. These increases were directly reflected in the prices of imported basic materials, which represent about 90% of the total consumable goods. Expectations indicate that inflation exceeded 20% in September 2020 and expected annual rate of inflation within a range of 25-30%, compared to an average rate of 10% in 2019. For 2021, inflation rate is projected to remain slightly above the 20% level. Along the same lines, a survey of the monthly food price index indicated an average price of 42,500 Yemeni rials in July 2020 compared to 36,122 Yemeni rials in July 2019 and 36,281 Yemeni rials in December 2019, an increase of more than 17% on yearly basis.

CHAPTER II: Monetary Developments

The following focuses on analyzing the development of base money and broad money aggregates in Yemen during 2019 and the last three quarter of the current year to investigate the linkages between money and other macroeconomic variables. To this end, we review the details of the central bank balance sheet, the commercial and Islamic banking survey, and the overall monetary survey.

The monetary survey was developed in 2019 as part of technical assistance, capacity building and institutional strengthening being provided by USAID to the Central Bank of Yemen (CBY). Having this tool at CBY disposal, represents an outstanding accomplishment. In fact, CBY needs accurate reporting to create proper monetary decisions. The monetary survey, by providing an extremely detailed picture of the financial system, will help CBY to design and strengthen formulation and implementation of an effective monetary policy.

Money supply growth was contained in 2019 and during the last three quarters of 2020 following the adoption of a more appropriate monetary policy by CBY based on effective monetary programming framework to ensure adequacy between the economic absorptive capacity and money creation. The impact of this ongoing reform has materialized soon with significant decline of currency issuing growth rate which was reduced to 12.4% in 2019 and 12% over the last three quarters of 2020 against 35.8% and 37.6% respectively in 2018 and 2017. In the same line, money supply (M2) rose by 8.5% in 2019 (12.9% during the last three quarters of 2020).

II.1- Central Bank Balance Sheet

The balance sheet of CBY increased in 2019 by 808.4 billion rials or 14.1% to reach 6,558.8 billion rials. It also increased during the last three quarters by 462.9 billion rials or 7.1% to reach 7021.6 billion rials (see Table II.1).

- **Assets**

The net foreign assets of the central bank decreased in 2019 by 505.2 billion rials or 519.2% compared to previous year to record a negative value of 602.5 billion rials, the equivalent of 1585.6 million dollars. It also decreased in September 2020 compared to the same month of the previous year by 334.6 billion rials or 56.9% recording a negative value of 922.8 billion rials, equivalent to 2307.0 million dollars. This decrease is attributed to political instability and its negative impact on oil exports, in addition to the decline of the international oil prices in global markets. It is noted that the share of total external assets to total assets fell from 9.6% in 2019 to 5.3% in September 2020.

The net claims on the government increased in 2019 by 689.4 billion rials or 19.6% to reach 4201.8 billion rials. It also increased in September 2020 compared to the same month of the previous year by 774.3 billion rials or 18.8% to record 4883.1 billion rials.

- **Liabilities**

The base money, sum of currency outside banks, currency in bank vaults and bank reserves with the central bank, increased in 2019 by 358.8 billion rials or 11.5% to reach 3484.7 billion rials. It increased at end September 2020 by 590.1 billion rials or 18% compared to the same month of 2019. This upward trend is mainly due to the increase in currency issued by 318.9 and 504.5 billion rials, or 12.4% and 18.5%, respectively in 2019 and during the last three quarters of 2020. Bank reserves increased in 2019 and over the nine first months of 2020 by 39.9 and 85.6 billion rials, or 7.2% and 15.5%, respectively.

Other items net increased in 2019 by 118.2 billion rials, or 27.2%, to record 316.8 billion rials, while it decreased by 185 billion rials or 254.8% in September 2020 compared to September 2019.

Table II.1- CBY Balance Sheet (in billion rials)

	Dec-18	**Sep-19**	**Dec-19**	**Sep-20**
Foreign Assets	**1,133.6**	**642.7**	**628.4**	**372.5**
Domestic assets	**4,616.7**	**5,450.9**	**5,930.4**	**6,649.1**
Government	3,756.3	4,353.1	4,532.3	5,229.6
Public Enterprises	309.5	309.5	309.5	309.5
Banks				
Fixed and other assets	550.9	1,088.6	1,088.6	1,110.1
Assets=Liabilities	**5,750.3**	**6,093.6**	**6,558.8**	**7,021.7**
Base money	**3,125.9**	**3,287.3**	**3,484.7**	**3,877.4**
Banknotes Issued	2,571.6	2,734.2	2,890.5	3,238.7
Banks	554.3	553.1	594.2	638.7
Government	243.6	244.3	330.6	346.5
Public Enterprises	105.4	111.2	48.5	76.1
Social Security Fund	58.7	58.7	58.7	58.7
Certificate of deposits				
Foreign liabilities	**1,230.9**	**1,230.9**	**1,230.9**	**1,295.3**
Other Liabilities	**985.9**	**1,161.2**	**1,405.4**	**1,367.7**
Capital & Reserves	110.9	265.7	517.5	507.8
Revaluation Account	164.6	217.2	214.4	250.7
SDR's	83.8	83.8	83.8	93.5
Other Liabilities	626.6	594.5	589.7	515.7

Source: CBY

II.2- Consolidated Balance Sheet of Commercial and Islamic Banks

The consolidated balance sheet of commercial and Islamic banks totaled 4408.9 billion rials in 2019, an increase by 374.7 billion rials or 9.3% compared to 2018 (see Table II.2).

- **Assets**

The net foreign assets of commercial and Islamic banks increased by 113.4 billion rials or 14.9% in 2019 to an amount of 873.2 billion rials. This increase is due to the rise in each of the correspondents' accounts by 56.7 billion rials (13.7%), and in foreign exchange by 30.6 billion rials (45.8%). The total foreign assets recorded an increase of 87.2 billion rials (10.6%) to reach a value of 909.8 billion rials. It is noticeable that the share of total foreign assets in total assets amounted to 20.6% in 2019.

Bank reserves (cash in vaults and account balances at CBY) increased by 60.9 billion rials (8.5%) in 2019 to an amount of 774.5 billion rials. This is due to the increase in local currency in coffers by 61.5 billion rials (85.6%) and a decrease in their balances with the central bank by 0.6 billion rials (0.1%). Considering the share of bank reserves as a percentage of deposits, it amounted to 23.8% in 2019.

Bank loans and advances, they grew by 161.6 billion rials (7.5%) in 2019 to reach 2319.4 billion rials. This increase resulted from the increase in loans provided to the government, mainly represented in treasury bills and Islamic sukuk, by 166 billion rials (10.7%), in addition to a slight increase in the advances for public institutions by 0.6 billion rials (3%) while the private sector's advances decreased by 5 billion rials (0.9%) in 2019.

- **Liabilities**

Total deposits increased in 2019 by 222 billion rials (7.3%) to reach 3249.3 billion rials, due to the increase in both demand deposits by 11.9%, earmarked deposits by 8%, savings deposits by 7.8%, and time deposits by 5.4%.

The net amount of other liabilities rose by 113.9 billion rials (18.8%) during 2019 to reach 718.8 billion rials. This rise is partly due to the increase in the capital and reserves of commercial and Islamic banks by 42.6 billion rials or 14.6% in 2019, amounting to 333.7 billion rials.

- **Deposits**

The breakdown of deposits by terms during 2019 showed an increase in time deposits by 41.7 billion rials (5.4%) to reach 815.7 billion rials which represented 25.1% of total deposits; demand deposits went up by 69.7 billion rials (11.9%) to record 653.9 billion rials which accounted for 20.1% of total deposits; saving accounts increased by 18.9 billion rials (7.8%) to reach 260.9 billion rials equivalent to 8% of total deposits while earmarked deposits increased by 3.7 billion rials (8%) corresponding to 1.5% share of total deposits. Finally, government deposits increased by 9.8 billion rial (43%), and their share of total deposits was 1% in 2019.

Regarding the composition of deposits by type of currency, deposits denominated in foreign currency recorded an increase of 78.1 billion rials (5.8%) in 2019 amounting to 1436.1 billion rials corresponding to a share of 44.2% in total deposits. Such that, the share of deposits denominated in local currency reached 55.8% of total deposits in 2019.

- **Loans and advances**

The total envelope of credit granted to private sector provided by the banking sector amounted to 578.2 billion rials in 2019, with a decline by 5 billion rials (0.9%) compared to their level in 2018.

The distribution of credit to private sector by term was as follows in 2019.

- Short-term loans and advances accounted for 18% of total non-government credit;
- Medium and long-term loans accounted for 3% of total non-government credit;
- The share of investments of Islamic banks in 2019 amounted to 26% of total non-government credit; and
- The share of non-performing loans accounted for 53% of total non-government credit in 2019.

Table II.2- Commercial and Islamic Banks Balance Sheet (in billion rials)

	Dec-18	Dec-19
Assets	**4,034.2**	**4,408.9**
Foreign Assets	**822.6**	**909.8**
Foreign Currency	66.8	97.4
Banks Abroad	414.3	470.9
Non-residents	0.0	0.0
Foreign Investment	341.5	341.5
Reserves	**713.6**	**774.5**
Local Currency	71.8	133.3
Deposits with CBY	641.8	641.2
Gross Loans & Advances	**2,157.8**	**2,319.4**
Government	1,554.8	1,720.8
Public Enterprises	19.8	20.4
Private Sector	583.2	578.2
Certificate of Deposits	**1.0**	**1.0**
Treasury bills purchased from CBY	**0.0**	**0.0**
Other Assets	**339.2**	**404.2**

Liabilities	**4,034.2**	**4,408.9**
Deposits	**3,027.3**	**3,249.3**
Government	23.0	32.8
Demand	584.1	653.9
Time	774.0	815.7
Saving	242.0	260.9
Foreign Currency	1,358.0	1,436.1
Earmarked	46.2	49.9
Foreign Liabilities	**62.7**	**36.6**
Banks Abroad	59.8	33.6
Non-residents	2.9	3.0
Borrowing from banks	0.0	0.0
Other Liabilities	**944.1**	**1,123.0**
Loans from CBY	5.6	13.5
Other Liabilities	647.4	775.8
Capital		
Capital & Reserves	291.1	333.7

Source: CBY

II.3- Monetary Survey

The money supply (M2) rose from 5504.2 billion rials in 2018 to 5973.7 billion rials in 2019, representing an increase of 469.5 billion rials (8.5%). This upward trend was attributed to the combined effect of the rise in net domestic assets and the decline of net foreign assets. Net domestic assets recorded an increase of 861.3 billion rials (17.8%) during 2019 due to the expansionary impact of the increase in financing the government budget by 845.1 billion rials (16.8%), increase in credit granted to private sector by 52.4 billion rials (7%) while other items net decreased by 36.2 billion rials (3.8%). Net foreign assets decreased by 391.8 billion rials (59.1%) during 2019. The decline in net foreign assets resulted from the drop of foreign assets held by CBY by 505.2 billion rials and the rise by 113.4 billion rials of foreign assets held by commercial and Islamic banks.

Regarding the dynamics of money supply components in 2019, it is worth noting that narrow money (M1) was up by 327.1 billion rials (10.6%) while quasi-money rose by 142.4 billion rials (5.9%). The rise in narrow money (M1) was attributed to the increase in currency in circulation and demand deposits by 257.4 and 69.7 billion rials, respectively. The upward trend of quasi-money in 2019 resulted from of the increase in time and foreign deposits by 64.3 and 78.1 billion rials, respectively.

The structure of broad money can be broken down into its constituent components as shown in Table II.3. The predominance of currency in circulation which accounted for 46.2% as share of the total money supply in 2019 implies that Yemen continues to heavily rely on cash with limited intermediation capacity, including grossly inadequate payment instrumentalities. Foreign currency deposits were also quite important, with 24% as share of M2 which underscores the necessity of restoring confidence in local currency to limit currency substitution phenomenon. Demand deposits accounted for 10.9% of M2.

Table II.3- Decomposition of Broad Money (in billion rials unless otherwise indicated)

	Dec-18	Dec-19
Broad money (M2)	**5504.2**	**5973.7**
Broad money, annual change in %	28.5	8.5
Quasi-money	**2420.2**	**2562.6**
Quasi-money, annual change in %	23.1	5.9
Quasi-money/Broad money, in %	44.0	42.9
Foreign currency deposits	**1358.0**	**1436.1**
Foreign currency deposits, annual change in %	52.5	5.8
Foreign currency deposits/Total deposits, in %	45.2	44.6
Narrow money (M1)	**3084.0**	**3411.1**
Narrow money, annual change in %	33.1	10.6
Narrow money/Broad money, in %	56.0	57.1
Demand deposits	**584.2**	**653.9**
Demand deposits, annual change in %	20.1	11.9
Demand deposits/Broad money, in %	10.6	10.9
Currency in circulation	**2499.8**	**2757.2**
Currency in circulation, annual change in %	36.6	10.3
Currency in circulation/Broad money, in %	45.4	46.2
Net foreign assets	**662.5**	**270.7**
Net foreign assets, annual change in %	74.4	-59.1
Net domestic assets	**4841.7**	**5703.0**
Net domestic assets, annual change in %	24.1	17.8
Net claims on the government	**5044.6**	**5889.7**
Net domestic assets, annual change in %	17.7	16.8
Net claims on other economic sectors	**748.5**	**800.9**
Net claims on other economic sectors, annual change in %	0.5	7.0
Other items net	**-951.4**	**-987.6**
Other items net, annual change in %	-15.3	3.8

Source: CBY

Money supply has been principally utilized to finance the government deficit given the deterioration of oil export revenues while public wages continued to represent the bulk of government expenditures. However, it should be noted that the decrease of foreign assets, especially in 2019, through the drawdowns from the Saudi deposit, helped CBY significantly containing money parameters growth with broad money rising only by 8.5% in 2019 against 28.5% in the prior year. Money supply regained its increase during the last three quarters of CY2020 albeit to lesser extent. M2 growth was estimated at 12.9% from the beginning of the year to end September 2020 while base money grew by 11.3 percent over the same period. Again, this trend is mainly attributed to the net effect of the increase in credit to the government in form of direct financing of the budget deficit from one hand and the decrease of foreign assets as result of the disbursement of the remaining balance of the Saudi deposit in CY2020 to fill the current account deficit.

For the entire year 2020, the annual monetary plan projected base and broad money to grow by 20.6 and 22.2 percent consistent with an inflation rate about 25%, respectively. Recall that the CBY has designed a robust monetary plan for 2020, the first ever since relocation to Aden within the framework of the technical assistance provided by the USAID, aiming at further controlling money supply in a manner consistent with the real economic needs emanating from both public and private sectors. In absence of a buffer of foreign reserves, strong commitment to the annual monetary plan targets remains the only tool at CBY disposal to attempt to contain inflationary pressures and stabilize exchange rate movements.

II.4- Exchange Rate Policy Developments

The exchange rate of the US dollar against the Yemeni rial reached 591 rials per dollar at the end of 2019 compared to 526 rials per dollar at the end of 2018.

In September 2020, the exchange rate of the rial crossed the threshold of 850 rials per dollar. Factors driving the significant fall of the rial, leading to a substantial shortage of foreign currency in the local FX market to cover essential needs, include mainly adverse shocks hitting the economy such as oil price fall, decline in remittances caused by the Covid-19 outbreak in addition to the negative effect of the depletion of the Saudi deposit.

In response to these downward pressures and the accelerating depreciation of rial, CBY approved a set of measures to regulate the demand for foreign exchange in the market and restore stability including the following.

- Adoption of new mechanism for oil derivatives imports financing which requires importers to obtain the approval of the CBY, based on their financial history, to access foreign exchange resources. Under the new arrangement, importers are obligated to deposit their daily cash sales in local currency to their accounts in commercial banks, while the CBY provides the foreign currency to be utilized to cover imports;
- Ceiling of 500,000 Yemeni Rial (or its equivalent in foreign currency) for every financial transfer per day, per individual. Additionally, prohibiting the use of foreign currency for payments in the domestic market.
- Intensifying periodic and organized inspection campaigns, in cooperation with the security and the Public Funds Prosecution, on all exchange companies and facilities in the liberated governorates.

Despite these drastic measures, further downward pressures on the exchange rate during the next months are very likely due to unpredictable improvements in the main sources of foreign exchange and consequently the levels of foreign reserves to cover the widening gap of the balance of payments which will in turn impact adversely exchange rates and Yemeni purchasing power.

This demonstrates to what extent is vital the financial aid to Yemen in form of balance payment support in this challenging times and necessity for CBY to play a pivotal role in conducting an effective monetary policy and stabilizing the macroeconomic conditions.

II.5- Building a Robust Framework for Conducting Monetary Policy

The main objective of the Central Bank of Yemen (CBY), as stated in its Law No. (14) of 2000, is to maintain price by achieving low inflation rates.

In pursuing its legal mandate of price stability, the central bank started targeting the growth rate of the money supply (broad money) which represents the intermediate target while base money, controllable by the central bank, is used as operational target. This framework is relevant given the stability of money demand as shown by the empirical estimation of money demand conducted by CBY with the assistance of USAID.

In this connection, empirical study done recently, demonstrated that base money is associated positively and significantly to inflation rate. This indicates that any monetization of the government deficit eventually leads to high inflation. It also proves that the increase in the money supply has persistent positive effect on inflation rates. Accordingly, smoothing variability in the money supply to achieve price stability as well as providing adequate amount of money to support inclusive growth will be necessary.

The central bank attaches high importance to adherence to the designed monetary targeting framework for monetary policy operations to achieve macroeconomic objectives. Indeed, CBY started since CY2020 specifying quantitative targets for broad money and base money, within the monetary planning framework being established with the assistance of USAID, and closely monitoring their trajectory to keep inflation in check. The exchange rate will be allowed to gradually adjust, while multiplicity of exchange rates will be gradually abandoned. However, high volatility of exchange rate should be smoothened out through FX targeted intervention in the market using a transparent and rules-based auctioning system. Also, movements in nominal and real exchange rates would be considered in designing monetary policies. The exchange rate channel works through the impact of monetary developments on exchange rates and aggregate demand and supply. In essence, any excessive increase in the money supply would normally lead to a depreciation of the exchange rate, which increases the price of imported goods and services and thereby raises domestic prices and inflationary pressures.

Under the current macroeconomic state and given the soaring prices prevailing since 2014, tightening monetary policy and improving monetary impulses transmission to real sphere along with addressing external imbalances by promoting exports, substituting imports, and allowing greater exchange rate flexibility while building foreign reserves, are considered in view of the central bank as indispensable to restore macro financial stability.

To achieve monetary policy objectives, CBY is working to set up a combination of monetary policy instruments. The market-based toolkit to be designed and implemented shortly will include open market operations, standing facilities, and a structured reserve requirement system as main pillars of the monetary policy operational framework to be established in the near term.

CHAPTER III: Public Finance

The execution of the overall budget in 2019 has led to a public deficit of 703 billion rials, corresponding to 5.6% of GDP, compared to a deficit of 909 billion rials or 7.9% of GDP at the end of 2018. Provisional figures as of September 2020 showed a fiscal deficit of 480.8 billion rials for the last three quarters of the CY2020 as against a deficit of 753.6 billion rials during the same period of the previous year.

The persistence high fiscal deficit needs to be addressed in the near term to maintain tight control on spending given the limited availability of public resources, in a manner designed to bring down inflation and contain additional depreciation pressures.

The Ministry of Finance should at this stage direct its efforts to aligning public expenditures with available revenues by ensuring more commitment to fiscal consolidation especially cutting non-essential expenses and trying to reshuffle/prioritize public spending (free funds to be allocated to healthcare spending) and minimize tax evasion/fraud. Also, close coordination with the CBY is required more than ever to avoid excessive monetary emission-based financing of the public deficit.

III.1- Public Revenues

Total revenues and grants increased in 2019 compared to the prior year by 179 billion rials (24.1%) to reach 922 billion rials. This increase mainly resulted from the increase in oil revenues, non-oil revenues (tax and customs) and grants by 12, 143 and 24 billion rials, respectively. It is noted that the ratio of public revenues to GDP amounted to 7.3% in 2019.

For the last three quarters, public revenues declined sharply by 19.2 billion rials (4.1%) against the same period of previous year to record 294.6 billion rials as the dual shocks related to the pandemic and the oil price drop continued hardly hitting the local economy and consequently the government finance performance.

- **Oil revenues**

Oil revenues increased in 2019 by 12 billion rials or 3.5% compared to 2018 to reach 354 billion rials. It contributed by about 38.4% to total public revenues and accounted for 2.8% to gross domestic product in 2019. In contrast, oil revenues decreased during the last three quarters of 2020 by 64.4 billion rials (27.2%) compared to the same period of 2018 to reach 172.8 billion rials.

- **Non-oil revenues**

Non-oil revenues increased in 2019 by 143 billion rials or 37.9% to reach 520 billion rials, so their contribution to the total public revenues rose to 56.4% in the same year. As ratio to GDP, they accounted for about 4.1% in 2019. Four the last three quarters, non-oil revenues amounted to 265.2 billion rials, increasing by 16.3% on a year-over-year basis.

Non-oil revenues include tax revenues and non-tax revenues as follows.

- Tax revenues (including customs duties) increased in 2019 by 114 billion rials or 50.9% to record a value of 338 billion rials, equivalent to 36.7% as share of total public revenues and 2.7% as percentage of GDP in 2019. Tax revenues went up in September 2020 compared to September 2019 by 53.2 billion rials (35%) to 203.4 billion rials.
- Non-tax revenues (which include fees and profit transfers) increased in 2019 by 29 billion rials (19%) to record a value of 182 billion rials, equivalent to 19.7% of total public revenues and 1.4% of GDP in 2019. On the other hand, non-tax revenues decreased in September 2020, in a year-over-year basis, by 16 billion rials (20.6%) to 61.8 billion rials.

Table III.1- Public Revenues and Grants (in billion rials)

	Dec-18	Sep-19	Dec-19	Sep-20
Total revenues and grants	**743.0**	**465.2**	**922.0**	**446.0**
Oil revenues	**342.0**	**237.2**	**354.0**	**172.8**
Non-oil revenues	**377.0**	**228.0**	**520.0**	**265.2**
Tax revenues	224.0	150.2	338.0	203.4
Other revenues	153.0	77.8	182.0	61.8
Grants	**24.0**	**0**	**48.0**	**8.0**

Source: MOF

III.2- Public Expenditures

Public expenditures decreased by 1.6%, from 1652 billion rials in 2018 to 1625 billion rials in 2019, accounting for 12.9% of GDP. Public expenditures amounted to 926.8 billion rials during the last three quarters of CY2020, declining by 292 billion rials or 24% compared to the same period of previous the year.

- **Current expenditures**

Current expenditures amounted to 1,535 billion rials in 2019, falling by 20 billion rials or 1.3% relative to previous year. This trend resulted mainly from a decrease in goods and services expenditures by 188 billion rials (61%) from one hand and the increase of subsidies and social benefits by 103 billion rials (26.5%) as well as wages and salaries by

33 billion rials (4%) from the other hand. On a year-over-year basis, current expenditures decreased by 270.8 billion rials or 23.5% in September 2020 to 880.5 billion rials.

- **Capital expenditures**

Capital expenditures amounted to 90 billion rials in 2019, decreasing by 7 billion rials or 7.2% compared to the prior year. This component share remained marginal, accounting for 5.5% of 2019's overall budget expenditures. On a year-over-year basis, capital expenditures decreased by 21.2 billion rials or 31.4% over the first nine months of CY2020 to reach 46.3 billion rials.

Table III.2- Public Expenditures (in billion rials)

	Dec-18	Sep-19	Dec-19	Sep-20
Total expenditures	**1652.0**	**1218.8**	**1625.0**	**926.8**
Current Expenditures	**1555.0**	**1151.3**	**1535.0**	**880.5**
Wages and salaries	821.0	640.5	854.0	389.3
Goods and services	308.0	90.0	120.0	159.9
Interest payments	8.0	22.5	30.0	53.3
Subsidies and transfers	389.0	369.0	492.0	259.5
Other expenditures	29.0	29.3	39.0	18.5
Capital Expenditures	**97.0**	**67.5**	**90.0**	**46.3**

Source: MOF, CBY

- **Overall balance**

The overall balance of the budget showed a public deficit of 703 billion rials in 2019 (7.9% of GDP) compared to a deficit of 909 billion rials in 2018 (5.6% of GDP). It is noticeable that the ratio of total revenues and grants to public expenditures was approximately limited to 57% in 2019, too far from the common rule of more than 80% coverage ratio, albeit with significant improvement compared to 2018 (45%). The fiscal deficit was estimated to 480.8 billion rials during the last three quarters of CY2020.

Table III.3- Overall Balance (in billion rials)

	Dec-18	Dec-19	Sep-20
Total public revenues and grants	**743.0**	**922.0**	**446.0**
Total public expenditures	**1652.0**	**1625.0**	**926.8**
Overall balance	**-909.0**	**-703.0**	**-480.8**
Overall balance, in % of GDP	**-7.9**	**-5.6**	**…**

Source: MOF, CBY

III.3- Public Domestic Debt

In wake of the ongoing decline of public resources as well as foreign loans, the net internal public debt (stock of internal debt since CBY temporary relocation to Aden in fall 2016) soared by 1200 billion rials or 77.7% in 2019 relative to the previous year to reach an outstanding of 2744.9 billion rials at end December 2019.

Direct borrowing from the central bank represented the primary source of domestic public financing, amounting to 1544.9 billion rials in 2019, equivalent to 83% of total public internal debt while Wakala deposit constituted the second source of domestic public financing with a value of 372.3 billion rials corresponding to a share of 13.6%, followed by certificates of deposit (95.6 billion rials) with a share of 3.4%.

The same trend continued in the last three quarters of CY2020. The stock of internal debt went up to 3120.6 billion rials at end September 2020 and was mainly financed directly through monetary emission (2909.2 billion rails, 93.2%). The remaining financing (211.4 billion rials, 6.8%) was raised through the rollover of the same instruments (Wakala Sukuk and certificate of deposits).

Table III.3- Public Internal Debt (in billion rials)

	Dec-18	Dec-19	Sep-20
Internal public debt	**1544.9**	**2744.9**	**3120.6**
Central bank financing of the government (overdraft)	**1433.8**	**2277.0**	**2909.2**
Commercial and Islamic banks financing of the government	**111.1**	**467.9**	**211.4**
Wakala deposits	94.9	372.3	158.8
Certificate of deposits	16.2	95.6	52.6

Source: MOF, CBY

While the current situation poses many challenges for public finance, the Ministry of Finance is committed to achieving primary fiscal balance in the medium term in addition to strengthening its institutional and governance structures and enhancing its operational capacity to ensure effective planning and timely implementation of its fiscal policy over the medium term in concert with the central bank. This vision was articulated in an annual action plan prepared in 2020 with the assistance of USAID and UKAID.

CHAPTER IV: External Sector

The relative improvement of the political and security situation in the country during 2019 relative to the previous years since the outset of the war, played a fundamental role in the performance of the national economy in general and the external sector in particular; this in turn was reflected in the status of the balance of payments and its components.

The balance of payments deficit widening witnessed in 2019 and the first nine months of 2020 reflected the ongoing deterioration of the economic fundamentals in addition to the adverse effect of the pandemic as well as the oil price drop. This led to an extensive utilization of available foreign reserves which went down to a record low level covering only about one month and half of imports, reflecting exacerbated pressures on external buffers and leading to further depreciation of the national currency.

IV.1- Balance of Payments

Preliminary data indicates that Yemen experienced a deficit in the overall balance of payments of about 1065.3 million dollars in 2019, representing a ratio of 4.7% to GDP. This deficit was reflected in the decrease in the total foreign reserves of the CBY by 1316.5 million dollars in 2019, to reach 1402.1 million dollars, which is sufficient to cover only 1.6 months of imports. The deficit in the balance of payments is mainly due to the twin deficit of the current account as well as the capital and financial account.

Table IV.1- Balance of Payments Key Indicators

	2018	2019
Current deficit as % of GDP	-2.2	-4.4
(Exports + Imports) as % of GDP	43.1	53.9
Exports as % of GDP	5.4	6.5
Remittances as % of GDP	19.2	18.8
Humanitarian assistance as % of GDP	10.7	15.7
Imports as % of GDP	37.7	47.4
Oil imports as % of GDP	10.3	13.8
Food imports as % of GDP	9.1	14.4
Gross international reserves in million dollars	2,718.6	1,402.1
Foreign reserves coverage in months of imports	3.7	1.6

Source: IMF, CBY

The deficit in the current account amounted to 987.8 million dollars in 2019, constituting 4.4% of the gross domestic product. It resulted from the conjunction of the deficit in the trade balance, the balance of income and the balance of transfers.

The capital and financial account recorded a deficit of 77.5 million dollars in 2019, equivalent to 0.3% of GDP. The deficit in the capital and financial account is due to the decrease in direct and other investments. The deficit of the total balance of payments at the end of 2020 is projected to 1078.5 million dollars.

Following is a detailed presentation of the main indicators of the balance of payments.

- **Current account**

The current account represents transactions related to goods and services, income, and current transfers. The current account balance recorded a deficit of 987.8 million dollars in 2019, corresponding to 4.4% of GDP. The current deficit is expected to increase by 13.2 million dollars in 2020 (1.3%) to reach 1001 million dollars.

The trade deficit increased in 2019 by 1659.8 million dollars (21.9%) to record 9225.5 million dollars equivalent to 40.9% of GDP. It is expected that the trade deficit will improve significantly in 2020 to 7527 million dollars (-1698.5 million dollars or -18.4%).

The total value of exports increased by 196.4 million dollars or 15.4% in 2019 to record 1,474.5 million dollars corresponding to 6.5% of GDP. The value of exports is expected to decrease in 2020 by 36.6% relative to 2019.

By examining the composition of exports, we notice the following.

- ***Exports of crude oil and gas***

Crude oil and gas exports increased in 2019 by 20.3% to reach 1101 million dollars, constituting a share of 74.7% of the total value of exports, and a ratio of 4.9% to GDP. Crude oil and gas exports are expected to decline in CY2020 by 625 million dollars or 56.8% to reach 476 million dollars.

- ***Non-oil exports***

The value of non-oil exports increased by 10.8 million dollars or 3% in 2019 to reach 373.5 million dollars accounting for 25.3% in total exports of goods and services. As ratio to GDP, it reached 1.7%. The value of non-oil exports is expected to increase in 2020 by 22.9% to 459 million dollars.

The total value of imports increased by 1856.2 million dollars or 21% in 2019 to record 10700 million dollars, with imports accounting for about 47.4% of GDP in 2019. It is expected that the value of imports will decrease by in 2020 by 2,238 million dollars, or by 20.9% to reach around 8,462 million dollars.

- ***Imports of oil products***

The value of oil derivative imports increased by 28.3% in 2019 compared to 2018 to record 3114.6 million dollars, equivalent to 13.8% of GDP and 29.1% of total imports. Oil derivatives imports decreased by 1251.6 million dollars or by 40.2% to reach 1863 million dollars. For the last three quarters of 2020, petroleum imports amounted to 1863 million dollars, declining by 40.2% compared to the same period of the previous year.

- ***Food imports***

Imports of basic food commodities grew by 52% to reach 3250 million dollars in 2019 compared to the previous year. This component accounted for 30.4% of total imports of goods and services and 14.4% of GDP in 2019. The availability of foreign exchange, using the Saudi deposit mainly, allowed CBY to cover letter of credit for importers of the five food vital commodities and ensure their continuous availability in across Yemeni governorates. It is expected that the value of the food import bill will increase slightly in 2020 (by 0.9%) to reach 3279 million dollars.

- ***Balance of income and transfers***

The net balance of income and transfers went up to 8237.8 million dollars (38.5% of GDP) in 2019, rising by 16.7% (1180 million dollars) compared to 2018. The increase in the net income and transfers balance in 2019 is mainly due to the increase in the balance of transfers by 1180.6 million dollars while income balance declined slightly by 0.6 million dollars. For the balance of transfers, worth to note that humanitarian aid and donor donations rose by 1046.4 and 384.2 million dollars respectively while workers remittances decreased by 250 million dollars (-5.6%) compared to prior year.

- **Capital and financial account**

Capital and financial account recorded a deficit of 77.5 million dollars in 2019. This deficit is expected to remain at the same level in 2020.

- **Overall balance**

The overall balance recorded a deficit of 1065.1 million dollars in 2019, representing 4.7% of GDP. This was mainly due to the high current account deficit resulting from the decrease in the government's share of oil and gas exports, in addition to the decline in oil prices in international markets. The balance of payments deficit was also exacerbated by the transformation of the capital account surplus into a deficit resulting from the increase in direct investment flows abroad in addition to the decrease in other investments. This in turn affected gross foreign reserves of the central bank, which decreased by a value of 1316.5 million dollars during 2019. The deficit of the total balance of payments for 2020 is projected to increase by 13.2 million dollars or 1.2% on year-over-year basis to reach 1078.5 million dollars.

Table IV.2- Balance of Payments, Actual and Projection (in million dollars)

	2018	2019	2020
Exports of goods and services	**1,278**	**1,474**	**935**
Hydrocarbon	915	1,101	476
Other exports	363	373	459
Imports of goods and services	**8,844**	**10,700**	**8,462**
Hydrocarbon	2,427	3,115	1,863
Food	2,139	3,250	3,279
Other imports	4,278	4,335	3,320
Balance of goods and services	**-7,566**	**-9,226**	**-7,527**
Incomes	-12	-13	-27
Transfers	7,070	8,251	6,553
Remittances	4,500	4,250	3,500
Humanitarian assistance	2,507	3,553	3,026
Use of donor grants	63	447	27
Balance of incomes and transfers	**7,058**	**8,238**	**6,526**
Current account	**-508**	**-988**	**-1,001**
Capital inflows net	**-78**	**-78**	**-78**
Errors and omissions			
Overall balance	**-586**	**-1,065**	**-1,079**

Source: CBY

The twin deficits, balance of payments deficit and fiscal deficit, are expected to continue widening during next months which would lead to further weakening of the value of the local currency unless the main causes are addressed properly in the short run. This includes attempts to revive economic activity, boost export earnings, build up a buffer of foreign reserves, and limit debt monetization as main pillars of any desirable policy to be adopted in the next period.

IV.2- Public External Debt

Due to the lack of accurate data from the authorities and the lending and donor countries on the size of the external debt of the Republic of Yemen, a working group has been formed that includes representatives from the Central Bank, the Ministry of Finance and the Ministry of Planning and International Cooperation, to collect data related to the external public debt by communicating with the lenders and restarting the system DEMFAS.

The latest estimates made by the International Monetary Fund (IMF) for the position of the external public debt of Yemen indicate an increase in the outstanding balance of the external public debt by 23 million dollars, or 0.3% in 2019, to record 6,658 million dollars, accounting for 29.5% of the GDP in 2019 While the balance of the indebtedness of the International Development Agency (IDA) decreased in 2019 by 78 million dollars (installments and interest paid) and by 4.8% to record 1535 million dollars. Its share of the balance of the outstanding external public debt amounted to 23% in 2019. For the entire year 2020, total debt service to IDA amounted to 85.9 million USD of which 74.8 million USD as principal and 11.1 million USD as interest.

Appendix: Statistical Concepts and Methodology

The quarterly economic and monetary Bulletin issued by the Central Bank of Yemen starting from December 2020, focuses on developments in global economic conditions and their expected prospects, in addition to local economic and monetary developments. The following are the highlights of the Bulletin:

I- Current situation and economic prospects

The World Economic Outlook report issued by the International Monetary Fund represents the only reliable source for diagnosing the development of global economic conditions and their prospects, while we rely on data from the Central Statistical Organization (CSO), if available, to diagnose the conditions of the national economy.

II- Money aggregates and monetary policy developments

The Central Bank of Yemen is the main source of monetary and banking statistics. The General Department of Central Accounts provides the General Department for Research and Statistics with the balance sheet of the central bank, while the General Department for Banking Supervision provides the consolidated balance sheet of commercial and Islamic banks as well as its various activities.

The General Department for Research and Statistics collects this data and prepares it for publication periodically in line with the Monetary and Financial Statistics Manual issued by the International Monetary Fund for the year 2000. The central bank treats the data it collected separately on the concerned institutions with strict confidentiality. The monetary data shall be published in its 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 content of the most prominent terms included in the monetary tables:

- Banks: All commercial and Islamic banks operating in the Republic of Yemen that accept deposits.
- Banking system: The Central Bank of Yemen 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 (non-financial) institutions and companies in which the government has an interest and/or voting power.
- Non-Governmental Sector: All local sectors except the government and social security institutions.

- Resident: A natural or legal person who usually resides in Yemen or has been in Yemen for a year or more, regardless of the nationality of this person, with the exception of international bodies and institutions and foreign students who reside for more than one year.
- Non-resident: A natural or legal person who usually resides outside Yemen and/or who has not completed one year of residency inside Yemen, regardless of the nationality of this person, except for families and individuals who have an economic center or interest in Yemen and have permanent housing even if he resides there intermittently.
- Net foreign assets: The external assets of the banking system minus the external liabilities on the banking system, based on the concept of residency. It is calculated for each of the central bank and banks from the external assets and liabilities included in their balance sheets.
- Net government borrowing: The sum of the claims on the central government and local councils of the banking system minus the total government deposits with the banking system.
- Claims on the non-governmental 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, which are the items that are not included in the definition of net foreign assets, net of government borrowing and claims on the non-governmental sector from the central bank balance sheet and the consolidated balance sheet of commercial and Islamic banks.
- Currency issued: The cash issued by the central bank and consists of cash circulating outside banks plus cash in banks' vaults.
- Money: Currency in circulation plus demand deposits in rials with the banking system for both the (local) private sector and public institutions.
- Quasi-money: Both savings and time deposits in Yemeni rials and deposits in foreign currencies for all sectors mentioned in the definition of money with the banking system, in addition to deposits of social security institutions.
- Money supply: equals money plus quasi-money, and also equates to the sum of net foreign assets, net government borrowing, claims on the non-governmental sector, and other items net.
- Banks' deposits with the central bank include the following:

1) Reserve Requirement: The minimum value that banks must keep with the Central Bank of Yemen in exchange for meeting the mandatory reserve ratio imposed on deposits with banks.

2) Current Accounts: These are the current accounts opened with the Central Bank of Yemen in local and foreign currencies by banks. Certificates of deposit in rials are not considered within these accounts.

- Bank advances: Credit granted by commercial banks in the form of loans, facilities, and discounted securities in addition to financing Islamic banks for their investment operations.
- Loans and advances granted to the private sector by banks: This item includes direct loans and facilities granted by banks to the private sector, in addition to banks' investments in companies' shares.
- Loans and advances granted to the government by banks: It represents agency deposits (alternative to Islamic bonds), certificates of deposit, in addition to government bonds.
- Exchange rate and monetary policy: The national currency exchange rates against the major foreign currencies is one of the axes that the central bank is striving to stabilize through effective monetary policy measures to achieve a macroeconomic balance between supply and demand and curb price inflation. The General Department of Foreign Exchange and Exchange Affairs is the source of these data and procedures.

III- Public finance

The Ministry of Finance is the source of the state's general budget data, and if it is not possible to obtain these data on time, we rely on primary data from the General Budget Department of the Central Bank of Yemen, which includes the budget data on the following:

- Public revenues: It includes oil and gas revenues, direct and indirect tax revenues, including customs duties, and non-tax revenues.
- Grants: It includes all sums obtained as donations free of charge from brotherly and friendly countries.
- Public expenditures: It includes current expenditures and include chapters one, two and three according to economic classification, while development and capital expenditures contain chapters four and five.
- Total balance: represents the state's general budget position and shows the extent to which public revenues cover all aspects of public spending.

IV- External sector

- Balance of Payments: According to the Central Bank of Yemen Law No. (14) for the year 2000, the central bank is responsible for collecting the balance of payments statistics. The Balance of Payments Department of the General Department for Research and Statistics was tasked with collecting balance of payments data from various ministries and government agencies, as well as from the reality of investment company surveys.
- External public debt: The Department of Foreign Loans and Aid at the Central Bank of Yemen is the source of external public debt data. In this aspect, it may be noted that the outstanding balance of the external debt represents the amounts withdrawn from external loans minus the installments paid, plus the arrears of installments and interest.

Disclaimer

Starting from August 2008, the monetary and banking data were amended and updated in accordance with the Monetary and Financial Statistics Manual issued by the International Monetary Fund for the year 2000, and this note was developed to facilitate the researchers, followers and interested people to know the reasons for the change in numbers.

According to Article (45) of the Central Bank Law No. (14) of 2000, all information and individual data provided to the central bank are strictly confidential information and are used only for statistical purposes, and no information is published that reveals the financial conditions of any bank or financial institution.

The data contained in the Bulletin that we receive from its sources, such as ministries and government agencies, are preliminary data subject to change in the event that it is modified from its source.

In case it is not possible to obtain statistical data from the ministries and government agencies, we consider the projections made by the International Monetary Fund.

This Bulletin is issued by the Department of Research and Statistics at the Central Bank of Yemen – Aden.

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