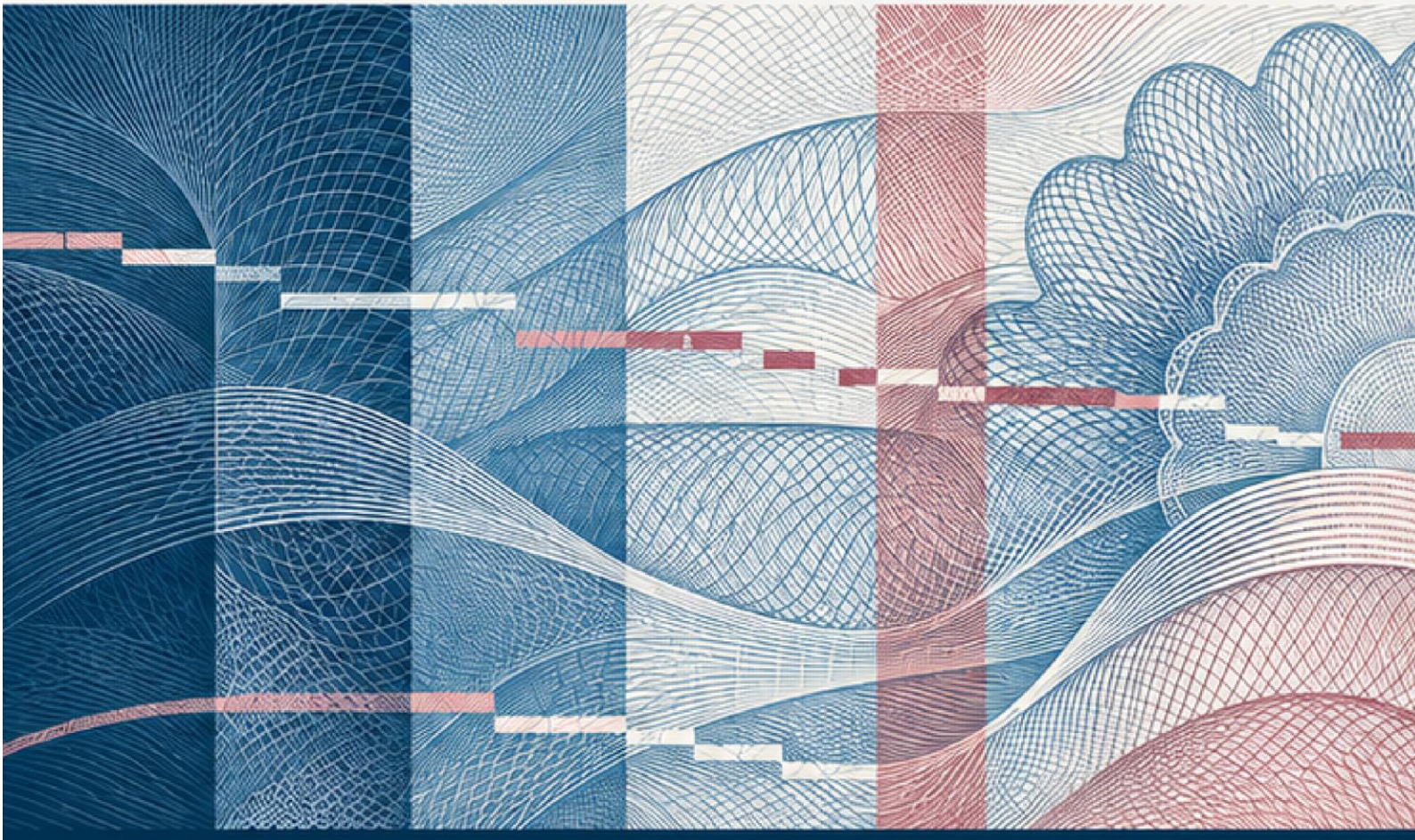
SOUTH 24

RESEARCH STUDY

# Yemen’s Financial Fragmentation and the Limits of Monetary Stabilization

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South24 Center for News and Studies

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# Table of Contents


Glossary ..... 3
Executive Summary ..... 4
Introduction ..... 5
Methodology ..... 6
1. Institutional Fragmentation as the Starting Point ..... 6
    1.1 How Monetary Management Works in Sana'a ..... 7
2. Fiscal Dominance, Government Overdrafts, and the Weakening of Formal Banking ..... 10
    2.1 Persistent Liquidity Constraints ..... 11
3. Exchange Companies and the Parallel Financial System ..... 12
4. Stability without Full Pass-Through: Governance Gaps and Structural Coordination Failure ..... 14
    4.1 Exchange-Rate Recovery and Uneven Price Adjustment ..... 14
    4.2 Governance Gaps and Structural Coordination Failure ..... 16
5. From Oil-Revenue Collapse to the Fiscal Importance of Ports ..... 17
6. Corruption as Structure: Why Financial Discipline Keeps Leaking ..... 19
7. Conclusion ..... 20
8. Policy Recommendation: Establishing a Sector-Based Coordination and Enforcement Framework ..... 20
Appendix 1: Central Bank of Yemen–Aden Decision No. 13 of 2025: Withdrawal of Exchange-Company Branch Licenses ..... 22
Appendix 2: Purported Central Bank Exchange-Rate Circular, 31 August 2025 ..... 23
Appendix 3: Central Bank of Yemen–Aden Press Statement, 31 August 2025 ..... 24

# Glossary

| Term | Definition |
|---|---|
| **AML/CFT** | Anti-money laundering and countering the financing of terrorism. |
| **CBY-Aden** | The Central Bank of Yemen headquartered in Aden since September 2016, operating under the authority of the internationally recognized government. |
| **IMF** | International Monetary Fund. |
| **IRG** | Internationally recognized government of Yemen, based in Aden. |
| **SWIFT** | Society for Worldwide Interbank Financial Telecommunication; the international messaging network banks use to send and receive cross-border payment instructions. |
| **UNVIM** | United Nations Verification and Inspection Mechanism for Yemen, which monitors commercial cargo entering the Red Sea ports. |
| **YER** | Yemeni rial, Yemen's national currency. |

## Executive Summary

This study examines Yemen's financial fragmentation from the post-2015 monetary split and the 2016 relocation of the Central Bank of Yemen (CBY) to Aden through the 2025 stabilization measures and subsequent developments into 2026. It traces how monetary fragmentation, fiscal pressure, weakened formal banking, and the expansion of exchange companies have interacted to constrain monetary transmission and state financial capacity.

The July–August 2025 appreciation of the rial demonstrated that CBY-Aden retained the capacity to influence the foreign-exchange market when regulatory action, import-financing measures, and political backing were aligned. However, price adjustment was slower and less uniform than the exchange-rate movement. Developments into 2026 showed that part of the appreciation eventually passed through to lower inflationary pressure, but consumer prices remained influenced by import costs, distribution networks, trader margins, market enforcement, and liquidity circulating outside formal banking channels.

The suspension of oil exports increased the fiscal importance of customs and ports while further weakening the government's foreign-exchange and revenue base. Revenue fragmentation, leakage, corruption risks, and reliance on Central Bank financing reinforced the connection between fiscal weakness and monetary instability. External financial support helped ease immediate foreign-exchange and import-financing pressures, but did not remove these underlying constraints.

The study interprets these dynamics as a structural coordination failure across monetary, fiscal, commercial, and financial institutions. It recommends a sector-based coordination and enforcement framework linking CBY-Aden with fiscal authorities, customs and ports, banks, exchange companies, and trade-financing institutions, supported by stronger revenue centralization, information sharing, enforceable rules, improved financial oversight, and targeted technical assistance.

## Introduction

Since the relocation of the Central Bank of Yemen's headquarters from Sana'a to Aden in September 2016, monetary authority has become territorially fragmented.[1] The internationally recognized government (IRG) retained access to international monetary channels through CBY-Aden, while the Sana'a-based authorities continued to exercise influence over much of the established banking infrastructure, money-exchange networks, and northern consumer markets.[2] The division was institutional as well as territorial: competing rules increasingly governed currency circulation, bank supervision, public revenue collection, and domestic transfers.[3]

The split deepened in December 2019 and January 2020, when the Sana'a-based authorities imposed and strictly enforced restrictions on newer banknotes issued by CBY-Aden.[4] Separate markets for old and new rial notes developed.[5] Monetary financing and the loss of export revenues increased pressure on the exchange rate in IRG-controlled areas, while restrictions on new banknotes and foreign-exchange transactions contributed to relative nominal-rate stability in Sana'a, albeit with cash shortages and other costs.[6] These outcomes also depended on liquidity, imports, and cross-territorial payment flows.[7]

At the end of July 2025, CBY-Aden introduced measures intended to stabilize the rial and reassert control over a financial system that had become increasingly difficult to govern.[8] It revoked the licenses of dozens of currency-exchange companies,[9] capped private foreign-exchange transactions at US$2,000, tightened documentation requirements, and signaled that informal currency management would no longer be tolerated.[10] The rial appreciated sharply in government-held areas after the measures, recovering from levels above YER 2,800 per US dollar to YER 1,662 per US dollar, while the Saudi riyal also moved toward a more stable range.[11]

The episode complicates a purely pessimistic assessment of CBY-Aden: when political backing, market pressure, and regulatory enforcement converged, exchange companies adjusted and the rial recovered.[12] At the same time, it exposed the structural limits of stabilization, as prices, wages, customs costs, transport fees, and market behavior adjusted more slowly and unevenly than the exchange rate.[13] The July 2025 measures therefore provide evidence that CBY-Aden can influence the exchange rate when enforcement and political backing align.[14]

The central issue is therefore not simply how CBY-Aden achieved a sharp appreciation of the rial in 2025, but why the recovery translated only gradually and unevenly into lower domestic prices. Explaining that gap requires examining the institutional fragmentation that has shaped Yemen's monetary system since 2016, particularly weak coordination among monetary policy, public finances, banking and exchange-company regulation, import financing, port revenues, and market enforcement. The 2025 episode illustrates both a capacity for targeted exchange-market intervention and the limits of monetary stabilization when pricing and financial activity extend beyond the Central Bank's effective control.

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[1] World Bank, *Yemen Financial Sector Diagnostics* (Washington, DC: World Bank, 2024), **27–28**.
[2] World Bank, *Yemen Financial Sector Diagnostics*, **27–28, 74–75**.
[3] World Bank, *Yemen Financial Sector Diagnostics*, **27–28, 37–38**; Organisation for Economic Co-operation and Development (OECD), *Promoting Economic Resilience in Yemen* (Paris: OECD Publishing, 2026), **15–16**.
[4] World Bank, Yemen Monthly Economic Update: January 2020 (Washington, DC: World Bank, 2020)
[5] World Bank, Yemen Monthly Economic Update: January 2020, **1**
[6] World Bank, Yemen Financial Sector Diagnostics, **34–35**; World Bank, Yemen Monthly Economic Update: January 2020, **1**; World Bank, Yemen Economic Monitor: Pushing Against the Tide (Washington, DC: World Bank, Spring 2026), **5, 8**.
[7] World Bank, Yemen Monthly Economic Update: January 2020, **1–2**; World Bank, Yemen Economic Monitor: Pushing Against the Tide, **5–8**.
[8] South24, "Restricting Transactions to the Yemeni Rial."
[9] Asharq Al-Awsat, "Yemeni Rial Regains a Third of Its Value Amid Government Push to Curb Soaring Prices," 2025; Appendix 1.
[10] Appendix 1: author-provided supporting documents on the July 2025 measures; South24, "Restricting Transactions to the Yemeni Rial."
[11] ACAPS, *Yemen Joint Monitoring Report*, Issue 10.
[12] South24, "Restricting Transactions to the Yemeni Rial."
[13] South24, "Restricting Transactions to the Yemeni Rial"; ACAPS, *Yemen Joint Monitoring Report*, Issue 10.
[14] Sami Muhammad Qasim, professor of economics, Aden University, interview by author, July 01, 2026; Majed Aldaare, journalist and writer, interview by author, July 02, 2026.

## Methodology

This study uses a qualitative political-economy approach combining document analysis, descriptive economic indicators, and interviews with specialists and observers familiar with Yemen's financial institutions. It draws on CBY-Aden publications and reports by the IMF, World Bank, ACAPS, FEWS NET, and UN bodies to examine exchange rates, consumer prices, public financing, banking, liquidity, customs, and trade through 2026. The interviews, identified by participant and professional role in the footnotes, inform analysis of exchange companies, regulatory enforcement, arbitrage, and fiscal coordination, particularly where published statistics are limited. Documentary evidence is used to cross-check interview-based claims where possible.

The analytical framework adapts the concept of structural coordination failure, associated with the political-economy work of Ha-Joon Chang and Antonio Andreoni, to Yemen's divided monetary and fiscal system. The study examines how policy decisions in one institution can be weakened by the incentives and actions of other institutions and commercial actors. It treats this as an interpretive framework rather than a formal causal identification strategy.

The evidence has limits. Data for the two monetary jurisdictions are not always collected on comparable bases; annual averages, point-in-time quotations, cash outside banks, and government-debt categories should not be conflated. Interviews provide informed perspectives but do not represent a statistically representative sample, and allegations about market coordination or privileged access are treated as reported accounts unless independently corroborated. The analysis focuses mainly on the policy capacity of the IRG and CBY-Aden, using Sana'a as a necessary comparator rather than an equally observed jurisdiction.

## 1. Institutional Fragmentation as the Starting Point

The 2025 stabilization attempt did not emerge from a conventional monetary environment; it followed nearly a decade in which Yemen's economic governance system became divided between competing authorities and institutions.[15] The post-2015 conflict between the Houthi movement and the internationally recognized government (IRG) contributed to a currency crisis, divergent macroeconomic policies, and the fragmentation of monetary governance.[16]

When the Central Bank of Yemen's headquarters was relocated to Aden in September 2016, foreign-exchange reserves had already fallen from approximately US$4.7 billion at the end of 2014 to about US$700 million.[17] Much of the bank's technical staff, archives, data, and domestic financial infrastructure remained in Sana'a, alongside a substantial share of the population, commercial banks, and money-exchange networks.[18] This institutional division laid the foundations for the emergence of competing monetary regimes.

The monetary separation deepened in December 2019, when the Sana'a-based authorities imposed restrictions on newly issued CBY-Aden banknotes that were more strictly enforced in January 2020.[19] CBY-Aden continued issuing new currency, but these restrictions limited its circulation in Houthi-controlled areas and contributed to distinct markets for old and new rial notes.[20] The resulting monetary

[15] World Bank, "Economic Fragmentation and External Shocks Hamper Yemen's Recovery Path," June 2, 2025; World Bank, *Yemen Economic Monitor: Persistent Fragility amid Rising Risks*.
[16] World Bank, *Yemen Economic Monitor: Persistent Fragility amid Rising Risks*.
[17] Sherillyn Raga, Sherine El Taraboulsi-McCarthy, Moizza Binat Sarwar, and Yazeed al-Jeddawy, Impact of Conflict on the Financial Sector in Yemen: Implications for Food Security (London: ODI, December 2021).
[18] ACAPS Yemen Analysis Hub and Mercy Corps Yemen Analysis Team, *Challenges and Opportunities for Recovery in the Yemeni Financial Sector*, July 26, 2022.
[19] World Bank, Yemen Monthly Economic Update: January 2020 (Washington, DC: World Bank, 2020), 1–2, https://documents1.worldbank.org/curated/en/320011582043995205/pdf/Yemen-Monthly-Economic-Update-January-2020.pdf.
[20] ACAPS Yemen Analysis Hub and Mercy Corps Yemen Analysis Team, The Yemeni Financial Sector: Challenges and Opportunities for Recovery (26 July 2022), 16.

separation helps explain why exchange rates followed different paths in Aden and Sana'a; it does not, by itself, explain all regional differences in inflation.[21]

**Table 1. Key Economic and Monetary Developments in Yemen, 2016–2026**

| Year | Key economic development | Implications for stabilization |
|---|---|---|
| 2016 | Central Bank headquarters relocated to Aden | Fragmentation of monetary authority |
| 2019–2020 | Sana'a authorities restricted Aden-issued banknotes | Separate currency markets emerged |
| 2022–2023 | Attacks on oil-export facilities and prolonged suspension of exports | Loss of fiscal revenue and foreign exchange |
| 2024 | Escalation of banking and regulatory disputes | Further fragmentation of financial governance |
| 2025 | CBY-Aden stabilization measures and sharp rial appreciation | Partial restoration of exchange-market control |
| 2026 | Delayed price pass-through and persistent liquidity pressures | Limits of monetary stabilization |

## 1.1 How Monetary Management Works in Sana'a

The Sana'a-based authorities rely heavily on administrative controls to manage their currency market. They restrict newly issued banknotes, supervise financial businesses operating in their territory, regulate foreign-exchange transactions, and constrain some transfers across frontlines.[22] These controls limited the north's direct exposure to CBY-Aden's monetary expansion and contributed to divergent exchange-rate conditions.[23] Scarcity and deterioration of older banknotes nevertheless created payment difficulties. The authorities promoted electronic-money and mobile-payment services to ease these shortages, although adoption remained limited.[24]

The Sana'a-based authorities also collect customs duties, taxes, telecommunications receipts, and other levies within their territory.[25] These activities intersect with the regulation of trade routes, financial institutions, and access to northern markets.[26] The UN Panel of Experts identifies telecommunications receipts, financial-sector charges, and other compulsory payments among the authorities' revenue sources.[27]

[21] World Bank, Yemen Financial Sector Diagnostics (Washington, DC: World Bank, 2024), 34–35, https://documents1.worldbank.org/curated/en/099102324070011985/pdf/P177631-d18a7ee4-3fcf-4393-9665-77f98b3e43a7.pdf.

[22] ACAPS Yemen Analysis Hub and Mercy Corps Yemen Analysis Team, The Yemeni Financial Sector: Challenges and Opportunities for Recovery

[23] World Bank, Yemen Financial Sector Diagnostics, 34–35.

[24] ACAPS and Mercy Corps, The Yemeni Financial Sector, 14.

[25] United Nations Security Council, Final Report of the Panel of Experts on Yemen, S/2025/650 (17 October 2025), 23–25, paras. 109–121.

[26] ACAPS, Yemen: Increased DFA Intervention in the Private Sector in DFA-Controlled Areas (29 February 2024), 1–7.

United Nations Security Council, Final Report of the Panel of Experts on Yemen, S/2025/650 (17 October 2025), 23–25, paras. 109–121.[27]

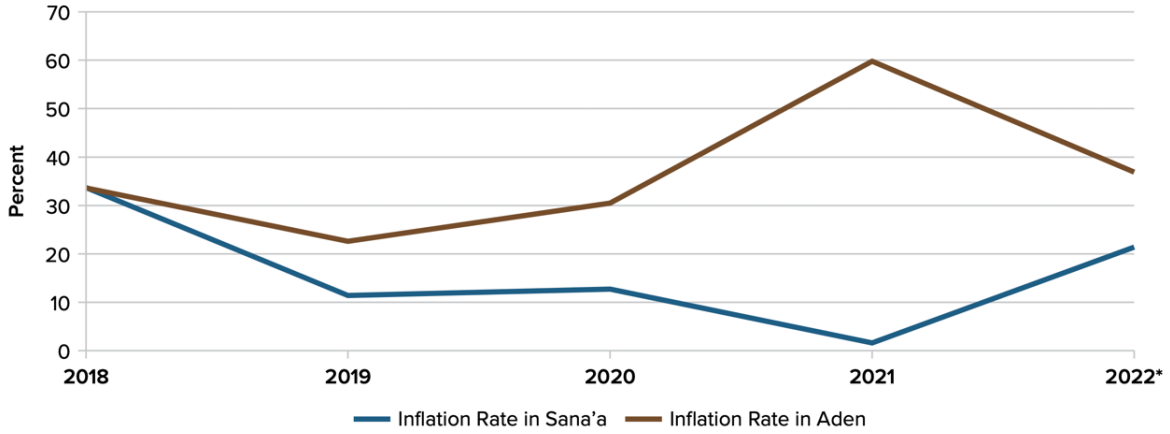



*Figure 1. Inflation-rate divergence between Sana'a and Aden, 2018–2022. Source: World Bank, Yemen Financial Sector Diagnostics (2024), original fig. 2, p. 35 (World Bank authors' calculation based on IMF data).*[28]

Fiscal fragmentation intensified alongside the emergence of separate monetary regimes, particularly following attacks on oil-export facilities in October 2022 and the prolonged suspension of IRG oil exports from early 2023.[29] Total IRG revenues, including grants, fell from YER 2.774 trillion in 2022 to YER 1.903 trillion in 2023; revenue excluding grants subsequently fell to 2.5% of GDP in 2024. These amounts measure different revenue concepts and should not be read as a continuous like-for-like series.[30] During 2022–2024, the diversion of imports toward Houthi-controlled Red Sea ports and the separate collection of customs and other charges further weakened the fiscal resources available to the Aden authorities.[31] The oil-export suspension also removed a major source of foreign-exchange earnings, increasing fiscal and external pressures.[32]

The consequences of competing fiscal and monetary regimes became visible in the growing exchange-rate differential between Aden and Sana'a. In Aden, the annual average rate depreciated from YER 782 per US dollar in 2020 to YER 1,823 in 2024, while the Sana'a rate generally stayed within YER 535–604 per dollar.[33] In 2025, the annual average was approximately YER 2,091 per dollar in Aden and YER 535 in Sana'a.[34] These differences reflect the interaction of separate currency controls, fiscal and external pressures, and market arrangements, rather than a unified national exchange-rate regime.[35]

[28]World Bank, Yemen Financial Sector Diagnostics, 35, original fig. 2.
[29]International Monetary Fund, Republic of Yemen: 2025 Article IV Consultation, IMF Country Report No. 26/80 (Washington, DC: IMF, 2026), para. 6; OECD, Promoting Economic Resilience in Yemen (Paris: OECD Publishing, 2026), 14.
[30]OECD, Promoting Economic Resilience in Yemen, 14 (total revenue including grants, 2022–2023); World Bank, Yemen Economic Monitor: Persistent Fragility amid Rising Risks (Spring 2025), 9 (revenue excluding grants, 2024).
[31]World Bank, Yemen Economic Monitor: Persistent Fragility amid Rising Risks, 10; OECD, Promoting Economic Resilience in Yemen, 15.
[32]World Bank, Yemen Economic Monitor: Pushing Against the Tide (Spring 2026), 5.
[33]World Bank, Yemen Economic Monitor: Pushing Against the Tide, 9, table 1.1.
[34]Ibid.
[35]World Bank, Yemen Economic Monitor: Pushing Against the Tide, 7–9.

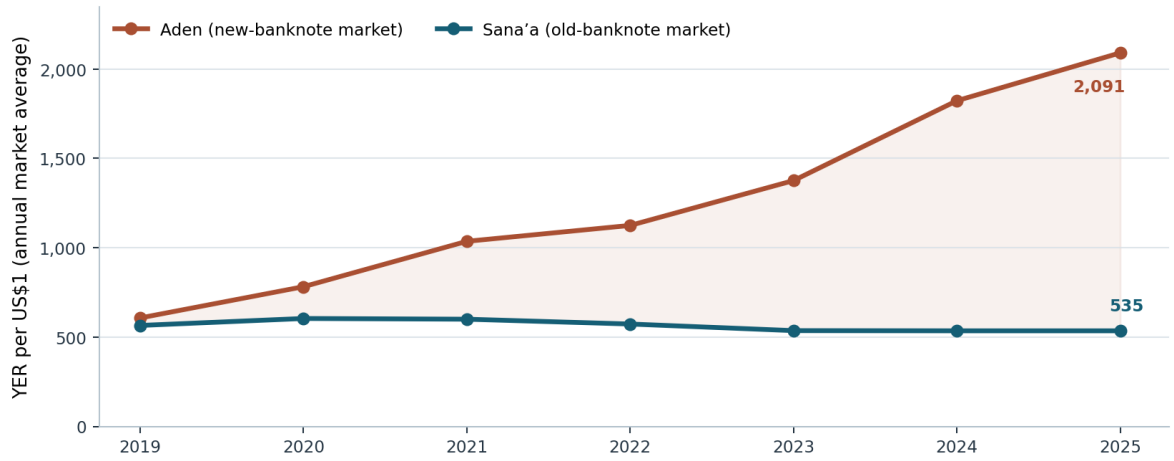



***Figure 1A. Annual average exchange rates in Aden and Sana'a, 2019–2025 (YER/US$). Source: Based on World Bank data, Yemen Economic Monitor (Fall 2024), table 1.1 (2019), and Yemen Economic Monitor: Pushing Against the Tide (Spring 2026), table 1.1 (2020–2025).***

Relative nominal exchange-rate stability in Sana'a should not be interpreted as broader monetary or economic stability.[36] Restrictions on banknotes and transfers, deterioration of older notes, and uneven access to financial services imposed costs on households and firms.[37] The World Bank reports that, during 2024–2025, the minimum food basket in Houthi-controlled areas cost on average roughly 25% more in US-dollar terms than in IRG-controlled areas; this is a cross-market price comparison, not a measure of household purchasing power.[38] The issuance of YER 50 coins and YER 200 notes by the Sana'a authorities in July 2025 reinforced the existence of separate monetary arrangements and prompted a warning from the UN Special Envoy.[39]

The exchange-rate differential also created opportunities for speculative trading and arbitrage among financial intermediaries.[40] Interview testimony suggests that some market participants benefited from these differences, but this does not establish that particular political actors deliberately obstructed monetary reunification.[41]

Yemen's monetary crisis cannot be reduced to currency depreciation: it also reflects competing monetary authorities, fragmented fiscal resources, banking regulation, and commercial networks. Where different authorities govern different parts of the financial system, exchange-rate measures taken in one jurisdiction transmit only partially through national trade, payments, and retail markets.[42][43]

This institutional fragmentation helps explain both the effectiveness and the limits of CBY-Aden's 2025 stabilization measures. The rial's sharp appreciation following tighter enforcement and import-financing coordination demonstrated that the Central Bank could influence currency-market behavior in IRG-controlled areas; foreign-exchange inflows and other conditions also mattered. Price adjustment was slower and less uniform because importers, financial intermediaries, distributors, and revenue-collecting institutions operated across overlapping or competing jurisdictions. The episode thus illustrates a distinction

[36] World Bank, Yemen Economic Monitor: Pushing Against the Tide, 8–9.
[37] United Nations Security Council, Final Report of the Panel of Experts on Yemen, S/2025/650 (17 October 2025), para. 113; Sherillyn Raga et al., Impact of Conflict on the Financial Sector in Yemen: Implications for Food Security (London: ODI, December 2021), 17–18, 28.
[38] World Bank, Yemen Economic Monitor: Pushing Against the Tide, 9, fig. 1.16.
[39] Office of the United Nations Special Envoy for Yemen, "Statement by the UN Special Envoy for Yemen on Ansar Allah's Recent Issuance of Currency," 17 July 2025, https://osesgy.unmissions.org/en/statement-un-special-envoy-yemen-ansar-allahs-recent-issuance-currency.
[40] Sherillyn Raga et al., Impact of Conflict on the Financial Sector in Yemen, 17–18, 28.
[41] Majed Aldaare, journalist and writer, interview by author, July 02, 2026. Interview-based indication; not independent evidence of organized political resistance.
[42] ACAPS and Mercy Corps, *Challenges and Opportunities for Recovery in the Yemeni Financial Sector*; OECD, *Promoting Economic Resilience in Yemen*.
[43] Ibid.

between achieving a targeted exchange-rate response and rebuilding the institutional capacity needed for more consistent price stabilization.

## 2. Fiscal Dominance, Government Overdrafts, and the Weakening of Formal Banking

Financial fragmentation was reinforced by fiscal pressure.[44] CBY-Aden's net claims on the government more than doubled from approximately YER 2.1 trillion in 2016 to YER 5.5 trillion in September 2022.[45] Government financing also became increasingly concentrated at CBY-Aden rather than being shared with commercial banks and other creditors.[46] Between 2018 and 2021, debt held by the central bank grew at an annual rate of around 19%, compared with 5% for commercial banks and 7% for other creditors.[47]

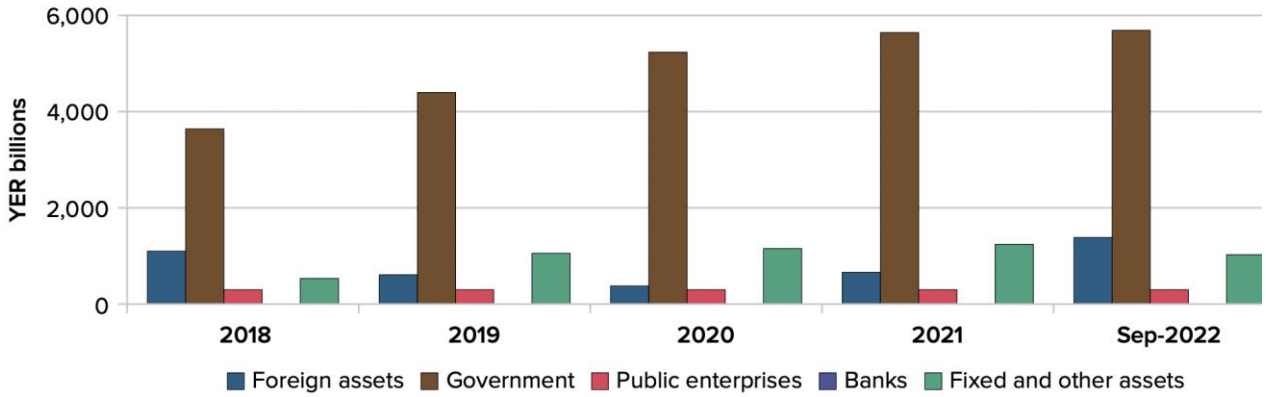



*Figure 2. Asset composition of CBY-Aden, 2018–September 2022. Source: World Bank, Yemen Financial Sector Diagnostics (2024), original fig. 3, p. 36.*[48]

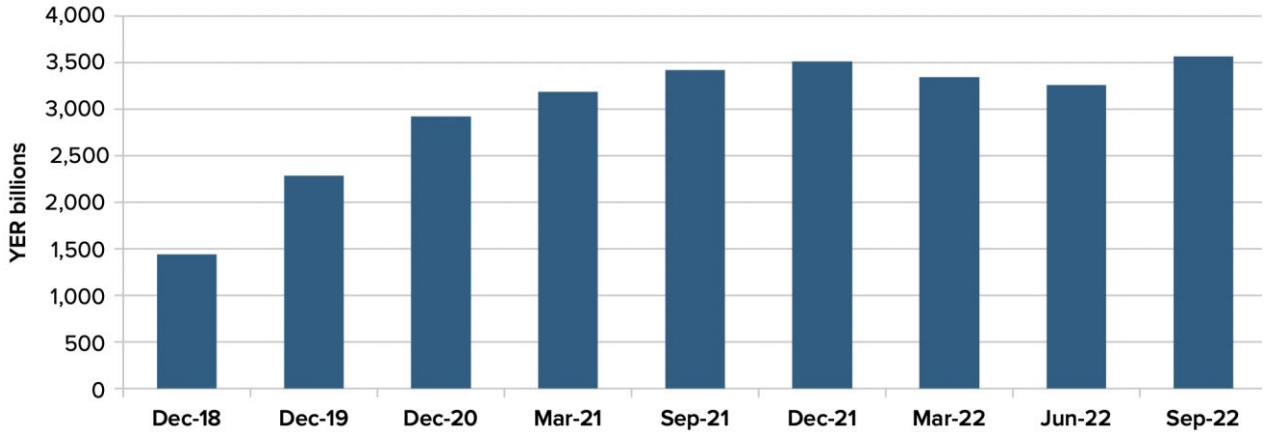



*Figure 3. Government overdraft at CBY-Aden, December 2018–September 2022. Source: World Bank, Yemen Financial Sector Diagnostics (2024), original fig. 4, p. 36.*[49]

The government's overdraft with the central bank increased from approximately YER 1.4 trillion in December 2018 to around YER 3.6 trillion in September 2022.[50] IMF figures show that recorded government overdrafts fell from YER 4.3 trillion in 2022 to YER 2.0 trillion in 2023. This was not equivalent to debt repayment: earlier overdrafts were partly converted into a long-term government bond

[44] World Bank, *Yemen Financial Sector Diagnostics*.
[45] Ibid.
[46] Ibid.
[47] Ibid.
[48] Ibid.
[49] World Bank, Yemen Financial Sector Diagnostics, 36, original fig. 4.
[50] Ibid.

in 2023, while total domestic public debt rose from YER 4.8 trillion to YER 6.5 trillion.[51] Fiscal dependence on CBY-Aden remained pronounced. The Central Bank's May 2026 bulletin reports direct government borrowing of YER 7.69 trillion, equivalent to 89.9% of domestic public debt.[52] Direct borrowing and the historical overdraft series are not identical accounting measures and should not be plotted as one continuous series.

Long-standing weaknesses in formal banking compounded these pressures. In 2018, CBY-Aden issued new debt instruments that banks were required to purchase in cash, limiting their usefulness for bank liquidity management.[53] Treasury-bill yields remained capped at 15.3% from 2015 despite high inflation, producing negative or near-zero real returns in much of the subsequent period.[54] Government securities nevertheless continued to make up a substantial share of commercial banks' portfolios, constraining conventional financial intermediation.[55] Currency outside banks increased from 44% of broad money (M2) in 2015 to 48% in 2022, consistent with the wider shift toward cash and non-bank intermediation.[56]

Figure 4 illustrates how inflation eroded the real return on government securities despite positive nominal yields. The figure covers 2012–2022; it does not directly measure liquidity conditions in 2026.

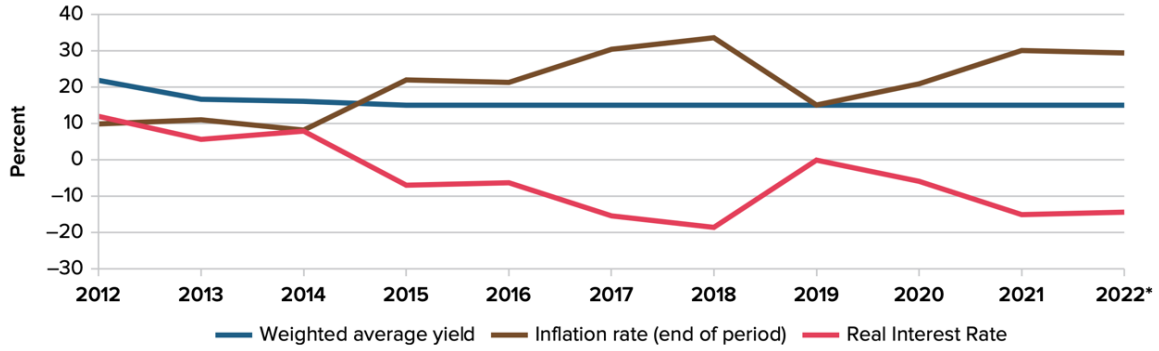



*Figure 4. Weighted average treasury-bill yield, inflation, and real interest rate, 2012–2022. Source: World Bank, Yemen Financial Sector Diagnostics (2024), original fig. 9, p. 40 (World Bank authors' calculation based on CBY-Aden data).*[57]

## 2.1 Persistent Liquidity Constraints

Liquidity constraints affecting CBY-Aden into 2026 appear to involve more than a temporary shortage of banknotes. Weak fiscal coordination and dispersed public-revenue collection limit the resources held in consolidated government accounts.[58] According to FEWS NET, the government continued to face difficulties in transferring locally collected revenues from revenue-generating institutions and governorates into the government account at CBY-Aden, affecting the government's ability to finance expenditures, including salaries.[59] Interviewees likewise described resistance to remitting some local revenues to central accounts.[60] They also linked Decision No. 11, which conditioned allocations to local authorities on revenue

[51] International Monetary Fund, Republic of Yemen: 2025 Article IV Consultation, IMF Country Report No. 26/80 (2026), table 2b (domestic debt and overdrafts); Debt Sustainability Analysis, para. 4 (2023 conversion of overdrafts into long-term bond), https://www.imf.org/-/media/files/publications/cr/2026/english/1yemea2026001-source-pdf.pdf.

[52] Central Bank of Yemen–Aden, Monetary and Financial Developments, Issue No. 54 (May 2026), 8 (direct borrowing YER 7,690.9 billion, 89.9% of domestic public debt), https://english.cby-ye.com/files/6a5a2e6bcc3cd.pdf. This measure is distinct from the IMF's historical overdraft series.

[53] World Bank, Yemen Financial Sector Diagnostics, 38.

[54] World Bank, Yemen Financial Sector Diagnostics, 39–40, fig. 9.

[55] World Bank, Yemen Financial Sector Diagnostics, 40, 52–56.

[56] World Bank, Yemen Financial Sector Diagnostics, 38.

[57] World Bank, Yemen Financial Sector Diagnostics, 40, original fig. 9, World Bank authors' calculation based on CBY-Aden data.

[58] Mohammed Jamal Muqbil Al-Shuaibi, professor of public finance, Aden University, interview by author, July 01, 2026; Majed Aldaare, journalist and writer, interview by author, July 02, 2026.

[59] FEWS NET, "Flooding and Price Pressures Limit Meaningful Seasonal Improvements," Yemen Food Security Outlook Update, April–September 2026, https://fews.net/middle-east-and-europe/yemen/food-security-outlook-update/april-2026.

[60] Sami Muhammad Qasim, professor of economics, Aden University, interview by author, July 01, 2026.

transfers, to a temporary improvement in fiscal coordination, although its precise impact on the exchange rate remains uncertain.[61]

The gains from revenue centralization were difficult to sustain because coordination remained incomplete. Interview testimony indicates that some government entities maintained accounts at commercial banks without consistent oversight by the Ministry of Finance.[62] Dependence on Central Bank financing meanwhile persisted.[63] Interviewees also described transfers through exchange companies, suggesting that some public funds continued to circulate outside consolidated government accounts.[64]

Liquidity outside formal banking remains a central concern. A December 2025 study estimated that roughly YER 3.2 trillion circulated outside formal banks at the end of 2024; its attribution of this money to specific financial intermediaries is less certain.[65] Separately, CBY-Aden reported a monetary base of approximately YER 4.44 trillion and currency outside banks of approximately YER 3.27 trillion in December 2025.[66] The two figures come from different sources, dates, and definitions and should not be added together or treated as interchangeable.[67] They nevertheless point to the importance of where liquidity circulates and how exchange companies and other intermediaries interact with the formal financial system.[68]

## 3. Exchange Companies and the Parallel Financial System

Before the war, Yemen had approximately 605 licensed money-exchange companies and outlets in 2014, with no reliable estimate of unlicensed operators.[69] As the conflict deepened and the formal banking sector weakened, particularly after 2016, larger exchange companies expanded beyond traditional currency exchange and increasingly performed bank-like functions, including transfers, trade financing, and the handling of customer funds.[70] By 2017, the number of exchange operators was estimated at around 1,350, of which approximately 800 were unlicensed, with many operating informally or as agents of larger licensed firms.[71] The return of Yemeni workers from Saudi Arabia increased the volume of liquidity circulating through these informal and semi-formal financial channels.[72]

The growth of exchange companies was reinforced by declining confidence in formal banks and persistent cash shortages.[73] Households and businesses increasingly used exchange companies not only for remittances and currency conversion but also to hold funds, providing exchangers with liquidity that could be redeployed in foreign-exchange and commercial transactions.[74] This environment also created greater opportunities for speculation.[75] Some market participants reportedly monitor information from contacts within public institutions and state-linked entities concerning expected policy decisions or currency movements and position themselves in advance of anticipated appreciation or depreciation.[76] Episodes of rapid appreciation may also partly reflect sudden increases in demand for domestic liquidity rather than fundamental improvements in economic conditions.[77]

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[61] Ibid.
[62] Ibid.
[63] Central Bank of Yemen–Aden, Monetary and Financial Developments, Issue No. 54 (May 2026), 8.
[64] Sami Muhammad Qasim, professor of economics, Aden University, interview by author, July 01, 2026.
[65] Studies and Economic Media Center, The Parallel Market and the Yemeni Banking Sector: A Struggle of Roles Amid Monetary Fragmentation and Multiple Exchange Rates (December 2025).
[66] Central Bank of Yemen–Aden, Monetary and Financial Developments (December 2025), monetary aggregates.
[67] The 2024 third-party estimate and CBY-Aden's December 2025 currency-outside-banks data are different measures; figures are not directly comparable.
[68] International Monetary Fund, Yemen: Concluding Statement of the 2025 Article IV Mission (9 October 2025).
[69] ACAPS and Mercy Corps, *Challenges and Opportunities for Recovery in the Yemeni Financial Sector*.
[70] Ibid.
[71] Ibid.
[72] Rania Walid, *A New Analytical Approach to Money Exchange Companies (Hawala): A Case Study of Informal Money Transfer in South Yemen* (unpublished dissertation, SOAS University of London, 2023).
[73] Mohammed Jamal Muqbil Al-Shuaibi, professor of public finance, Aden University, interview by author, July 01, 2026.
[74] ACAPS and Mercy Corps, *Challenges and Opportunities for Recovery in the Yemeni Financial Sector*.
[75] Walid, *A New Analytical Approach to Money Exchange Companies (Hawala)*.
[76] Ibid.
[77] Ibid.

The concentration of liquidity among large exchange actors can also shape price formation in the foreign-exchange market.[78] Groups of major exchangers may coordinate around minimum acceptable exchange rates or avoid trading below particular market levels, thereby influencing the effective price of foreign currency.[79] Where such coordination occurs, movements in the rial may reflect not only underlying supply and demand but also the commercial strategies of dominant market participants. Foreign-exchange demand is itself geographically fragmented: a substantial share originates from traders supplying markets in Houthi-controlled areas, further limiting CBY-Aden's ability to influence aggregate market demand through policies applied only in government-controlled areas.[80]

These developments allowed money exchangers to assume a much larger role in foreign-exchange flows and domestic liquidity management than their original licensing framework anticipated. They became part of a parallel financial system operating alongside, and in some respects outside, the conventional banking sector and direct central-bank oversight.[81]

CBY-Aden responded by tightening licensing and supervision as depreciation intensified. In late 2020, it restricted local transfer networks, closed a number of unlicensed exchange businesses, referred some violations to the Public Prosecution, and pursued legal action against operators conducting unauthorized financial activities.[82] These measures sought to reduce speculation, strengthen supervision, and restore greater central-bank influence over the foreign-exchange market.[83]

In parallel, CBY-Aden attempted to bring larger exchange companies into the regulated financial system rather than relying solely on closure and punishment. Authorities increased minimum-capital requirements for exchange businesses, restricted branch expansion, established the Unified Money Network through a November 2020 resolution, and introduced further regulations in February 2024. Larger exchange companies were also required either to apply for banking licenses or to return deposits collected from customers.[84] Some exchange businesses subsequently transitioned into licensed microfinance banks, illustrating a gradual process of formalization.[85] The study findings likewise characterize this policy as an attempt to bring large exchange businesses with substantial customer networks within a more regulated financial perimeter.[86] Technical assistance also supported improvements in financial supervision and AML/CFT capacity.[87]

However, CBY-Aden's regulatory efforts encountered significant political and territorial constraints. In February 2024, the Central Bank introduced additional measures targeting financial networks, transfer systems, and exchange businesses operating across Houthi-controlled areas, with the stated objective of reducing speculation and unauthorized financial activity affecting Yemen's payments and remittance system.[88] Tensions increased further after the Sana'a-based authorities issued new 100-rial coins, a move viewed by CBY-Aden and its supporters as a further step toward consolidating a separate monetary system.[89]

CBY-Aden subsequently ordered banks headquartered in Sana'a to relocate their headquarters to Aden, warning that non-compliance could lead to restrictions on access to international financial networks,

[78] Mohammed Jamal Muqbil Al-Shuaibi, professor of public finance, Aden University, interview by author.
[79] Walid, *A New Analytical Approach to Money Exchange Companies (Hawala)*; Sami Muhammad Qasim, professor of economics, Aden University, interview by author, July 01, 2026.
[80] Majed Aldaare, journalist and writer, interview by author, July 02, 2026.
[81] ACAPS and Mercy Corps, *Challenges and Opportunities for Recovery in the Yemeni Financial Sector*.
[82] Walid, *A New Analytical Approach to Money Exchange Companies (Hawala)*.
[83] Ibid.
[84] World Bank, *Yemen Financial Sector Diagnostics*.
[85] Ibid.
[86] Walid, *A New Analytical Approach to Money Exchange Companies (Hawala)*.
[87] International Monetary Fund, *Republic of Yemen: 2025 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Republic of Yemen*, IMF Country Report No. 26/80 (2026).
[88] Scope 24, "The Central Bank Stops Money Transfer Through the Network of Exchange Companies," February 19, 2024.
[89] United Nations Security Council, Panel of Experts on Yemen, *Final Report of the Panel of Experts on Yemen Established Pursuant to Security Council Resolution 2140 (2014)*, S/2024/731, October 11, 2024.

including SWIFT and international money-transfer services.[90] The Yemeni Banks Association in Sana'a rejected the order,[91] while the dispute escalated into broader political and security tensions. Regional and international intervention ultimately contributed to the suspension or de-escalation of the measures.[92] The episode illustrates the limits of regulatory authority in a divided monetary system: CBY-Aden can issue rules, but enforcement becomes considerably more difficult when financial institutions operate across competing political jurisdictions.[93]

The same structural constraint affects CBY-Aden's use of foreign-exchange auctions. These auctions provide foreign currency for import financing through formal channels. External support also helped sustain this mechanism. Saudi Arabia committed a US$1 billion deposit to CBY-Aden, of which US$775 million had been made available by September 2025, enabling periodic foreign-exchange auctions for essential imports. CBY-Aden auctioned approximately US$1.05 billion for import financing during 2023–24.[94] This support eased immediate foreign-exchange and import-financing pressures, but did not remove the underlying reserve constraint: operational foreign-exchange reserves stood at only about US$350 million in September 2025, equivalent to roughly one month of imports.[95]

These external resources, however, did not resolve the domestic transmission problem. A large share of liquidity remained outside the banking system and continued to circulate through exchange companies and other non-bank financial actors.[96] Restoring liquidity to the formal banking sector therefore requires stronger oversight of deposit-taking exchange companies.[97]

# 4. Stability without Full Pass-Through: Governance Gaps and Structural Coordination Failure

## 4.1 Exchange-Rate Recovery and Uneven Price Adjustment

The July–August 2025 appreciation of the Yemeni rial demonstrated that CBY-Aden retained the capacity to influence foreign-exchange market conditions when regulatory enforcement, import-financing measures, and external support aligned. However, the recovery also exposed the limits of monetary stabilization in a fragmented economy. Consumer prices responded substantially to the stronger currency, but adjustment differed across commodities, markets, and time. The central issue was therefore not the absence of exchange-rate pass-through, but the institutional and commercial conditions affecting its speed, extent, and durability.

According to ACAPS, the monthly average exchange rate in government-controlled areas declined from approximately YER 2,837 per US dollar in July 2025 to YER 1,632 in August, a reduction of 42.5% in the domestic-currency price of the dollar. The rate remained broadly stable around this level through January 2026.[98] The recovery coincided with tighter supervision of exchange companies, measures to regulate import financing, and external financial support. Although the contribution of each intervention cannot be isolated, the episode showed that CBY-Aden could influence exchange-market behavior despite its limited authority over the wider financial system.

[90] Central Bank of Yemen-Aden, Central Bank Governor Decision No. 30 of 2024 concerning licenses of banks [Arabic], July 8, 2024
[91] Saeed Al-Batati, "Yemen's Central Bank Revokes Licenses of 6 Sanaa Banks," *Arab News*, July 11, 2024.
[92] Office of the United Nations Special Envoy for Yemen, "Statement by the Office of the UN Special Envoy for Yemen," July 23, 2024; Reuters, "UN Warns of 'Catastrophic Ramifications' if Yemen Banks Are Cut from SWIFT."
[93] Sami Muhammad Qasim, professor of economics, Aden University, interview by author, July 01, 2026.
[94] IMF, *Republic of Yemen: 2025 Article IV Consultation*. 9.
[95] Ibid.
[96] IMF, *Republic of Yemen: 2025 Article IV Consultation*.
[97] Ibid.
[98] ACAPS, *Yemen Joint Monitoring Report*, Issue 13 (March 2026), 8, fig. 9; International Monetary Fund (IMF), *Republic of Yemen: 2025 Article IV Consultation*, IMF Country Report No. 26/80 (Washington, DC: IMF, 2026), 7, para. 8.

The appreciation was accompanied by significant reductions in consumer prices. FEWS NET reported that the minimum food basket in IRG-controlled areas declined by 29% compared with July, based on monitoring data available as of 28 August 2025. Wheat flour prices fell by 35%, sugar by 33%, locally manufactured cooking oil by 31%, and basmati rice by 24%. Diesel and petrol prices also declined by approximately 22% and 21%, respectively.[99] These reductions indicate that exchange-rate recovery provided substantial price relief, although government price controls also contributed to the adjustment.

The improvement continued into September, but did not fully match the exchange-rate movement. ACAPS reported that the average minimum food basket cost in government-controlled areas fell from approximately YER 199,000 in July to YER 129,000 in September, a reduction of roughly one-third. Its estimated US-dollar equivalent, however, increased from approximately US$70 to US$79.[100] This distinction is important: although consumers experienced substantial reductions in rial-denominated prices, the basket became more expensive when expressed in US dollars. The evidence therefore points to incomplete proportional adjustment rather than an absence of price transmission.

A similar divergence appeared in the relationship between domestic and international food prices. ACAPS found that its local–international price indicator for five selected commodities remained approximately 127% above the international comparator in August, narrowing to 115% in September.[101] While this comparison does not directly measure exchange-rate pass-through, it illustrates the persistence of domestic pricing conditions that cannot be explained by currency movements alone. Transport charges, distribution costs, taxes, and other commercial expenses continued to influence final prices.

Price adjustment also varied across government-controlled markets. The Sana'a Center reported reductions of approximately 20–40% in basic food prices in Aden following the appreciation, while adjustment in Taiz was slower, with some prices declining after local inspection and enforcement campaigns. Traders' uncertainty about the durability of the recovery and inventories purchased at earlier exchange rates contributed to uneven pricing decisions.[102] These differences suggest that market expectations and enforcement conditions influenced how quickly exchange-rate gains reached consumers.

Developments into 2026 show that transmission was delayed rather than absent. The IMF reported that year-on-year inflation declined from approximately 35% in July 2025 to 6.25% in September.[103] Its supplementary assessment subsequently recorded a decline from 5.7% in November to −1.7% in January 2026, attributing this development to the phased pass-through of the August appreciation.[104] Nevertheless, lower inflation did not imply continuously falling prices. ACAPS reported that the minimum food basket cost began increasing again after November, reaching approximately YER 133,000 in January 2026, although remaining 18% below its level a year earlier.[105]

The evidence therefore demonstrates that the 2025 stabilization measures were associated with meaningful price reductions and subsequent easing of inflationary pressure. Yet the different magnitudes and timing of

[99] FEWS NET, "Access to Food Remains Constrained Despite Economic Improvement in IRG Areas," *Yemen Key Message Update*, August 2025, Key Messages and methodological note 1. The report specifies that price comparisons use weekly monitoring data available as of August 28, 2025. https://fews.net/middle-east-and-europe/yemen/key-message-update/august-2025.

[100] ACAPS, *Yemen Joint Monitoring Report*, Issue 11 (November 2025), 5, "Food Prices," fig. 2. The report gives a 33% decline, although its rounded values of YER 199,000 and YER 129,000 imply a reduction of approximately 35%. The text therefore uses "roughly one-third." https://www.acaps.org/fileadmin/Data_Product/Main_media/20251114_ACAPS_Yemen_joint_monitoring_report_issue_11.pdf.

[101] ACAPS, *Yemen Joint Monitoring Report*, Issue 11, 4, "Proxy Food Imports," fig. 1. The indicator compares local and global prices in US dollars for one kilogram each of beans, rice, sugar, and wheat, and one liter of vegetable oil.

[102] Wadhah Al-Awlaqi, "The Economy," *The Yemen Review Quarterly: July–September 2025* (Sana'a Center for Strategic Studies, October 28, 2025), section "Food and Fuel Prices Fall with Rial Recovery." https://sanaacenter.org/the-yemen-review/jul-sept-2025/25633.

[103] IMF, Republic of Yemen: 2025 Article IV Consultation, 7, para. 7.

[104] IMF, "Republic of Yemen: Staff Report for the 2025 Article IV Consultation—Supplementary Information," March 18, 2026, 3, para. 5, included in IMF Country Report No. 26/80. https://www.imf.org/-/media/files/publications/cr/2026/english/1yemea2026001-source-pdf.pdf.

[105] ACAPS, *Yemen Joint Monitoring Report*, Issue 13 (March 2026), 4, "Food Prices," fig. 3. https://www.acaps.org/fileadmin/Data_Product/Main_media/20260310_ACAPS_Yemen_joint_monitoring_report_issue_13.pdf.

adjustment, continued divergence between domestic and international prices, and renewed food-price pressures indicate that exchange-rate stabilization alone was insufficient to secure uniform and durable price reductions.

## 4.2 Governance Gaps and Structural Coordination Failure

The uneven adjustment of consumer prices cannot be understood solely as a delay in exchange-rate transmission. Yemen's monetary system operates within a wider structure of institutional and territorial fragmentation, in which financial intermediation, public revenues, import financing, and commercial regulation are governed by institutions with different jurisdictions and incentives.[106] CBY-Aden may influence foreign-exchange transactions within government-controlled areas, but its ability to coordinate the wider financial and commercial activities affecting domestic prices remains limited.

The growing role of exchange companies reinforces this constraint. As confidence in formal banks weakened, larger exchange businesses expanded into remittances, trade financing, and the management of customer funds. Financial activity consequently continued through non-bank channels, complicating CBY-Aden's supervision of market transactions and its ability to assess foreign-exchange demand.[107] In an interview, Majed Aldaare identified CBY-Aden's limited direct influence over liquidity circulating through exchange companies as an important constraint on monetary management. He also pointed to arbitrage opportunities arising from the continued monetary division between Aden and Sana'a, alongside weaknesses in supervisory capacity and enforcement.[108] These observations suggest that the Central Bank's ability to influence exchange-rate quotations does not necessarily translate into comparable control over the financial channels through which foreign-exchange demand and domestic liquidity circulate. However, the interview provides a qualitative assessment rather than a measured relationship between non-bank liquidity and exchange-rate movements.

The problem extends beyond exchange companies. A substantial share of Yemen's population, commercial activity, and import demand remains concentrated in northern areas outside CBY-Aden's effective control. Importers and distributors therefore operate across competing monetary and customs arrangements, while domestic transfers, transport costs, and access to regional markets remain shaped by territorial divisions.[109] Consequently, regulatory measures introduced in Aden cannot fully determine the behavior of financial intermediaries and commercial networks serving the wider Yemeni market.

Fiscal fragmentation compounds these constraints. Dispersed public revenues, incomplete coordination between fiscal and monetary authorities, and continued dependence on Central Bank financing reduce the government's ability to maintain consistent financial discipline and regulatory enforcement.[110] Interview evidence from Mohammed Jamal Muqbil Al-Shuaibi, professor of public finance at Aden University, also informs the study's assessment of institutional coordination as a constraint on monetary stabilization.[111] His perspective complements the documentary evidence that monetary management cannot be separated from the institutions responsible for public finances and financial oversight. Where these responsibilities remain

[106] World Bank, *Yemen Financial Sector Diagnostics* (Washington, DC: World Bank, 2024), 34–38, discussion of competing monetary authorities and financial fragmentation. https://documents1.worldbank.org/curated/en/099102324070011985/pdf/P177631-d18a7ee4-3fcf-4393-9665-77f98b3e43a7.pdf.

[107] World Bank, *Yemen Financial Sector Diagnostics*, discussion of exchange companies and non-bank financial intermediation; ACAPS Yemen Analysis Hub and Mercy Corps Yemen Analysis Team, *The Yemeni Financial Sector: Challenges and Opportunities for Recovery* (July 26, 2022).

[108] Majed Aldaare, journalist and writer, interview by author, July 3, 2026. Interview-based assessment of non-bank liquidity, regulatory constraints, and arbitrage opportunities; not independent quantitative evidence of market coordination.

[109] World Bank, *Yemen Financial Sector Diagnostics*, 34–38; World Bank, *Yemen Economic Monitor: Pushing Against the Tide* (Spring 2026), discussion of regional monetary fragmentation and trade arrangements.

[110] IMF, *Republic of Yemen: 2025 Article IV Consultation*, discussion of fiscal constraints and financing; Al-Awlaqi, "The Economy," section "Government's Fiscal Crisis Deepens."

[111] Mohammed Jamal Muqbil Al-Shuaibi, professor of public finance, Aden University, interview by author, July 01, 2026. Interview evidence informing the interpretation of coordination constraints.

fragmented, measures affecting foreign-exchange demand, government liquidity, and market regulation may operate without sufficient coordination.

Market expectations and the reliability of financial information present an additional challenge. In late August 2025, a purported Central Bank circular announcing different exchange rates circulated during the stabilization period. A separate statement attributed to CBY-Aden reaffirmed previously announced rates. The documents reproduced in Appendices 2 and 3 illustrate conflicting exchange-rate information, although their circulation and effects on market behavior have not been independently established.[112] The episode nevertheless highlights the importance of credible official communication in a market where exchange-rate expectations and private financial decisions may respond rapidly to perceived policy changes.

The central problem is not simply that CBY-Aden lacks monetary-policy instruments, but that their effectiveness depends on decisions taken by other institutions and commercial actors. Monetary enforcement and import-financing coordination coincided with a substantial exchange-rate recovery in 2025, while consumer-price adjustment continued to depend on inventories, distribution costs, market supervision, and financial activity extending beyond the Central Bank's direct authority.

The available evidence does not establish how much of the incomplete price adjustment resulted specifically from institutional fragmentation rather than government price controls, external financial support, international commodity costs, or traders' expectations. Nevertheless, the documented differences across commodities, markets, and time are consistent with a monetary system in which policy transmission depends on several only partly coordinated institutions. The 2025–2026 experience therefore demonstrates both CBY-Aden's capacity to influence exchange-market conditions and the limits of achieving durable price stabilization through monetary intervention alone. More consistent transmission requires stronger coordination between monetary authorities, fiscal institutions, banks, exchange companies, and the actors responsible for import financing and market enforcement.

## 5. From Oil-Revenue Collapse to the Fiscal Importance of Ports

Before the disruption of oil exports in late 2022, Yemen's hydrocarbon revenue had begun to recover.[113] Reported crude-oil export earnings increased from US$710.5 million in 2020 to US$1.418 billion in 2021.[114] Oil exports also rose from 3.8% to 5.3% of GDP over the same interval.[115] Attacks on oil-export terminals in October 2022 interrupted that recovery, and the ensuing suspension deepened fiscal and external financing constraints.[116] Restrictions on Marib liquefied petroleum gas sales into Houthi-controlled areas added to commercial and fiscal pressures from 2023.[117]

Economic activity remained weak in 2024 amid the continued suspension of IRG oil exports and growing institutional fragmentation.[118] The World Bank estimated a 1.5% real GDP contraction in 2024 following a 2.0% decline in 2023, while the oil sector remained severely depressed.[119] CBY-Aden's attempts to regulate banks headquartered in Sana'a during 2024 further exposed the political and territorial limits of financial oversight.[120]

The non-oil sector also remained under pressure amid worsening economic conditions and deepening fragmentation.[121] With oil-export revenues largely eliminated, customs and port-related revenues assumed

[112] Appendices 2–3, author-provided copies of the purported exchange-rate circular and the press statement attributed to CBY-Aden, dated August 31, 2025. The available copies do not independently establish the circulation or market impact of the purported circular.
[113] Republic of Yemen, Ministry of Finance, official oil-export revenue figures, 2022; World Bank, *Yemen Economic Monitor*, 2022.
[114] Republic of Yemen, Ministry of Finance, official oil-export revenue figures, 2022.
[115] World Bank, *Yemen Economic Monitor* (2022).
[116] World Bank, *Yemen Economic Monitor: Persistent Fragility amid Rising Risks*; Alghobari, "Yemeni Government Forces Intercept Houthi Drones"; Alghobari and Mokhashef, "Yemen's Houthis Increase Pressure with Oil Port Attacks."
[117] Middle East Institute, "The Houthis' Embargo on Yemen's Oil Exports."
[118] World Bank, *Yemen Economic Monitor: Persistent Fragility amid Rising Risks*.
[119] Ibid.
[120] Ibid.
[121] Ibid.

greater importance within the IRG's remaining fiscal base.[122] This increased the strategic importance of import routes and customs collection as trade shifted from Aden toward Houthi-controlled Red Sea ports.[123]

Import-routing decisions were shaped by competing taxation and regulatory regimes between IRG- and Houthi-controlled areas.[124] Goods imported through IRG-controlled ports and then transported into Houthi-controlled areas were subject to dual customs and checkpoint levies, with applicable customs charges reportedly increased by 100%.[125] In August 2023, such goods faced an additional 6% import tax, a 2.5% customs charge, and other fees after already being taxed in IRG-controlled areas.[126]

Traders using southern routes also faced checkpoint delays and levies that increased transportation costs and encouraged a shift toward Hudaydah.[127] Traders importing through Aden were pressured by Houthi authorities to sign undertakings to use Hudaydah instead and were warned that goods shipped through Aden could be prevented from entering Houthi-controlled areas.[128] The shift from Aden to Hudaydah was associated with an estimated YER 637.36 billion in lost government revenue between April 2022 and June 2023.[129] Goods transported from southern ports to northern population centers also face higher final prices because of longer routes and double taxation.[130]

The loss of oil earnings and the shift in trade toward northern ports narrowed the IRG's fiscal space and increased its dependence on domestic financing and external support.[131] The monetary effect is less direct but also important: when importers and payments networks operate outside CBY-Aden's effective jurisdiction, their foreign-exchange demand may be harder to channel through official auctions and import-financing mechanisms.[132] Reduced customs receipts also limit resources for salaries, public services, and market oversight.

Red Sea ports remained central to Yemen's import trade despite repeated security disruptions. They accounted for approximately 75% of imports by volume in 2024, although the World Bank reports that the share declined to roughly 67% in 2025, indicating a partial change in routing.[133] This means the earlier shift toward northern ports should not be described as continuously increasing through 2025.[134] UNVIM reported approximately 586,000 metric tons discharged at the Red Sea ports it monitored in August 2025, illustrating continued commercial activity despite damage and disruption.[135]

[122] World Bank, "Yemen Economic Monitor Highlights Ongoing Challenges Amid Renewed Hope," October 26, 2023; World Bank, *Yemen Economic Monitor: Persistent Fragility amid Rising Risks*.
[123] World Bank, "Yemen Economic Monitor Highlights Ongoing Challenges Amid Renewed Hope"; United Nations Security Council, Panel of Experts on Yemen, *Final Report of the Panel of Experts on Yemen*, S/2023/833, November 2, 2023.
[124] ACAPS, *Yemen: Increased DFA Intervention in the Private Sector*, February 29, 2024.
[125] Economic Reform Team, *Alleviate Transportation Barriers in Yemen*, 2024.
[126] ACAPS, *Increased DFA Intervention in the Private Sector*.
[127] Ibid.
[128] UN Panel of Experts on Yemen, Final Report, S/2023/833.
[129] Ibid.
[130] World Bank, *Yemen Economic Monitor, Fall 2025*.
[131] IMF, "Yemen: Concluding Statement of the 2025 Article IV Mission"; World Bank, *Yemen Financial Sector Diagnostics*.
[132] Majed Aldaare, journalist and writer, interview by author, July 02, 2026.
[133] World Bank, Yemen Economic Monitor: Pushing Against the Tide (Spring 2026), discussion of import routing, 2024–2025.
[134] Ibid.
[135] United Nations Verification and Inspection Mechanism for Yemen (UNVIM), *Monthly Situation Report, August 2025*; World Bank, *Yemen Economic Monitor, Fall 2025*.

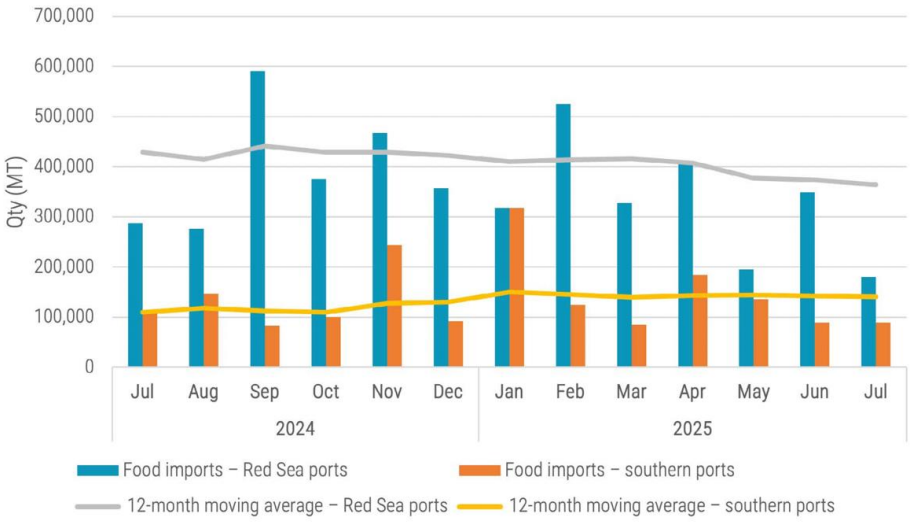



***Figure 5. Food imports through Red Sea and southern ports, July 2024–July 2025. Source: World Bank, Yemen Economic Monitor (Fall 2025); UNVIM operations data.[136]***

Figure 5 compares recorded food-import volumes through Red Sea and southern ports from July 2024 to July 2025. Red Sea volumes were generally larger, although disruptions sometimes shifted traffic toward southern routes.[137] Transport charges, checkpoint levies, and competing customs arrangements raised costs and affected where fiscal revenues were collected.[138] Because import routes and payments cross different jurisdictions, CBY-Aden's regulation of foreign-exchange demand and associated trade finance remains partial rather than comprehensive.[139]

## 6. Corruption as Structure: Why Financial Discipline Keeps Leaking

Yemen's institutional fragility has long been shaped by patronage networks, tribal power, corruption, and competition over hydrocarbon resources.[140] Oil and gas revenues were central to this system because they generated substantial rents while reducing pressure to develop a broader and more accountable domestic tax base.[141]

Political and economic fragmentation after 2011 did not dissolve established patronage networks; instead, competition over reduced fiscal resources and public institutions created additional opportunities for selective access and preferential treatment.[142] For monetary stabilization, the relevant problem is how these incentives affect tax and customs compliance, banking oversight, government accounts, and the regulation of money-exchange businesses.[143]

These weaknesses extended into economic regulation: corruption and political connections have historically influenced licensing, taxation, customs administration, and regulatory enforcement, while politically connected businesses have benefited from privileged access to commercial opportunities and import and distribution channels. [144] Weak auditing, fragmented customs administration, limited

[136] World Bank, Yemen Economic Monitor (Fall 2025); UNVIM, August 2025 Monthly Situation Report.
[137] Ibid.
[138] ACAPS, Yemen: Increased DFA Intervention in the Private Sector; World Bank, "Yemen's Economy Faces Mounting Crises," June 26, 2024.
[139] Majed Aldaare, journalist and writer, interview by author, July 02, 2026.
[140] International Monetary Fund, Republic of Yemen: 2025 Article IV Consultation (2026), discussion of fiscal and governance risks.
[141] International Monetary Fund, *Republic of Yemen*, IMF Country Report, 2009; World Bank, *Yemen: Unlocking the Potential for Economic Growth* (Washington, DC: World Bank, 2015).
[142] World Bank, *Yemen: Unlocking the Potential for Economic Growth*.
[143] Ibid.
[144] World Bank, *Yemen: Unlocking the Potential for Economic Growth*.

enforcement capacity, and inadequate controls over tax exemptions and incentives remain important governance vulnerabilities.[145]

Interview and other research findings suggest that some large exchange companies have close commercial or institutional connections that may complicate supervision, but ownership and influence differ across firms.[146] Where public institutions use private exchange firms or maintain funds outside treasury-controlled accounts, those relationships can weaken financial reporting and frustrate revenue consolidation. The extent of such practices requires case-specific verification.[147]

Collectively, these patterns suggest that Yemen's revenue and regulatory institutions operate within a fragmented political economy in which weak oversight and close interaction between political actors, public institutions, and private business interests create persistent opportunities for preferential access, rent extraction, and resource capture.[148]

## 7. Conclusion

The 2025 rial appreciation showed that CBY-Aden could influence exchange-market behavior when regulation, import-financing coordination, and external conditions aligned. Later price data show that some exchange-rate gains did transmit to lower inflation, but the transmission was delayed and uneven. The distinction matters: the stabilization effort had observable effects, yet monetary policy remained constrained by fiscal dependence, fragmented banking and payments, import costs, and market-enforcement limitations.

Fiscal and monetary vulnerabilities reinforce one another. The suspension of oil exports, weak customs collection, dispersed public revenues, and dependence on Central Bank financing reduced the government's room to stabilize markets. Governance vulnerabilities and informal financial intermediation further complicated oversight. External financing can alleviate immediate import and foreign-exchange needs, but it cannot substitute for a reliable fiscal base or stronger public-finance controls.

The findings point to structural coordination failure rather than a simple lack of monetary-policy instruments. Sustainable stabilization requires better coordination between CBY-Aden and the institutions governing revenues, trade, banks, exchange companies, and market enforcement. This does not imply that Aden can immediately govern the whole country: reform should begin with accountable, measurable arrangements within the IRG's effective jurisdiction, while acknowledging the constraints imposed by Yemen's competing monetary regimes.

## 8. Policy Recommendation: Establishing a Sector-Based Coordination and Enforcement Framework

CBY-Aden's effectiveness cannot be strengthened by monetary measures alone because exchange-rate management, public revenues, customs, import financing, liquidity, and government spending are distributed across institutions that often operate with weak coordination and uneven compliance. This allows fiscal and commercial decisions taken outside the Central Bank to undermine monetary policy.

Mushtaq Khan's political-settlements approach offers a practical framework for addressing this problem: instead of attempting broad institutional reforms across the entire state, reforms should focus on specific sectors where coordination can be realistically built and where the incentives of powerful actors can be aligned around enforceable rules.[149] For government-held areas, the priority sectors are foreign-

[145] IMF, "Yemen: Concluding Statement of the 2025 Article IV Mission"; International Monetary Fund, Republic of Yemen: Customs Reform and Emergency Revenue Mobilization, High-Level Summary Technical Assistance Report, January 6, 2026.
[146] Walid, *A New Analytical Approach to Money Exchange Companies (Hawala)*; Sami Muhammad Qasim, professor of economics, Aden University, interview by author, July 01, 2026.
[147] Sami Muhammad Qasim, professor of economics, Aden University, interview by author, July 01, 2026.
[148] World Bank, *Yemen: Unlocking the Potential for Economic Growth*; IMF, *Republic of Yemen: 2025 Article IV Consultation*.
[149] Mushtaq H. Khan, *Anti-Corruption in Bangladesh: A Political Settlements Analysis*, SOAS Anti-Corruption Evidence Working Paper, 2017; Mushtaq H. Khan, Antonio Andreoni, and Pallavi Roy, *Anti-Corruption in Adverse Contexts: Strategies for Improving Implementation*, SOAS Anti-Corruption Evidence, 2019.

exchange management, customs and ports, import financing, public-revenue collection, banking, and money-exchange activities.

A standing IRG-level coordination mechanism should be jointly led by CBY-Aden and the Ministry of Finance, with regular participation by the Customs Authority, relevant ministries, port administrations, regulated banks, exchange companies, and major import-financing actors. Its initial tasks should be narrow and verifiable: reconcile customs and port receipts against government-bank deposits each month, identify public accounts held outside approved channels, and compare import-financing allocations with documented transactions. The objective is not to give CBY-Aden control over every fiscal decision, but to ensure that decisions affecting liquidity and foreign-exchange demand are visible and coordinated.

Enforcement should combine transparent sanctions with incentives for compliance. Access to official import-financing facilities, licenses, payment networks, and relevant government contracts should depend on timely reporting and compliance with financial and revenue rules. Clear appeal procedures and publicly stated eligibility criteria are important to prevent enforcement from becoming selective. Repeated and documented violations should attract proportionate administrative penalties, while compliant actors should receive predictable access to formal channels.[150]

Implementation should proceed in stages. The first stage should standardize monthly reporting from customs, ports, ministries, banks, and regulated exchange firms, using reconciled records and independently auditable account statements. A second stage could introduce a shared digital reporting platform for revenues, import-financing approvals, and large liquidity movements where security and technical capacity permit. A phased approach is more credible than assuming that near-real-time national integration can be achieved immediately across a fragmented financial system.

External partners can support this framework through auditing expertise, payment-system design, training, and independent review of agreed indicators. Such support should reinforce domestic ownership and disclose the limits of data coverage rather than substitute for decisions by Yemeni institutions.

The near-term test of this coordination model should be practical: whether more public receipts reach treasury-controlled accounts, whether import-financing and licensing decisions become more transparent, and whether verified violations are handled consistently. Progress on these indicators would not by itself reunify Yemen’s monetary system, but it could improve CBY-Aden’s capacity to sustain exchange-market gains and transmit them more reliably to the wider economy.

[150] Ibid.

## Appendix 1: Central Bank of Yemen–Aden Decision No. 13 of 2025: Withdrawal of Exchange-Company Branch Licenses

Appendix 1 reproduces an official decision issued by the Central Bank of Yemen in Aden on 3 August 2025 (Decision No. 13 of 2025, Reference No. 422/CBY/2025), withdrawing the operating licenses of four branches belonging to Al-Qutaibi, Al-Haddad, Bin Alawi, and Al-Muflahi exchange companies. The decision cites Yemen's central banking, banking, money-exchange, and anti-money laundering legislation, together with violations documented in a field inspection report prepared by the Central Bank's banking supervision sector.



Republic Of Yemen
CENTRAL BANK OF YEMEN
Head Office Aden

الجمهورية اليمنية
البنك المركزي اليمني
المركز الرئيسي/ عدن

Ref: 422/CBY/2025
Date: 3/8/2025

**قرار رقم (13) لسنة 2025م**
**بشأن سحب التراخيص لعدد من فروع شركات الصرافة**

**محافظ البنك المركزي اليمني**

- بمقتضى الصلاحيات المخولة له بالقانون رقم (14) لسنة 2000م بشأن البنك المركزي اليمني وتعديلاته.
- وعلى القانون رقم (38) لسنة 1998م بشأن البنوك.
- وعلى القانون رقم (19) لسنة 1995م، بشأن أعمال الصرافة والمعدل بالقرار الجمهوري رقم (15) لسنة 1996م.
- وعلى القانون رقم (1) لسنة 2010م بشأن مكافحة غسل الأموال وتمويل الإرهاب والمعدل بالقانون رقم (17) لسنة2013م، ولائحته التنفيذية وتعديلاتها.
- وبناء على المخالفات المثبتة بتقرير النزول الميداني المرفوع من قطاع الرقابة على البنوك
- ولما تقتضيه المصلحة العامة.

**"قـــــرر"**

**المادة (1):** سحب التراخيص الممنوحة لفروع شركات الصرافة الموضحة أدناه:

1. فرع شركة القطيبي- المنصورة
2. فرع شركة الحداد- البريقة-انماء
3. فرع شركة بن علوي- شارع التسعين
4. فرع شركة المفلحي-شارع التسعين

**المادة (2):** يعمل بهذا القرار من تاريخ صدوره وعلى جهات الإختصاص تنفيذ هذا القرار وإبلاغه لذوي الشأن.

صدر بالمركز الرئيسي- عدن.

بتاريخ9 صفر 1447هـ
الموافق 3 أغسطس 2025م

أحمد أحمد غالب
المحافظ

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## Appendix 2: Purported Central Bank Exchange-Rate Circular, 31 August 2025

Appendix 2 reproduces a document attributed to the Central Bank of Yemen in Aden, dated 31 August 2025, which purported to announce exchange rates of YER 200 per Saudi riyal and YER 830 per US dollar. The reproduced document bears an Arabic marking identifying it as forged (مزورة وثيقة). It is included to illustrate the potential for misleading financial announcements to create uncertainty during periods of rapid exchange-rate adjustment. Such information may affect expectations among currency traders, exchange companies, and commercial actors, particularly where confidence in official monetary communications is fragile. However, the document's original source, circulation, and market impact have not been independently verified. It should therefore be treated as an alleged example of exchange-rate misinformation rather than an authenticated Central Bank directive or evidence of a measurable market effect.



## Appendix 3: Central Bank of Yemen–Aden Press Statement, 31 August 2025

Appendix 3 reproduces a press statement attributed to the Central Bank of Yemen in Aden, dated 31 August 2025, following a meeting of its Board of Directors. The statement reaffirmed the previously announced exchange rates for the Saudi riyal at YER 425 for purchase and YER 428 for sale, pending further notice. It also emphasized the Central Bank's commitment to maintaining exchange-market stability, regulating foreign-exchange transactions through the National Committee for Regulating and Financing Imports, and taking measures against speculative practices.



البنك المركزي اليمني
CENTRAL BANK OF YEMEN

بيان صحفي

عقد مجلس إدارة البنك المركزي اليمني مساء اليوم اجتماعه الدوري الخامس ضمن انعقاد الدورة الحالية للمجلس حيث وقف أمام العديد من القضايا الهامة والحيوية المدرجة في جدول أعماله ومن أهمها سير العمل في اللجنة الوطنية لتنظيم وتمويل الواردات والإنجازات المحققة خلال الفترة القصيرة من عمل اللجنة وعبر عن اعتزازه بما تحقق من انجازات مثمناً جهود أعضاء اللجنة الفنية والفريق التنفيذي من كادر البنك والفريق المساند من الجهات الاخرى ذات العلاقة.

كما وقف المجلس أمام التطورات الحالية في أسعار صرف العملة الوطنية أمام العملات الأخرى من ثبات وتحسن وابدى ارتياحه للمكاسب التي حققتها العملة الوطنية تجاه العملات الأخرى وهو ما يعكس نجاعة الاجراءات التي اتخذتها السلطة النقدية بمساندة السلطات المعنية في الدولة والحكومة والثقة المتزايدة بالتوجهات لمعالجة الاختلالات بمنظومة الاقتصاد الكلي وكذلك بدعم الاشقاء والاصدقاء للجمهورية اليمنية للتغلب على الأوضاع الصعبة والاستثنائية التي تمر بها.

كما وقف المجلس مطولاً أمام التطورات الحالية في سعر صرف العملة وبعد نقاش مستفيض للمعطيات والتوقعات المستقبلية وحفاظاً على الاستقرار وعدم السماح بالعبث بالسوق من قبل قوى المضاربة التي فقدت مصالحها اتخذ القرارات التالية: -

- **الإبقاء على السعر المعلن من قبله لأسعار صرف الريال اليمني مقابل الريال السعودي وكما هو معلن 425 للشراء و 428 للبيع واعتماده للتعامل في كافة المعاملات وفقاً للضوابط المقرة والمعلنة للبنوك وشركات الصرافة واللجنة الوطنية لتنظيم وتمويل الواردات وحتى إشعار آخر.**
- **كما قرر أن كل ما تم شراؤه من مبالغ من قبل البنوك وشركات الصرافة من العملات الأجنبية خلال اليومين الماضيين هي ملك للبنك المركزي واللجنة الوطنية لتنظيم وتمويل الواردات وفقاً للآلية المقرة والمتفق عليها مع البنوك وشركات الصرافة منذ بدء عمل اللجنة الوطنية لتنظيم وتمويل الواردات.**
- **تكليف الإدارة التنفيذية باتخاذ مزيد من الاجراءات الصارمة بحق المخالفين من شركات ومنشآت الصرافة المتماهية مع قوى المضاربة الهادفة إلى العبث بالاستقرار والثبات لسعر صرف العملة الوطنية الذي تحقق خلال الفترة الماضية وحتى الان.**

هذا وسيبقى المجلس في حالة انعقاد دائم لمراقبة التطورات واتخاذ ما يراه مناسباً من اجراءات تمنع العبث وتحافظ على الاستقرار

**والله الموفق**

31/8/2025



**Rania Walid Khyali**

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# ABOUT THE STUDY

Yemen’s monetary divide extends beyond competing exchange rates. It encompasses fragmented public revenues, weakened banks, expanding exchange networks, and overlapping systems of trade and financial regulation.

This study examines how these divisions shaped the 2025 rial recovery and its delayed, uneven transmission to consumer prices into 2026. It considers both the capacity of the Central Bank in Aden to influence currency markets and the institutional limits of monetary intervention.

The study proposes a sector-based framework linking monetary management, public finance, customs and ports, banks, and exchange companies through stronger coordination, reporting, and enforcement.

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