

# Yemen Economic Indicators

February 2019

## The Yemeni Banking Sector

Conflict in Aden and Hell in Sana'a



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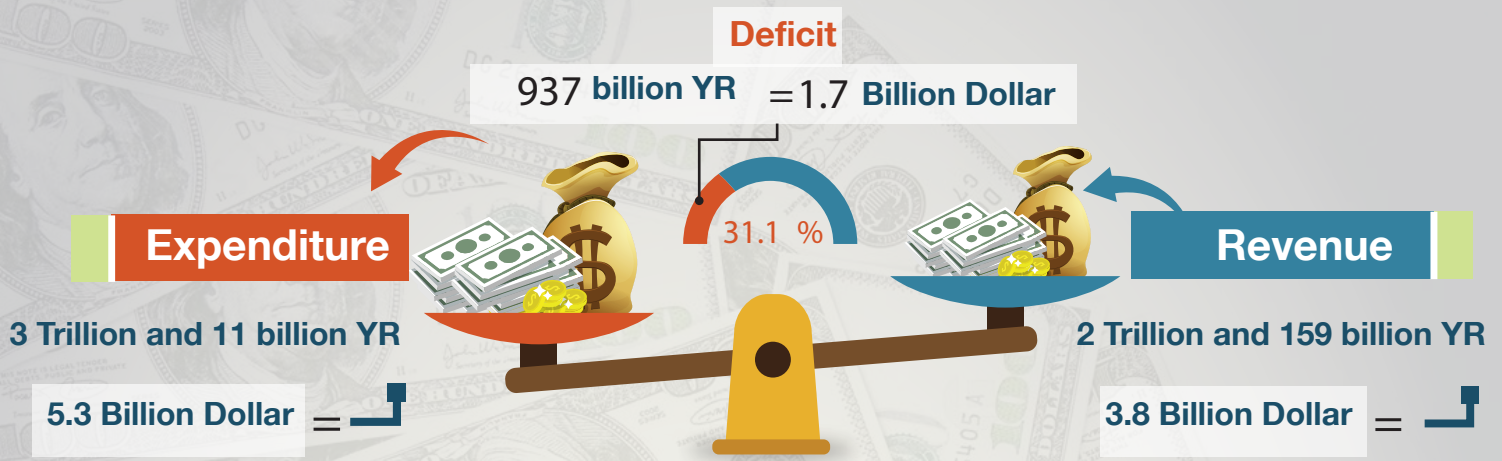
# Introduction:

Although the banking sector witnessed slight improvements over the past few months, it faced two major challenges; namely, the restrictions imposed by Houthis on Yemeni banks in Sana'a and what has come to be known as the 'exchange premium scandal' of CBY in Aden.

This report highlights these issues and their negative impact on the banking sector and the economic situation in general, as we always emphasize the fact that the banking sector is the backbone of the economy and that imbalances in this sector bear directly on all other sectors.

The report monitors economic indicators, basic commodity prices, exchange rates and economic developments in February 2019.

# Government budget estimates for 2019



639 billion YR

**Taxes**



## Revenues

680 billion YR

**Oil & Gas**



85 billion YR

**Self-Resources**



365 billion YR

**Foreign grants**



224 billion YR

**Government profits**



## Expenditure

**salaries**

1 Trillion and  
223 billion YR



**Civil Service**

694 billion YR

57 %

**security and military Sector**

528 billion YR

43 %



**Expenditures of liberated  
governorates**

337

billion YR



**Expenditures of unliberated  
governorates**

298

billion YR



**Central expenses**



700

billion YR

**Local authority expenditure**



523

billion YR



The exchange premium scandal investigations have been lately concluded. This scandal which was unveiled by President's Advisor for economic affairs, Hafez Mi'yad, seemed to put CBY governor, Mohamed Zemam, in trouble. Yet, according to official sources, nothing of import came out of those investigations.

CBY governor is unlikely to break loose of this issue easily, as it opens the door to a series of similar incidents involving over half a billion dollars, including the financing of basic commodities, fuel and semi-basic commodities at different times upon assuming his office at CBY in September 2018. His online discussions with the Houthi delegate in charge of economic file during the Stockholm consultations last December are especially significant.

Undoubtedly current CBY governor has been able to make a difference in the bank performance compared to the former governor, but this issue may overshadow those efforts.

The governor enjoys remarkable skills of influencing others. He has recently persuaded an IMF delegation to visit the CBY in Aden. Several delegations, including the UN team chaired by the UN Humanitarian Coordinator in Yemen, Lisa Grande, and the German ambassador to Yemen, also visited the bank

He also managed to attract young cadres from the CBY in Sana'a to activate many CBY departments.

On January 16, PM, Dr. Mu'in Abdulmalik instructed the Central Organization for Control and Auditing (COCA) to review CBY reports, being empowered by CBY Law to carry out such a task. However, CBY sources confirmed that as of the end of January investigations had not started. Reasons of the delay are unknown, even though COCA director affirmed that his office received Prime Minister's directive to conduct the review on 16 January, along with the bank's performance reports. The directive stated that a COCA team should examine the bank's reports on documentary credits related to basic commodities.

Unfortunately, this issue exposed COCA fragility as well, laying bare its limited experience and incapacity to dismantle the thorny aspects of this issue, especially as COCA director stated that investigations would not be limited to exchange premium, but would cover CBY actions regarding monetary interventions to control national currency.

COCA director affirmed that the process of investigation and review would be highly neutral and professional. He stated: "Work is underway in full swing. Findings will be reported to the Prime Minister immediately upon completion of review and investigation." However, with investigations over, apparently no viable findings have been reported.

Alternatively, the government contracted an international corporation to conduct the review and evaluation. When results of those investigations are disclosed, the case will have faded in the decision-making circles of conflicting parties in the presidency and the government.

Old feuds and competition over influential decision-making centers seem to be the main incentive of such a conflict, which has been disclosed to the public by Economic Committee Chair, Hafez Mi'yad, and the CBY governor, Zemam.

### Negative Consequences of the Premium Scandal

#### At the local level:

- Shaking local confidence in CBY as the "major bank" entrusted with supervising and control of all local banks

- Depreciation of the Yemeni rial; exchange rates stood at RY580 to US dollar by the end of January 2019, compared to YR520 to US dollar before the issue was reported.
- CBY has incurred huge losses due to its intervention in the market by buying foreign currency in an attempt to control the exchange rate, and it is not yet clear how much extra losses will be incurred before this problem is solved.
- Decline of confidence in government authorities in general, especially as the internationally recognized government is accused of inefficiency and failure to impose order in its dominions.
- The scandal played into the hands of the Houthi group which still does not recognize Hadi's decision of moving CBY headquarters to Aden in September 2016.

#### At the international level:

- Exerting more pressure on CBY-Aden to accept the dictates of UN envoy on formation of an independent CBY administration.
- Difficulty in lifting the ban on funds frozen in foreign banks in Britain, Germany and other countries since the outbreak of the war in Yemen.
- Forcing additional conditions on the CBY in Aden if it is to be eligible to further IMF and World Bank support.

**CBY-Aden has undertaken several positive steps to trigger the Bank's role in controlling the banking sector. Key efforts may be summarized in the following:**

- Requiring banks operating in Yemen to submit weekly, monthly and quarterly financial statements to Banks Monitoring Unit via e-mail.
- Making foreign currency risk exposure reports disclosing sums of foreign currency reserves at commercial banks and the extent to which banks comply with CBY instructions in this regard by maintaining the legal foreign currency ratios and preparing the mandatory reserve to be deducted: 7% on deposits in Yemeni rial and 10% on foreign currency deposits.
- Activating the banking system of banks' financial centers management.
- Preparation of collected data of banks over the period 2013-2018 and re-evaluation of data according to the YR380 to US dollar rate as opposed to the previous rate of YR250 to US dollar.
- Training compliance officers working in local banks on reviewing and preparing weekly, monthly and quarterly reports to be submitted to the Bank Monitoring Unit continuously.
- Activation of the Department of Banking Affairs and approval of new branches.
- Activating the Department of Inspection of Banks Operating in Yemen by obliging local banks to appoint compliance officers in Aden, and granting them full power to supply the Monitoring Unit with all the required data. Other tasks include field visits by the inspection teams to carry out inventories of banks' holdings, and issuing circulars on outbound and incoming remittances, sales statements, and remittances of international organizations in 2018.
- Activating the Department of Foreign Currency and Exchange Affairs by preparing exchange businesses renewal forms and announcing that only exchange licenses issued by CBY in Aden will be entertained. Preparing to receive data on foreign exchange operations by banks and periodic data reports of exchange companies and to process requests for renewals of and new exchange licenses.

Local banks under the control of the Houthi militia in the capital Sana'a have paralyzed by a series of violations, including arrests, imprisonment and prosecution. The so-called anti-terrorism forces raided a number of banks, most notably Tadhamon Islamic Bank, Al-Kuraimi Bank, etc. Top cadres of some banks have been detained at the National Security headquarters in Sana'a.

Such actions are instigated by domestic banks' opening of documentary credits at CBY - Aden for the purpose of importing basic goods and responding to the requirements of the CBY Aden, which activated tools of managing monetary policy in the country.

Bank leaders have been forced to sign undertakings not to open documentary credits at CBY – Aden. Branches of some bank in Houthi-controlled areas have complied with these dictates.

Tension continues, especially following recent changes in the Banks Monitoring Unit in CBY - Sana'a, which grant the Houthi's more control of the bank in Sana'a, especially the Banks Monitoring Division. The Economic Committee is the Houthi authority in charge of the economic file as a whole, including CBY.

Against the backdrop of these developments, domestic bank taxation issues are instigated. The Tax Authority in Sana'a has accused the International Bank of Yemen of supplying inaccurate data to the Tax Authority during the past years in accordance with the Income Tax Law of 2010.

The Authority formed a field team of 26 persons armed with the status of judicial control to conduct audits of data, documents and closing accounts from the beginning of activity until 2016.

The Banks Association is a civil organization that played important roles in protection of local banks, but now it is under fire. It recently addressed CBY officials in Sana'a stating that the practice of detaining bank management cadres by the intelligence is unjustified, and that such actions have negative consequences on reputation of, and public confidence in, local banks.

Local bank executives believe that such actions will complicate the importation of basic commodities and contribute to the depletion of Yemen's food stock, an issue of which many international organizations have warned, as Yemen is facing the worst humanitarian crisis in the world.

Over the past few months, Sana'a has become a source of concern for businessmen. In addition, some telecommunication companies are on the brink of bankruptcy. Owners of exchange companies and other businessmen were arrested, some are still detained at the National Security headquarters.

Challenges facing the private sector are further aggravated by the four-year-long war. It struggles with such challenges as depreciation of local currency, illegal taxes and levies, and security risks. Yet, such challenges do not alleviate the severity of measures forced by Houthi authorities in Sana'a, nor does the government in Aden seem concerned.

Yemeni banks are under double pressure. CBY in Aden warns them to abide by all data and information required, while fines are waiting the banks which fail to comply. Thus, banks are caught between two fires. They are unable to find refuge at the CBY in Aden, nor can they survive the burning Houthi fires in Sana'a.

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According to an organization source any dealings with the banking sector outside the legal framework will not provide any solutions, and will not help achieve any stability in the banking sector environment.

### **Negative effects of imposing restrictions on local banks:**

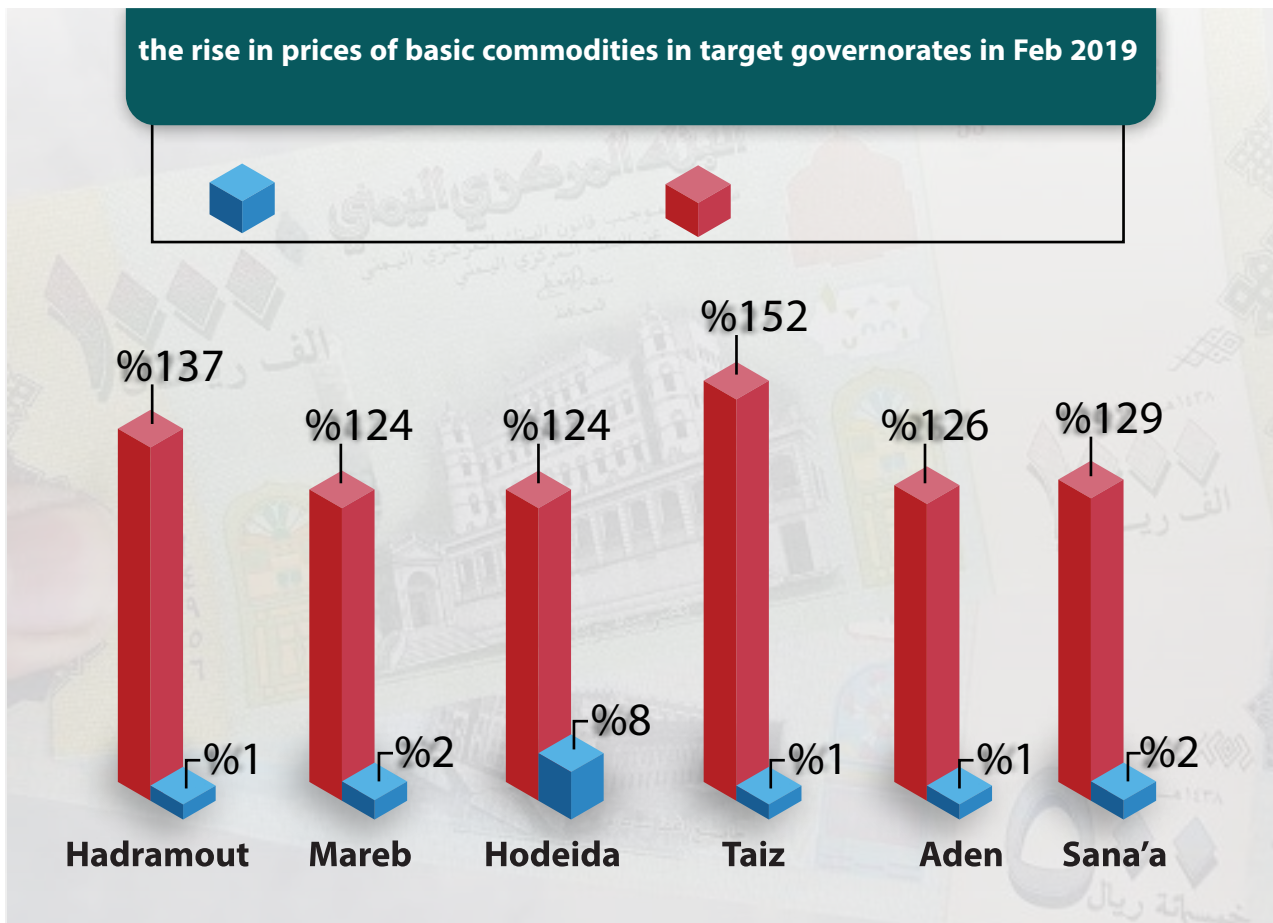
- A humanitarian crisis has emerged due to decline in basic commodity supplies, especially as local banks played an important role in opening the documentary credits for the purpose of importing basic commodities. Such steps led to relative stability in prices of basic commodities over the past few months.
- A recession due to the freezing of many funds: These measures led to disruption of the work of local banks in Houthi-controlled areas and paralyzed the normal circulation of money, an issue which negatively impacts those banks, the financial cycle and the economic situation in the country as a whole.
- Migration of local capital due to fears of seizure of funds: those practices constitute an ominous indicator of the future of Yemeni banks. They drive many banks to seriously consider redrawing their strategies in anticipation of any potential future risks.
- Entrapping of local banks in the conflict affects the level of public confidence in them. Community confidence in local banks has been shaken considerably in recent years. Several banks have declined to meet their obligations to depositors. Current threats to banks will further eliminate the remaining low level of public confidence in Yemeni banks.



# Basic Commodity Prices

Prices of basic commodities (flour, sugar, rice, cooking oil, milk powder, beans, tea, cheese, yogurt) increased by 2% in February 2019 in target governorates (Sana'a, Aden, Taiz, Marib, Hodeida, and Hadramout), compared to January 2019, and by 132% compared to January 2015.

According to data recorded by the Center, Hodeida recorded the highest increase in basic goods prices in February 2019, with a rise of 8%, compared to January 2019. Sana'a and Marib come next, each recording an increase of 2%, followed by Taiz, Aden and Hadramout, with an increase of 1%, compared to January 2019.

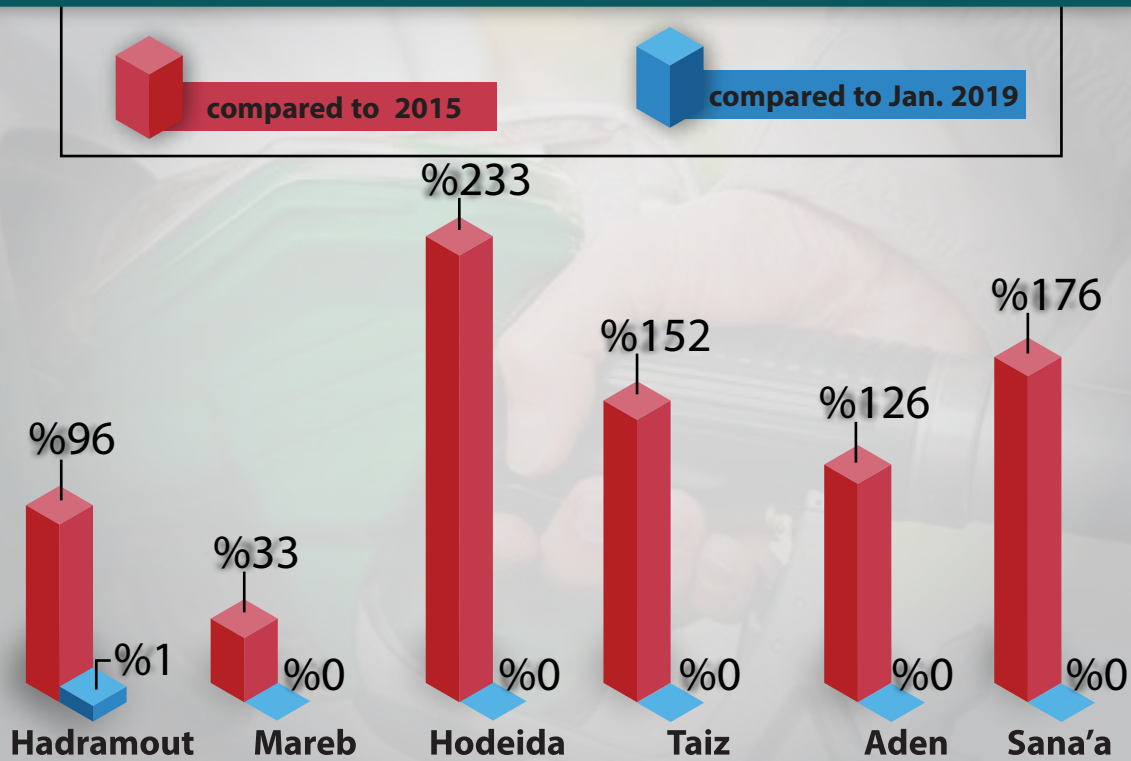


# Fuel Prices

Prices of fuel (petroleum, diesel, cooking gas) proved stable in February, recording no rise in target governorates (0% compared to Jan. 2019, but increased by 134% compared to January 2015).

According to data collected by the Center, Hadramout is the governorate recording a slight margin of 1% increase in fuel prices in February 2019, compared to January 2019.

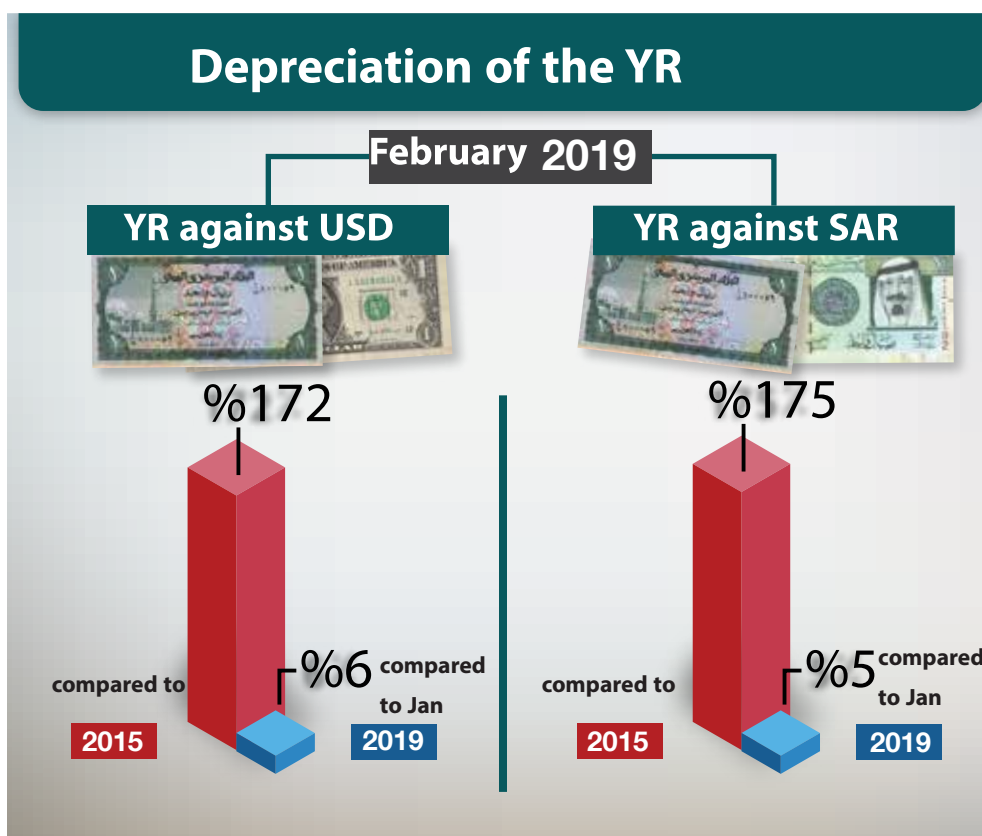
shows the percentage of fuel prices rise in target governorates in February 2019



## Exchange Rates... YR on a Downward Trend

In February 2019, the Yemeni Rial had a downward trend, losing 6% against the US dollar, compared to January 2019, and recording a significant decline of 172% compared to January 2015.

According to data collected by the SEMC, YR also recorded a decline against the Saudi riyal in February 2019, losing an average of 5% of its value against the SAR, compared to January 2019, and 175%, compared to January 2015.



# Economic Developments in February 2019

- The Yemeni government approves the first state budget since the outbreak of the war in Yemen four years ago, with total estimated expenditure of 3 trillion and 11 billion rials (\$5.3 billion) 2 trillion and 159 billion rials (3.8 billion dollars) in revenues, and a 30% deficit (YR937 billion, or \$1.7 billion at the current exchange rates).
- Prime Minister Mu'in Abdulmalik announced adoption of "austerity" and reduction of spending. He states that the budget has been prepared in line with the volume of revenues while focusing on tax customs and oil revenues, which constitute the major contributions to State treasury and strengthen the national economy. He also maintained that pains have been taken to ensure stability of the economy, exchange rates and commodity prices, while taking into account some variables and peculiarities of different governorates in terms of the geographical aspect, area, population and other factors.
- Prime Minister, M. Abdulmalik, receives the initial report of the Investigation and Audit Committee, which is tasked with reviewing the CBY operations regarding coverage of documentary credits of basic commodity importers that has come to be known as the exchange premium scandal uncovered by Economic adviser of President Hadi.
- Yemeni representative at the UN calls for the transferring resources of UN bodies in Yemen via the CBY, Aden.
- Ministry of Electricity and Energy signs an agreement on conducting a consultative study for the construction of a gas-powered energy station in Aden with a capacity of 950 MW over two stages of 600 and 350 MWs.
- Governor of Hadramout, Faraj al-Bahsani, issues a decision to set up an executive unit of development projects in Hadramout governorate.



- The Arab Monetary Fund expresses willingness to provide \$150 million to Yemen once arrears are paid according to new schedule, while the Yemeni government confirms its commitment to repay outstanding 2016 Fund dues.
- Building a parallel 200 meter platform in the port of Mukalla to accommodate more vessels and containers, expand the commercial and economic activity of the port. Al-Dhabba Port is to be allocated to private sector investment to encourage commercial competition.
- The four-state Economic Committee met in Riyadh to discuss the economic conditions in Yemen. The Committee demands the Houthis to lift the restrictive measures imposed on local banks in Sana'a, including arrest of top personnel members and preventing banks from opening documentary credit accounts at CBY, Aden.
- CBY announces receiving approval to withdraw the sum of \$59.5 million from the Saudi deposit. This 17th payment is allocated to basic commodity imports supplied through several commercial banks in all governorates.
- The Yemen Oil Company in Shabwa fixes petrol prices in the governorate at YR 4,800 riyals per gallon.
- Director of the Yemen Oil Company, Aden Branch, Intisar Al-Arasha, states that the company's sales of oil derivatives amounted to 74 billion and 502 million rials in 2018.

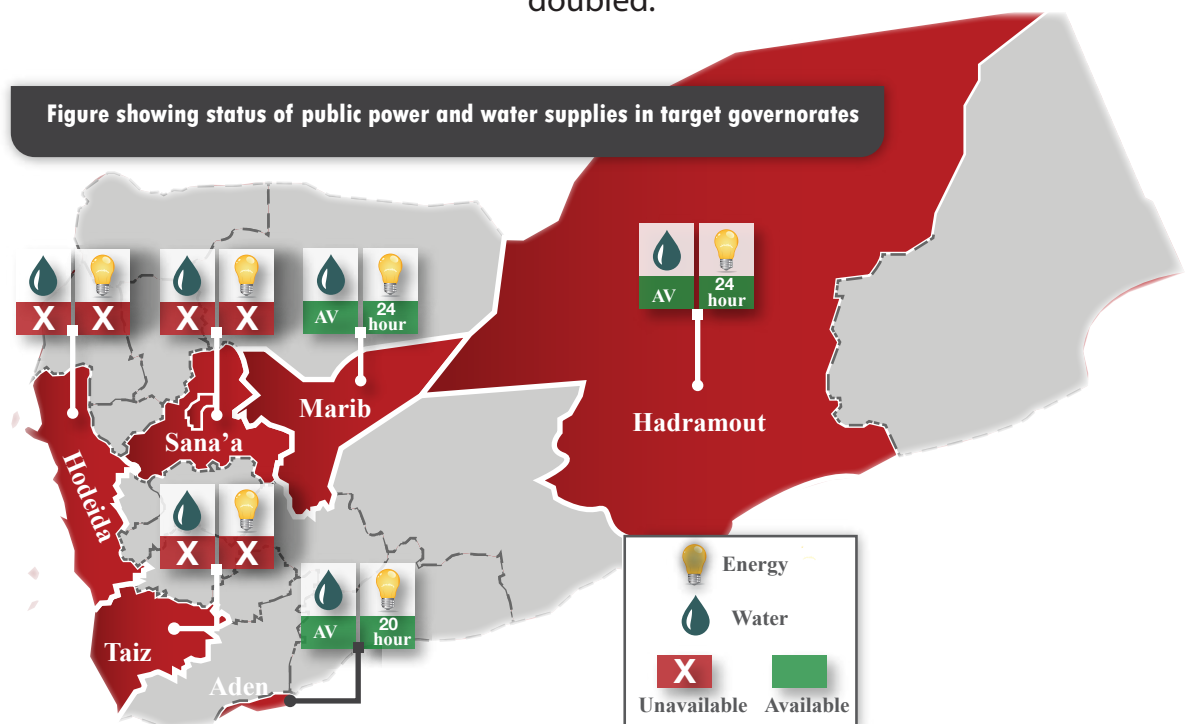
## Power and Water Services

Since the outbreak of the war in 2015, most Yemeni governorates have experienced an extended outage of power supply. Around 90% of the total population have no access to public power supply. There have been no improvements in providing this service, especially in the Houthi-controlled areas, where this service is completely interrupted. High-cost private power supply is provided at YR270 compared to YR6 per kilo before the war; 4400% higher than pre-war rate. In addition, a weekly subscription fee of YR300 is paid by each subscriber regardless of usage, an instance of blackmailing citizens' need of power.

Most Yemenis buy solar power systems as an alternative to the public power service. Although solar energy covers 60% of household energy needs, it does not meet the needs of businesses which require more power to operate refrigerators and big machinery. The cost of a solar system of 100 amp capacity is about \$1,000.

Governorates under the control of the internationally recognized government such as Hadramout, Aden, and Marib are better off than Houthi-controlled areas in terms of provision of the power service.

Public water service is no different from electricity. This service has been suspended in Houthi-controlled areas since the outbreak of the war. Taiz, which has a perennial scarcity of water resources, had a water crisis in February 2019, so that water prices doubled.

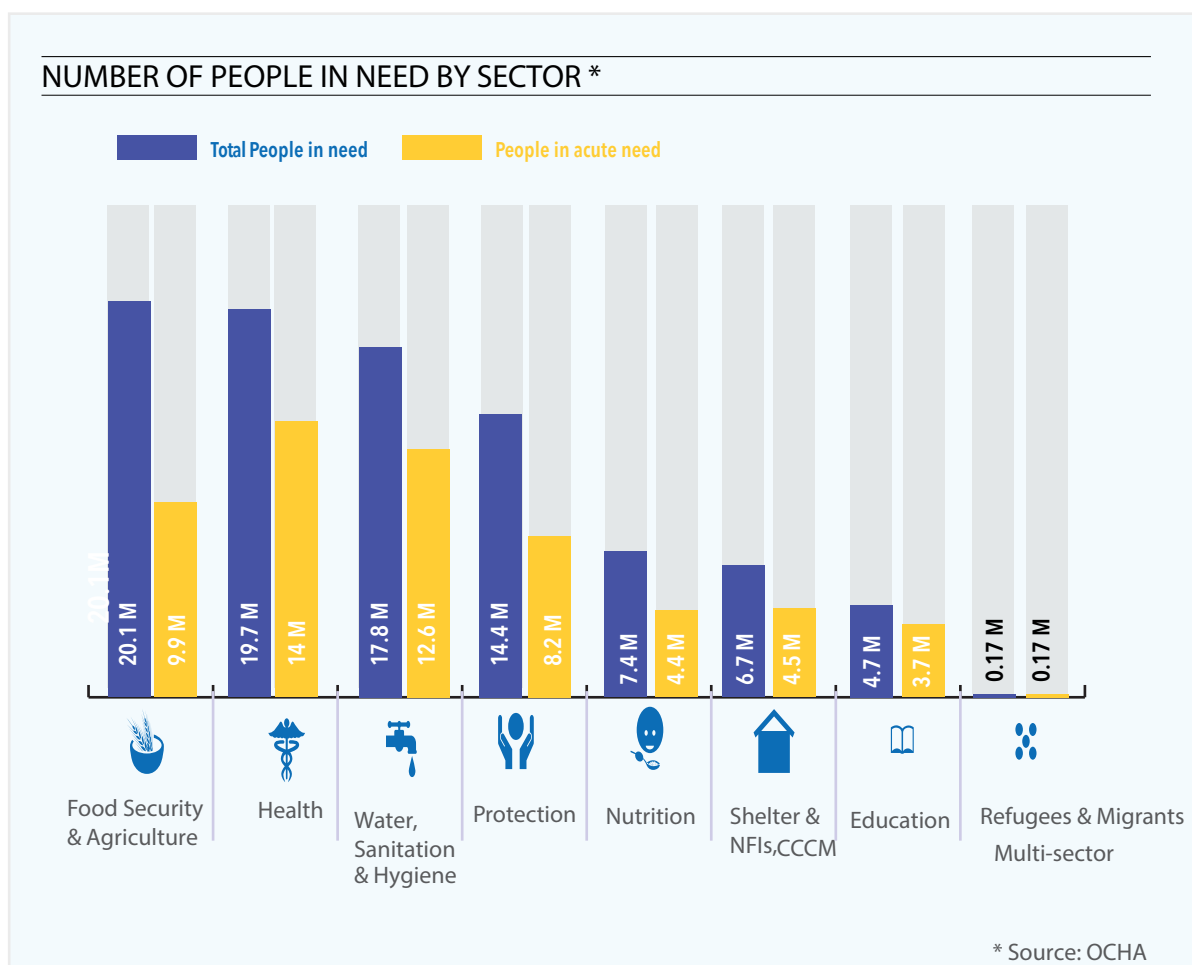


# Humanitarian Conditions

As the war continues, the humanitarian costs rise. According to recent OCHA report, the number of citizens in dire need of humanitarian assistance increased by 27%, compared to December 2017. The number of people in need of humanitarian assistance reached 24.1 million, nearly 80% of the total population, of whom 14.3 million are in dire need of humanitarian assistance. About 17.8 million Yemenis lack access to safe drinking water and sanitation, while 3.3 million have been displaced.

The humanitarian situation in Yemen worsens due to the spread of epidemics such as cholera and swine flu, which has recently claimed the lives of dozens of citizens, especially in Houthi-controlled areas, while medical supplies required to fight the epidemic are lacking. It is reported that 51% of health facilities are fully functioning, while 14% have been stopped, and 35% are partially functioning. This is reflected in the poor provision of health care to citizens. According to the OCHA report, 19.7 million people are in need of health care.

The following figure shows the number of citizens in need of humanitarian assistance by sector:



# Private Sector Developments

- Counter-terrorism forces in Sana'a stormed local banks and arrested a number of top staff. Raided banks included Tadhamon Islamic Bank, Kuraimi Bank, and Shamil Bank of Yemen and Bahrain and the raids were carried out against the backdrop of opening documentary credit accounts at CBY-Aden. Tadhamon Bank personnel stage a protest against such practices.
- Chambers of commerce and industry elections in liberated governorates, scheduled in February, are postponed. Postponement is due to pressure exerted by the General Union of Chambers of Commerce and Industry in Sana'a.
- SabaFon personnel stage a protest at the Supreme Court, demanding the highest judicial body to put an end to the arbitrary practices of the Commercial Court and cancel its unfair judgments against the company.
- International Bank of Yemen profits exceed 7 billion and 993 million rials. The tax authority in Sana'a accuses the bank of submitting inaccurate tax data and set up an audit committee to review and assess all bank accounts since the beginning of its activity.
- CBY in Sana'a imposes restrictions on banks preventing them from opening documentary credits at CBY-Aden for the purpose of importing basic commodities.
- Businesswomen's Department at the Chamber of Commerce and Industry in Taiz inaugurates The Third Marketing Exhibition (Laki). Thirty businesswomen from the governorate participate in the exhibition.
- Minister of Transport, Saleh al-Jubwani, affirms the Ministry's approval of establishing the Hadhramaut Airlines with Hadhrami capital.
- Aden: Heavy truck drivers stage a strike protesting arbitrary measures at security checkpoints.
- Ma'alim Al-Mukalla plant for automatic bricks is inaugurated in Mukalla.





The Studies and Economic Media Center (SEMC) is one of the most prominent Yemeni NGOs that works on , and spreads awareness of economic issues, in addition to buttressing good governance and public engagement in decision making, and working towards the creation of professional media.

The Center has contributed tremendously to debating and rectifying economic policies, divulging the loopholes inherent in the country's economic performance, and influencing decision makers in such a way that serves the think-tank 's vision- a transparent and flourishing Yemeni economy. Further, it has assumed a vital role in presenting economic information to society in a plain and simple manner. The Center seeks to forge ahead with its scholarly mission despite the harsh conditions Yemen is experiencing.

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