



# The Cash Liquidity Crisis in Yemen

How monetary fragmentation, sovereign resource depletion, and institutional collapse have strangled Yemen's financial system — and what can be done about it.

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# The Cash Liquidity Crisis in the Republic of Yemen

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## EXECUTIVE SUMMARY

Yemen's cash liquidity crisis has evolved from a wartime disruption into a structural feature of the country's fragmented political economy. Since the institutional split of the Central Bank of Yemen between Aden and Sana'a in 2019, the country has effectively operated two parallel monetary systems — each with its own currency regime, exchange rate trajectory, and inflation dynamics.

This brief analyses the drivers, dynamics, and consequences of the liquidity crisis across three interlocking dimensions. First, the institutional split has severed interbank clearing, confined old-edition banknotes to northern areas, and rendered commercial banks unable to settle cross-zone obligations. Second, the cessation of oil and gas exports since late 2022 has deprived the state of over 70% of its foreign currency revenues, depleting international reserves to critically low levels. Third, the collapse of public confidence in the banking system has driven most cash liquidity outside formal channels — into exchange company networks and domestic hoarding.

The crisis is compounded by external shocks — notably the disruption to Red Sea shipping routes since late 2023, which has increased import costs for a country that depends on imports for approximately 90% of its staple cereals. Remittance inflows, estimated at 20 % of GDP, flow overwhelmingly through informal hawala networks, bypassing the formal banking system entirely. The humanitarian toll is severe: inflation rose above 35 % year-on-year in government-controlled areas by mid-2025, more than 60 % of households report inadequate food consumption, and civil servant salary payments are chronically delayed.

This brief argues that technical solutions alone cannot resolve a crisis rooted in political fragmentation. It concludes with a sequenced, three-tier framework of policy recommendations — organised by feasibility, institutional capacity, and political constraint — directed at the Central Bank of Yemen (Aden), the Internationally Recognised Government, and the international community.

## 01 THE LIQUIDITY LANDSCAPE — YEMEN'S BANKING SYSTEM TODAY

The Yemeni economy is passing through a critical phase of monetary blockage. The crisis extends beyond a scarcity of banknotes to encompass a near-total paralysis of the banking system and a collapse of confidence in the national currency. This situation reflects the institutional split of the Central Bank between Aden and Sana'a, which has produced dual monetary policies and two separate monetary masses — severely undermining the state's ability to manage money supply in a unified and effective manner.

### Five Defining Features of the Current Situation

- **Banking sector paralysis.** Commercial and Islamic banks are unable to meet their obligations to depositors or finance commercial operations, resulting in a profound loss of public confidence in the banking system.
- **Monetary mass outside the system.** The IMF's 2025 Article IV consultation estimates that the vast majority of cash liquidity circulates outside banks — either through exchange companies or in homes. Official CBY data record currency in circulation at 20.6 % of M2 as of May 2025, but this captures only physical banknotes. When informal deposits held by exchange companies, unrecorded hawala balances, and domestically hoarded cash are included, independent estimates suggest the effective share outside formal supervision may be more than 70 %.
- **Inflation and purchasing-power erosion.** The World Bank's Yemen Economic Monitor (2025) notes that liquidity scarcity and rising import costs have driven up prices of basic commodities and eroded citizens' purchasing power.<sup>1</sup>
- **Strict exchange controls.** Under Central Bank of Yemen (Aden) directives for 2025–2026, daily ceilings have been imposed on foreign currency sales (for example, a limit of SAR 100 per individual), contributing to black-market activity and widening the gap between official and parallel exchange rates.<sup>2</sup>
- **Injection of small denominations.** Although the Central Bank has injected large quantities of small-denomination notes (such as the 100-riyal note) to facilitate daily transactions, their impact has remained limited — diluted by rising prices and the erosion of the currency's real value (SEMC, 2025).<sup>3</sup>

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<sup>1</sup> World Bank, Yemen Economic Monitor, Documents & Reports, 2025.

<sup>2</sup> Central Bank of Yemen, Monetary and Financial Developments, December 2025.

<sup>3</sup> Studies and Economic Media Center (SEMC), Yemen Monetary Developments Report, 2025.

## 02 ECONOMIC INDICATORS, 2015–2026

Over the course of a decade, the Yemeni economy has undergone radical transformations driven by institutional and monetary fragmentation, producing a dual economic reality. The following data summarise key macroeconomic indicators across the two zones of monetary authority as of April 2026.

INDICATOR (APRIL 2026)	SANAA AREAS	ADEN AREAS	PRIMARY SOURCE
Exchange rate (YER/USD)	~531	~1,540	CBY / YETI
Annual inflation (%)	~13.0	~35.0	World Bank / WFP
Foreign reserves (USD bn)	—	~1.0	IMF Article IV
Reserve coverage (months)	—	< 1 month	IMF (2025)
Public debt-to-GDP (%)	—	> 100	CBY

Table 1. Key macroeconomic indicators across the two zones of monetary authority, April 2026.

### Currency Stability and Depreciation

- **Monetary unity (2015–2018).** The exchange rate remained broadly stable at around 215 YER/USD before the conflict, then gradually depreciated to approximately 550 YER/USD by 2018.<sup>4</sup>
- **Post-split divergence (2019–2026).** In Sana’a-controlled areas, the rate stabilised at 530–535 YER owing to contractionary monetary policies and the restricted supply of old banknotes. In government-controlled areas, a sharp depreciation breached the 2,000 YER barrier in 2025 before stabilising at approximately 1,540 YER in April 2026 following monetary interventions and external deposits.<sup>5</sup>

<sup>4</sup> Central Bank of Yemen, Monetary and Financial Developments, June 2025.

<sup>5</sup> Sana’a Center for Strategic Studies, Yemen Economic Bulletin: The War for Monetary Control Enters a Dangerous New Phase.

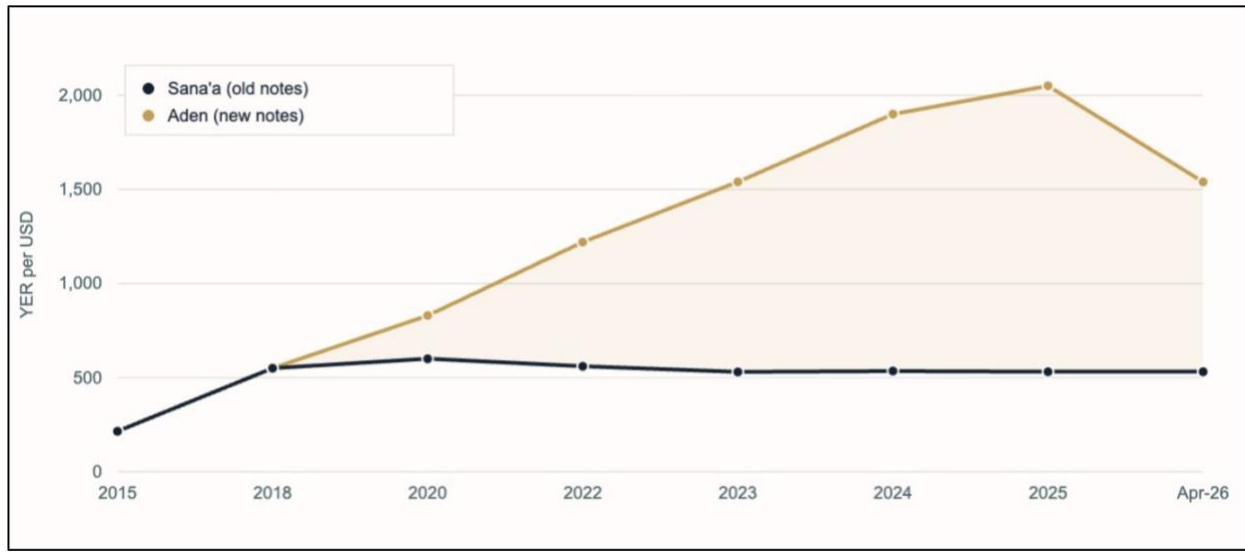


Figure 1. Exchange rate divergence between the Sana'a (old-note) and Aden (new-note) zones, 2015–April 2026. The gap has widened from zero pre-split to more than 1,000 YER/USD today.

## Inflation Levels

- **Aden (southern) areas.** Inflation has been directly linked to currency collapse, peaking at 55.4 % in 2021 and rising again above 35 % year-on-year by July 2025 (IMF), before easing following the August 2025 FX stabilisation measures.<sup>6</sup>
- **Sana'a (northern) areas.** Numerically lower inflation, enforced by banknote scarcity, ranging between 6 and 24 % over the split period — though purchasing power has eroded through supply costs and informal levies.
- **National average.** Fluctuated significantly; estimated at 28 % in Q1 2026.<sup>7</sup>

<sup>6</sup> World Bank, Economic Hardship Deepens in Yemen, 17 November 2025; CBY, Monetary and Financial Developments, December 2025.

<sup>7</sup> World Bank, Yemen Economic Monitor, 2025; IMF, 2025 Article IV Consultation.

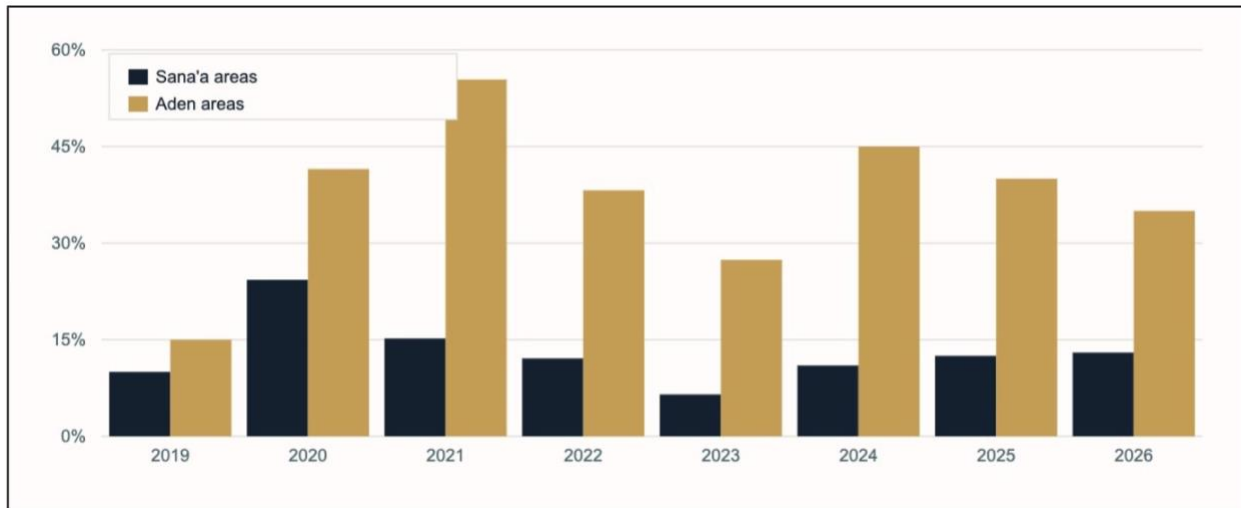
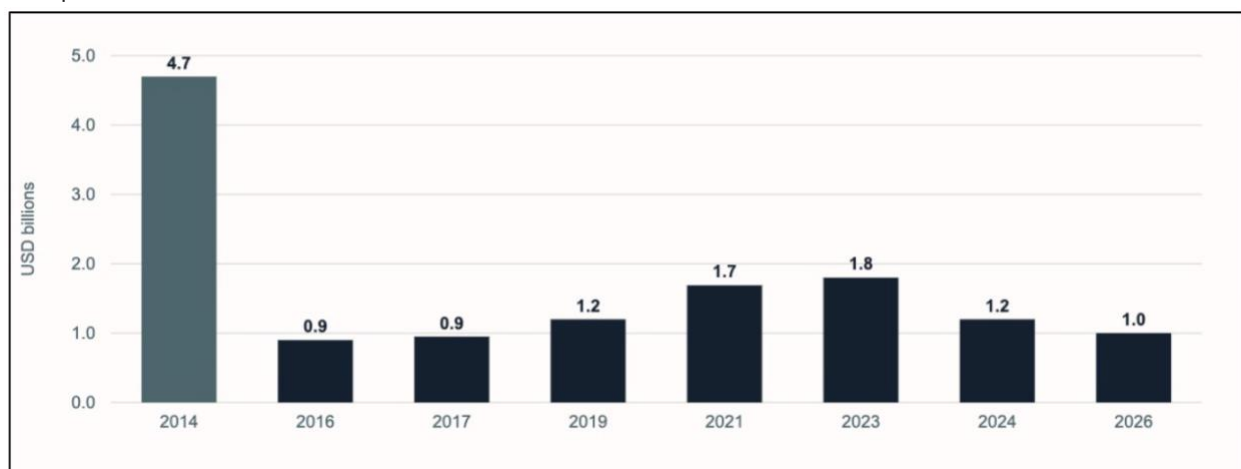


Figure 2. Annual inflation rates by zone (%), 2019–2026. Persistently higher inflation in Aden-controlled areas is driven by currency depreciation; lower Sana'a inflation reflects enforced monetary scarcity, not macroeconomic health.

## Foreign Reserves

International reserves suffered severe depletion, falling from USD 4.7 billion in 2014 to approximately USD 0.9 billion by 2016 as conflict disrupted revenue flows. By 2021, reserves had partially recovered to an estimated USD 1.69 billion, bolstered by the IMF's Special Drawing Rights allocation of approximately USD 665 million (SDR 466.8 million) in August 2021 and bilateral deposits from Saudi Arabia and the UAE. Reserves reached approximately USD 1.8 billion in mid-2023, but have since declined as oil export revenues remain suspended — despite some USD 2 billion in cumulative Saudi support over 2023–24 and a further USD 368 million package announced in September 2025 — falling to an estimated USD 1.0 billion by April 2026, or less than one month of import cover.<sup>8</sup>



<sup>8</sup> IMF, 2025 Article IV Consultation; World Bank, Economic Fragmentation and External Shocks Hamper Yemen's Recovery, June 2025.

Figure 3. Foreign reserves trajectory, USD billions, 2014–April 2026. The partial 2021–2023 recovery was driven by SDR allocation and bilateral deposits, not by autonomous revenues.

## 03 DRIVERS OF THE CASH LIQUIDITY CRISIS

### The Monetary and Institutional Split (2019)

The monetary crisis assumed a structural character in late 2019, when the de facto authorities in Sana’a banned the circulation of new banknote editions printed by the Central Bank in Aden. This decision constituted a de facto monetary partition, giving rise to two separate economies within a single political geography.<sup>9</sup>

The ban on new currency confined the money supply in northern areas to old banknotes printed before 2017 — notes that physically deteriorated and diminished in quantity through natural wear. Meanwhile, the CBY in Aden continued injecting new liquidity to cover the fiscal deficit and pay salaries, creating a monetary surplus in government-controlled areas. Two exchange-rate systems emerged from this asymmetry:

- 1. Enforced stability through scarcity.** In northern areas, the acute scarcity of old rial notes kept the exchange rate at relatively low levels — but at a severe cost: chronic liquidity shortages and an inability for depositors to withdraw funds. This stability is a product of monetary scarcity, not sound macroeconomic fundamentals.
- 2. Depreciation-driven volatility.** In government-controlled areas, the continuous injection of new currency, combined with declining hard-currency resources, triggered record depreciations — reaching 2,905 YER/USD in July 2025 before stabilisation measures.<sup>10</sup>

### Disruption of Interbank Clearing

The institutional split extended beyond banknote type to the clearing infrastructure itself. Banks headquartered in Sana’a with branches in Aden became unable to settle their internal transactions: liquidity at an Aden branch (in new-edition notes) could not be transferred to cover obligations at a Sana’a headquarters, and vice versa. This fragmentation reduced Yemeni banks to isolated entities, undermined confidence in non-cash payment instruments, and forced the economic community back toward a cash-dependent economy.

MONETARY SPLIT INDICATOR	IRG-CONTROLLED AREAS	DFA-CONTROLLED AREAS
Type of currency	New and old editions	Old editions (pre-2017) only
Money supply status	Relative surplus with high inflation	Severe scarcity; liquidity shortage

<sup>9</sup> Sana’a Center for Strategic Studies, “Mitigating the Negative Impacts of the Central Bank Split on the Banking Sector,” 2024.

<sup>10</sup> Central Bank of Yemen, Monetary and Financial Developments, November 2025; Sana’a Center, Yemen Economic Bulletin.

Exchange rate regime	Sharp volatility; historic depreciation	Enforced stability from rial scarcity
Digital payments	Low but growing	Limited (e-rial attempts)
Interbank clearing	Partially functional	Severed from southern network

Table 2. Monetary split indicators across Yemen's two zones. IRG = Internationally Recognised Government; DFA = De Facto Authorities.

## Depletion of Sovereign Resources and the Halt of Oil Exports

Oil and gas exports constitute the principal source of foreign currency revenues in Yemen, historically accounting for over 70 % of export earnings. The cessation of these exports since late 2022, following attacks targeting export terminals in Hadramout and Shabwa, has deprived the state of its most important monetary stabilisation tool.<sup>11</sup>

Yemen lost an estimated USD 6 billion in autonomous revenue as a result of the export halt. Previously, the Central Bank used oil revenues to finance imports of food and fuel through official banks, ensuring a flow of local liquidity from merchants to the Central Bank. With this revenue stream severed, merchants turned to the parallel market and exchange companies to secure dollars — draining rial liquidity from official banks. The country transformed from an energy exporter into one wholly dependent on petroleum product imports, placing the Central Bank under dual pressure: international reserve coverage fell to less than one month of imports by 2024, and public revenues declined by approximately 30 %, producing a persistent budget deficit that has constrained public expenditure and delayed salary payments.<sup>12</sup>

## The Psychology of Hoarding and the Erosion of Trust

International assessments — particularly the IMF's 2025 Article IV consultation and the World Bank's Yemen Economic Monitor — indicate that the crisis is not solely one of cash absence but of cash beyond institutional control. Since 2016, as banks began defaulting on deposit withdrawals, merchants and households have progressively withdrawn their financial flows from official channels. Three reinforcing drivers of de-banking stand out:<sup>13</sup>

- **Withdrawal restrictions.** Banks — particularly in the north — have imposed strict restrictions on withdrawing existing deposits, effectively freezing depositor funds.

<sup>11</sup> IMF, 2025 Article IV Mission; World Bank, Economic Fragmentation and External Shocks Hamper Yemen's Recovery, June 2025.

<sup>12</sup> World Bank, Economic Fragmentation and External Shocks Hamper Yemen's Recovery, June 2025.

<sup>13</sup> IMF, 2025 Article IV Mission, 9 October 2025; World Bank, Yemen Economic Monitor, 2025.

- **Confiscation and levy risks.** Punitive measures, arbitrary levies, and confiscation risks have driven merchants to keep cash away from institutional scrutiny.
- **Speculative hoarding.** Cash has become a speculative vehicle rather than a medium of exchange; certain denominations are hoarded in anticipation of value appreciation or supply scarcity.

MONETARY INDICATOR (2025)	VALUE	ANALYTICAL NOTE
Broad money supply (M2)	YER 16,092.9 bn <sup>14</sup>	Total cash and quasi-cash in the system
Currency in circulation	YER 3,319.6 bn <sup>15</sup>	20.6% of M2 — official CBY figure
Estimated liquidity outside supervision	>70% of M2	Includes informal deposits and hoarded cash
Public debt-to-GDP	> 100%	Indicates an unsustainable fiscal position

Table 3. Key monetary indicators, May 2025 (latest CBY data). The 20.6% figure is the officially recorded share.

## Exchange Companies as Shadow Banks

The expansion of exchange companies in Yemen represents a phenomenon largely without parallel in other conflict-affected economies. As commercial banks weakened and monetary authority fragmented, exchange companies filled the vacuum—but have since become part of the liquidity problem. They now perform functions that are, in substance, core banking activities: accepting deposits, maintaining ledger-based current accounts, and intermediating international remittances.

Some exchange companies have exploited the weak regulatory environment to conduct large-scale currency speculation — draining cash liquidity from the official market and contributing to exchange-rate volatility. In December 2025, the CBY in Aden launched a campaign to regulate the sector, issuing Decisions No. 32 and 33 to suspend and revoke licenses of dozens of non-compliant companies. These measures aim to compel exchange companies to adhere to compliance and anti-money-laundering standards, curb speculative manipulation, and channel the monetary mass back into supervised commercial banks.<sup>16</sup>

## 04 THE POLITICAL ECONOMY OF MONETARY FRAGMENTATION

The cash liquidity crisis cannot be understood in purely technical or macroeconomic terms. The fragmentation of Yemen's monetary system reflects — and is sustained by — a set of political economy dynamics in which

<sup>14</sup> Central Bank of Yemen, Monetary and Financial Developments, November 2025.

<sup>15</sup> Central Bank of Yemen, Monetary and Financial Developments, November 2025.

<sup>16</sup> Central Bank of Yemen, Governor Issues Decisions No. 32 and No. 33 on Exchange-Company Licences, 2025.

powerful actors on both sides of the conflict derive strategic and financial benefits from the status quo. Any viable reform pathway must therefore account for these incentive structures, identifying which reforms can proceed in the current political environment and which require prior political agreement.

## Who Benefits from Fragmentation?

The de facto authorities in Sana'a benefit from the currency ban in several ways. By restricting money supply through the exclusion of new-edition banknotes, they maintain a degree of exchange-rate stability, even as it imposes severe liquidity costs on the population. The scarcity of cash strengthens the position of politically connected exchange operators who mediate access to liquidity. The parallel monetary system also provides a degree of economic autonomy from Aden, reinforcing the DFA's claim to governance authority.

In government-controlled areas, the continued printing of new currency — while inflationary — serves the short-term political need to fund salary payments and maintain a minimal state presence. The exchange-company sector, portions of which operate with close ties to political and military figures on both sides, benefits from the dual-currency system through arbitrage opportunities, transaction fees on remittances, and the effective monopoly it holds over cross-zone fund transfers.

## 05 REMITTANCES AND INFORMAL FINANCIAL CHANNELS

Remittances constitute one of the most significant — yet analytically underexamined — dimensions of Yemen's liquidity dynamics. World Bank data indicate that personal remittances accounted for approximately 20.5 % of GDP in 2023, representing an estimated USD 3–4 billion annually. In a context where sovereign revenue sources have collapsed, remittances represent the single largest source of foreign currency inflows into the Yemeni economy.<sup>17</sup>

### The Dominance of Hawala Networks

The overwhelming majority of remittances transfers bypass the formal banking system entirely, flowing instead through hawala networks and exchange company channels. This pattern predates the conflict but has intensified dramatically as banking infrastructure has deteriorated. The hawala system's advantages in speed, reach, and accessibility have made it the default mechanism for the Yemeni diaspora — but at a cost: these flows are largely invisible to monetary authorities and unavailable for formal intermediation. The fragility of these informal channels was exposed when details of approximately 64,000 outstanding hawala transfers were leaked on social media, highlighting both the scale of informal flows and the systemic risks in an unregulated transfer environment.<sup>18</sup>

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<sup>17</sup> World Bank, Personal Remittances, Received (% of GDP) — Yemen, Rep.; IMF, 2025 Article IV Consultation.

<sup>18</sup> Sana'a Center for Strategic Studies, Yemen Economic Bulletin: The War for Monetary Control Enters a Dangerous New Phase.

## Remittances as a Latent Liquidity Channel

From a liquidity perspective, remittances represent a potential bridge between the cash-starved formal banking sector and the large volumes of foreign currency entering the country. Under current conditions, however, remittance inflows reinforce the dominance of exchange companies rather than supporting the banking system: recipients typically receive funds in cash from exchange operators, and these funds then circulate through informal markets without entering bank deposits. Recent analysis from the International Growth Centre (“From Cash to Capital”, 2024) argues that channeling even a fraction of remittance flows through formal banking channels could significantly improve bank liquidity and deposit bases.<sup>19</sup>

## 06 EXTERNAL SHOCKS — THE RED SEA CRISIS

Since late 2023, disruptions to commercial shipping through the Red Sea and the Bab el-Mandeb Strait have introduced an additional external shock to Yemen's already fragile economy. According to ACLED, the Houthis have launched more than 520 attacks since November 2023, targeting at least 178 vessels, leading to a dramatic reduction in container shipping through one of the world's most critical trade arteries.<sup>20</sup>

Between December 2023 and February 2024, container shipping through the Red Sea declined by an estimated 90 %. Shipping costs on major routes tripled — on the Shanghai–Genoa route, for example, freight rates rose from approximately USD 1,400 to USD 6,300 per container. For Yemen, which imports approximately 90 % of its staple cereals, these cost increases translate directly into higher food prices and increased demand for foreign currency to finance imports.<sup>21</sup> The Red Sea disruption compounds the liquidity crisis in several ways. Higher import costs increase the volume of foreign currency required to finance essential imports, accelerating the depletion of already limited reserves. The rerouting of shipping lanes increases delivery times and supply uncertainty, contributing to speculative hoarding of both goods and currency. The FAO has warned that these disruptions risk exacerbating Yemen's already severe food security situation, and the World Bank's June 2025 report *Economic Fragmentation and External Shocks Hamper Yemen's Recovery* identified the Red Sea crisis as a significant headwind to economic stabilisation efforts.<sup>22</sup>

## 07 SOCIAL AND ECONOMIC CONSEQUENCES

The effects of the liquidity crisis extend well beyond technical monetary dimensions to the livelihoods of ordinary Yemenis. In an economy that depends on imports for the vast majority of its food needs, a shortage of foreign liquidity combined with local currency depreciation creates severe consequences for poverty and food security.

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<sup>19</sup> International Growth Centre, “From Cash to Capital: Leveraging Remittances for Yemen's Economic Future,” 2024.

<sup>20</sup> World Bank, *Economic Fragmentation and External Shocks Hamper Yemen's Recovery*, June 2025.

<sup>21</sup> World Bank, *Economic Fragmentation and External Shocks Hamper Yemen's Recovery*, June 2025.

<sup>22</sup> World Bank, *Economic Fragmentation and External Shocks Hamper Yemen's Recovery*, June 2025.

## Income Erosion and Inflation

- **Rising cost of the food basket.** Prices of basic commodities rose by an estimated 26 % in a single year.
- **Loss of purchasing power.** Who Benefits from Fragmentation? Salaries — when paid — cover only a fraction of basic needs, pushing more than 60 % of households into inadequate food consumption, with around 17 million people (nearly half the population) classified in IPC Phase 3 or above (acute food insecurity).<sup>23</sup>
- **Imported inflation.** Inflation in government-controlled areas is driven not solely by money supply expansion but by imported inflation from rial depreciation and hard-currency scarcity needed for imports.

## Collapse of Public Services

1. **Health care.** An estimated 40 % of supported health services have ceased, depriving millions of basic care.
3. **Education.** Salary delay and scarce operational resources have degraded education quality and increased dropout rates.
2. **Energy.** Liquidity shortages for fuel purchases have caused widespread power outages, affecting hospitals, factories, and small enterprises.

## Negative Coping Strategies

- **Barter and deferred sales.** A return to goods-for-goods trading and deferred-purchase ledgers at retail level — a system that risks cascading defaults as retailers themselves become unable to pay wholesalers.
- **Migration and economic displacement.** Households seek employment in other regions or countries to secure hard-currency remittances.
- **Dependence on humanitarian aid.** International reports document a concerning rise in households dependent on direct assistance for survival.

# 08 MONETARY POLICIES AND CORRECTIVE MEASURES, 2024–2025

In 2024 and 2025, the Central Bank in Aden undertook intensive measures — supported by international and regional partners — to stabilise the exchange rate and restore a degree of monetary equilibrium. The CBY

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<sup>23</sup> World Bank, Yemen Economic Monitor, 2025; FAO, GIEWS — Yemen, 2024–2025.

adopted a multi-track strategy combining liquidity absorption, exchange-rate management, and administrative reform.

## Liquidity Absorption and Exchange-Rate Tools

- 1. Weekly foreign-currency auctions.** The CBY continued selling dollars to commercial banks to finance imports; cumulative offers since the auction mechanism resumed in November 2021 reached USD 3.66 billion by end-May 2025, of which accepted bids totalled approximately USD 2.4 billion (65.6 % coverage ratio).<sup>24</sup>
- 2. Domestic debt instruments.** Treasury bills were offered at elevated interest rates (approximately 18 %), absorbing approximately YER 2.94 trillion of surplus market liquidity by March 2025.
- 3. Minimum deposit rate.** The reference rate on rial deposits was raised from 15 % to 18 % effective 12 April 2026 to incentivise citizens to return funds to banks rather than hoarding cash.

## Structural Challenges to Policy Traction

- **Block education participation.** The DFA prohibited banks under their control from participating in Aden's auctions or sharing data, depriving northern areas of official foreign-currency flows.
- **The SWIFT confrontation.** The CBY in Aden threatened punitive measures — including suspending SWIFT services and revoking licenses from banks refusing to relocate their headquarters to Aden — aimed at unifying banking compliance under a single internationally recognised authority, but with the attendant risk of further disrupting banking services.

## Fiscal and Administrative Reforms (2025)

The government announced an Economic Developments and Urgent Priorities Plan in December 2024, with implementation beginning in 2025. Key elements include strengthening non-oil revenue mobilisation through improved tax and customs administration, digitising payroll systems to address irregularities and stem liquidity leakage and activating the National Committee for the Regulation and Financing of Imports (NCRFI) to channel foreign currency flows through official channels.

## 09 KEY ANALYTICAL FINDINGS

The analysis supports six findings of direct relevance to donor engagement, international financial institutions, and domestic policy design. Each finding is analytical, not merely descriptive: it identifies a causal mechanism, not a symptom.

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<sup>24</sup> Central Bank of Yemen, Monetary and Financial Developments, December 2025.

01

**Monetary fragmentation is structural, not transitional.**

Yemen's liquidity crisis is not a wartime aberration that will resolve itself with a political settlement. It has calcified into a set of parallel institutions and incentive structures that now independently sustain the split. Absent deliberate intervention, reunification will not occur as a by-product of peace.

02

**Sovereign revenue depletion is the binding constraint.**

The halt of oil and gas exports since late 2022 is the single most consequential shock. It has eliminated over 70 % of foreign-currency revenues, severed the Central Bank's principal stabilisation tool, and forced reliance on external deposits that cannot substitute for autonomous revenue indefinitely.

03

**The banking system has been displaced, not merely weakened.**

Most of cash liquidity now circulates outside formal banking supervision — inside exchange-company networks and domestic hoards. This is not a recoverable deposit base; it is a parallel financial system whose operators have strong incentives to resist reintermediation.

04

**Remittances are an untapped stabilisation lever.**

At an estimated 20 % of GDP, remittances are the largest remaining source of hard-currency inflows. Their routing through hawala and exchange-company channels denies the formal sector liquidity that could, under the right incentive design, materially rebuild deposit bases.

05

**External shocks amplify domestic fragility asymmetrically.**

The Red Sea disruption raises import costs for a country dependent on food imports for 90 % of its staple cereals. Its effects land disproportionately on the Aden-side population already absorbing the inflationary costs of continued note-issuance.

06

**Political economy is the reform bottleneck.**

Powerful actors on both sides derive strategic and financial benefits from the status quo. Technically optimal reforms — reunification, currency harmonisation, exchange-company regulation — face binding political constraints that technocratic design alone cannot overcome.

## 10 POLICY RECOMMENDATIONS— A THREE-TIER SEQUENCED FRAMEWORK

The following recommendations are informed by the preceding analysis and draw on guidance from the IMF, World Bank, and independent analytical studies. They are organised into three tiers based on political feasibility and the degree of inter-party agreement required— recognising that many technically sound reforms face political economy constraints that cannot be wished away. Actions that can be implemented by the Internationally Recognised Government and the CBY in Aden without requiring agreement with the de facto authorities.

## MEASURES ACHIEVABLE WITHIN CURRENT CONSTRAINTS

01

**Strengthen monetary policy tools and prudential oversight.**

Continue and expand foreign-currency auction mechanisms, improve transparency in auction processes, and strengthen prudential regulation of commercial banks to rebuild depositor confidence. Publish auction volumes and coverage ratios on a consistent schedule.

02

**Regulate the exchange company sector.**

Implement Decisions No. 32 and 33 consistently; establish clear compliance pathways for exchange companies willing to operate within regulatory frameworks; and create structural incentives for channelling exchange-company liquidity into the formal banking system.

03

**Accelerate digital financial services.**

Expand digital-payment infrastructure in government-controlled areas, building on the UNICEF/SFD pilot. Prioritise G2P salary payments through mobile wallets to reduce cash dependency and bring informal flows into supervised channels.

04

**Strengthen non-oil revenue mobilisation.**

Improve tax and customs administration to reduce dependence on inflationary Central Bank financing. Digitise payroll systems to address ghost workers and payment irregularities, and activate the NCRFI to centralise foreign-currency flows for essential imports.

## 11 CONCLUSIONS — FROM FRAGMENTATION TO FUNCTIONAL INSTITUTIONS

Yemen's cash liquidity crisis is the product of a structural schism in the national financial system — one that has caused the monetary cycle to deviate from its institutional course and given rise to a parallel economy dominated by informal actors.

The data in this brief confirm that Yemen now faces enforced monetary scarcity in DFA-controlled areas alongside inflationary depreciation in government-controlled areas — both stemming from the politicisation of monetary instruments and the fragmentation of fiscal sovereignty. The crisis is compounded by the halt of oil exports since 2022, by the Red Sea shipping disruptions since late 2023, and by the continued dominance of exchange companies and informal hawala networks that channel the vast majority of liquidity outside institutional supervision.

The humanitarian consequences are severe. More than 60 % of households report inadequate food consumption, with around 17 million people in IPC Phase 3 or above (acute food insecurity); public services have degraded sharply; household coping strategies are increasingly unsustainable. The staggering figures — a 58 % decline in per-capita income since 2015, public debt exceeding 100 % of GDP, and international reserve coverage of less than one month of imports — underscore the urgency of the situation.

Yet the analysis also reveals that the crisis, while acute, is not intractable. A sequenced approach — beginning with feasible regulatory reforms, progressing through bilateral technical coordination, and ultimately addressing the political foundations of monetary fragmentation — offers a realistic path toward stabilisation. The support provided by Saudi Arabia and the UAE remains a critical stabilisation factor, but external deposits cannot substitute indefinitely for the restoration of autonomous state revenues and functioning institutions.

The fundamental challenge is political as much as economic. Powerful actors on both sides of the conflict benefit from the current fragmented arrangements, and sustainable reform requires either altering these incentive structures or building sufficient political consensus to override them. The international community — the IMF, the World Bank, regional partners, and bilateral donors — has a role to play not merely through financial assistance, but through sustained diplomatic engagement aimed at neutralising economic institutions from the conflict.

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