

Summary of the results of the first panel discussion

Economists Association Group

April 23, 2021

Episode title

The deterioration of the Yemeni rial exchange rate against foreign currencies, causes and available solutions.

Results :

* The first axis *

* Reasons for the decline of the Yemeni rial exchange against foreign currencies *

1. Weak governance in managing resources and expenditures in the state in general, and in the Central Bank of Yemen in particular.
2. The growing gap between the supply and demand of foreign currencies in the market, due to the increase in the demand for the currency resulting from the increase in demand for imported goods, mainly due to the increase in population and weak domestic production.
3. Speculation in the currency due to the war and paralysis in controlling the market due to the weakness of the Central Bank and its division between Aden and Sana'a.
4. War, political turmoil, and the use of currency and the economy as a means of warfare between the different parties to the conflict.
5. Failure to rehabilitate and maintain oil and gas fields until they reach the level of production for the pre-war period, which caused weak foreign exchange earnings.
6. Depletion of the state's balance of hard currencies, the inability to know the balance in the central bank, and the inability to use it for the correct economic use.
7. The political and security turmoil since 2011 and the outbreak of the war and its impact on levels of productivity and investment, which led to a massive decline in the total social product of the country's economy.
8. Failure of the Central Bank of Yemen to carry out its duties in the area of determining the exchange rate and leave the matter of setting it in favor of the informal market such as money exchange shops, with poor coordination with commercial banks and Islamic banks.
9. The loss of many of the state's foreign exchange resources, such as stopping loans, grants, and aid, weak remittances from expatriates, and stopping foreign investment.
10. Capital migration abroad due to political unrest and wars in the country.
11. The Central Bank of Yemen abandoned the provision of foreign exchange to finance import needs.

12. The failure of the upper management in the Central Bank of Aden to carry out the tasks entrusted to it due to its fragmentation and de facto the upper management of the Central Bank was divided into three departments. It is the official higher management represented by the governor and members of the board of directors appointed by a decision of the President of the Republic, the higher management in Sana'a appointed by the de facto authority, and the third in Marib. Consequently, there is no single supreme authority and management, and one center for decision-making in the field of monetary policy in general and exchange rate policy in particular.

13. The absence of the effect of monetary policy and its tools for interfering in controlling the exchange rate and stopping its deterioration.

14. Weakness of the financial and banking system in the country, failure to carry out its tasks, or complete abandonment of its functions with interference in the implementation of its tasks and abandonment of some of its sovereign functions to parties outside the official financial and banking system.

The second axis: *

* The problem of exchange rate differences between Aden, Sanaa and Mukalla: *

1- Among the main reasons for the exchange rate difference between Aden, Mukalla and Sanaa, the following can be mentioned:

A) The limited supply of banknotes related to old publications in Sana'a compared to the increase in the supply in Aden and Mukalla of the new edition with the old one.

B) The extension of the war to the economy and the use of currency as one of the weapons of conflict in the country, which led to the existence of two exchange rates.

C) The increase in demand for foreign currencies in Aden for various reasons, one of which is to meet import needs, since most of the import operations take place through Aden.

D) The de facto authority in Sana'a has abandoned many obligations, such as paying salaries and providing services, accompanied by an increase in taxes, which supported the exchange market in Sana'a in one way or another.

E) Speculation on the possession of old and new editions of the riyal in the country, which led to the turmoil of the exchange market in both Sana'a and Aden.

F) Sharing control over economic conditions and the division of the central bank, which created turmoil in the exchange market and thus behind two markets in which the exchange rate of the riyal varies against foreign currencies.

G) Existence of foreign exchange reserves in Sana'a before the transfer of the Central Bank headquarters to Aden, as the balance was used in the exchange market in Sana'a and there was a difference between the two markets.

2- As for the most important results of the difference in the exchange rate of the Yemeni riyal against foreign currencies in Aden and Mukalla on one side, and Sana'a on the other, some of them can be shown as follows:

- a. Imposing exaggerated fees on remittances between Aden and Sana'a, reaching 40% according to some estimates, which affected the interests of citizens and merchants.
- B. The difficulty of commodity exchange between Aden and Sana'a.
- C. The difference in foodstuff prices between Aden and Sana'a, due to the difference in the exchange rate, as the prices are evaluated according to the prevailing exchange rate in each of them, which created confusion in the market.

* The third axis:

Available solutions to ensure that the Yemeni riyal's exchange rate does not collapse against foreign currencies *

- 1- Restore confidence in the central bank on the one hand and commercial banks on the other hand, and strengthen the relationship between them and businessmen by allowing businessmen to freely access and withdraw from their deposits as long as withdrawals are within the permitted framework.
- 2- Supplying sovereign and other foreign exchange resources from various sources to the Central Bank in the accounts designated for this to support the bank's balance of foreign currencies as a measure that strengthens the position of the local currency in the market.
- 3- Enhancing the country's foreign exchange resources by reproducing and exporting oil and gas and supplying the value of sales to the accounts of the Central Bank without delay.
- 4- Solving the problem of money exchange business, strengthening control over their activities and organizing their work in accordance with the law issued and regulating the activity of money changers and money changers, and the central bank performing its role in this regard and curbing illegal currency speculation.
- 5- Re-working with correspondent banks and with documentary credits, as was the case in the past, in facilitating import and helping to reduce the cost of procedures, and thus reducing the cost of import.
- 6- The necessity to neutralize the economy from war and politics and to create a single central bank authority with a sovereign decision to control the exchange rate and reactivate the banking system under the management of the Central Bank of Yemen to control the foreign exchange market.
- 7 - To stop printing any new currencies for the riyal without a cover for goods and services and without a sufficient balance of foreign exchange.

- 8- The Central Bank, in coordination with commercial and Islamic banks, should cooperate with activating the necessary monetary policies to attract foreign currency deposits to the banking system to enhance the position of the riyal against foreign currencies.
- 9- Strengthening the position of the riyal and securing imports by providing a permanent balance in the Central Bank of not less than three billion dollars.
- 10- To expedite the improvement of the reputation, credibility and integrity of the agencies that oversee the application of financial and exchange rate policies in particular in the country and to carry out the necessary and necessary reforms by applying the rules of governance in their work.
- 11- Taking the possible financial and monetary policies to strengthen the position of the riyal in the market against foreign currencies.
- 12- Improving the work environment in the areas of trade and investment for local, expatriate and foreign capital.
- 13- Reconsidering the use of the new Saudi grant, facilitating its use in the field of import, and enhancing transparency in this field.
- 14- Activating the regulatory tools that control the foreign exchange market.
- 15- Adopting the administered floating exchange rate policy, due to its importance in enhancing the exchange rate of the riyal.
- 16 - Supplying the salaries of officials and armed forces that are spent in foreign currency to those abroad to the Central Bank, and then the Central Bank disburses them to those inside the Yemeni riyal at an agreed exchange rate and not the market exchange rate, noting that the salaries that are paid in foreign currency for those abroad No tax shall be deducted on it, as is the case for salaries and wages for employees of the state's administrative and military apparatus.
- 17- Encouraging the central departments of commercial and Islamic banks located in Sana'a to transfer the banking operations center of the banks to the temporary capital of Aden, by using the methods of enticement and providing legal and procedural incentives to them, and by requesting temptations to be offered to them through direct and indirect monetary policy tools.
- 18- We recommend that the international envoy to Yemen sponsor coordination between the Central Bank in Aden and Sana'a to neutralize the bank's activities from the war and neutralize the economy in general.
- 19- Studying the possibility of replacing the riyal with a new currency, a new edition, or any solution to solve the problems of the new and old edition.
- 20- Pressing the government to stop the method of overdraft to cover the budget deficit and to reconsider following the coverage of the budget deficit from non-inflationary sources, and to make greater efforts to develop its resources.

21- Rationalizing expenditures in general and especially in the wages item by removing cases of duplication and ensuring that salaries reach the hands of their owners directly and returning refunds (salary refunds) to the state treasury in the central bank.

22- Work to facilitate the dealings of local banks and merchants with foreign banks and gradually lift international restrictions in this regard.

Appendix to the first panel discussion

A table showing the current account balance and the reserve balance of foreign currencies (in million dollars), the exchange rate of the Yemeni riyal against the dollar, and the volume of oil production for the same period

the years	Current account balance	Reserve balance From foreign currencies	The riyal exchange rate Against the dollar	The volume of oil production
2000	1336.6	2915	161.73	439000
2001	671	3676	168.69	439000
2002	443.3	4429	175.62	438162
2003	175.7	5011.5	183.45	430875
2004	224.6	5690	184.78	402992
2005	646	6143	191.42	400247
2006	231.5	7545	197.5	365277
2007	1508.3-	7762	198.95	319000
2008	1251.2-	8157	199.87	293000
2009	2527.4-	6923	202.85	273972
2010	1054.1-	5941	219.59	273972
2011	527.4-	4531	213.8	*273972
2012	334.6-	6158	214.35	*141000
2013	1444.8-	53490	219.59	*110000
2014	1507.4-	3895.7	214.9	125000
2015	3026-	34650	214.9	47600
2016	1450-	1750	250	2116
2017	2180	632.1	253	21300
2018	2400.5-	550	250	33500
2019	237-	0	250	75000
2020				115000
			Average 730 = 2020 -2015 Riyals	

Source: 1- Central Bank of Yemen, various annual reports.

2 - The unified Arab economic report for the year 2020.

3 - The Ministry of Planning and International Cooperation, the Central Bureau of Statistics, an explanatory note on the estimates of GDP for the period 2000-2009, issued in March 2010.

4- Journal of the Ministry of Oil and Minerals Issue - 47-2021.

A table showing the differences in the exchange rate between Aden, Sanaa and Mukalla on April 21, 2021:

And volume Production Oil For the same Period, Opposite Dollar

the years	Balance The account Ongoing	Balance Reserve currencies From Foreign	price Cashing Real Opposite Dollar	production size Oil
2000	1336.6	2915	161.73	439,000
2001	671	3676	168.69	439,000
2002	443.3	4429	175.62	438162
2003	175.7	5011.5	183.45	430875
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2017	2180	632.1	253	21300
2018	2400.5-	550	250	33500
2019	237-	0	250	75,000
2020				115,000
			Average 2015-2020 = 730 riyals	

Source-1 : the bank Central Yemeni Reports Annual DiffereSource: 1- Central Bank of Yemen, various annual reports.

- 2The unified Arab economic report for the year 2020.

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Source: Al-Amana newspaper

<div> <div>Currency</div> <div>Cities</div> </div>	Dollar		Saudi Real	
	Sale	purchase	Sale	purchase
Aden	897	905	238	235
Sana'a	602	599	158.5	158.1
Mukalla	896	891	236	235

Economists Association

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