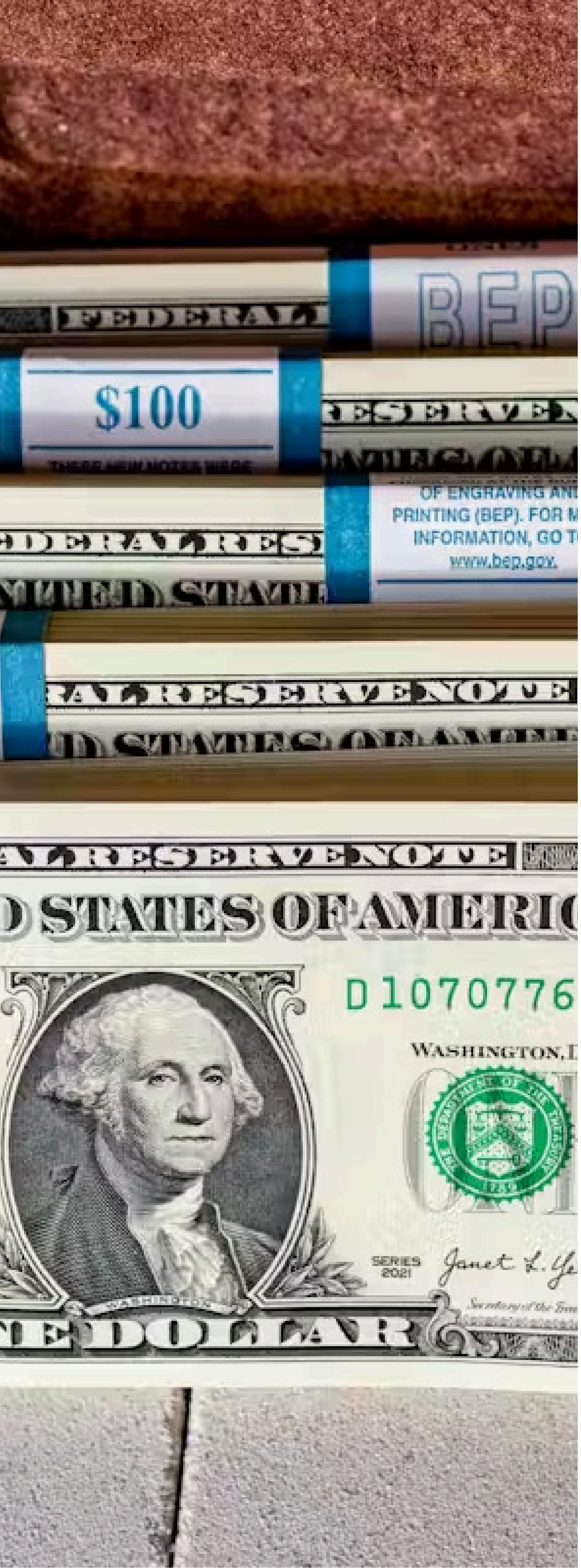
Yemen's Economic Crisis: A Decade of Fragmentation (2015–2025)

By Maher F. S. Farea

Yemen's economic landscape has endured a catastrophic decade of conflict-induced fragmentation, leading to an unprecedented decline in living standards and systemic instability. Since 2015, real GDP per capita has plummeted by an alarming 58%, reflecting a profound erosion of productive capacity and widespread economic deprivation. This macroeconomic collapse is exacerbated by persistent inflationary pressures, with government-controlled areas experiencing inflation rates exceeding 30% in 2024. The Yemeni rial's value critically depreciated by 30% in 2025 alone, pushing monthly inflation to 35% by July. A pivotal driver of this economic divergence was the 2016 split of the Central Bank, which institutionalized dual currency systems and divergent fiscal policies across the fragmented territories. Concurrently, the humanitarian response, a critical lifeline for millions, faces severe underfunding, with only 19% of the required $2.5 billion secured as of September 2025, signaling an escalating crisis of unmet basic needs amid deteriorating economic conditions.



Executive Summary

From 2015 to 2025, Yemen's financial infrastructure underwent a profound transformation that occurred largely unnoticed by the international community. When the Central Bank split and formal banking channels froze, humanitarian actors faced an unprecedented challenge: how to move money at scale in a fragmented conflict zone.

The solution—routing emergency cash transfers through money exchangers (hawala) and microfinance institutions—was both pragmatic and consequential. While this approach successfully delivered life-saving assistance to millions, it simultaneously catalyzed a fundamental restructuring of Yemen's financial architecture.

10

Years of Transformation

Decade-long evolution of payment systems

$2.8B

Annual Cash Flows

Through non-bank channels by 2025

Today, liquidity, payments, and retail finance are dominated by non-bank intermediaries. Formal banks remain relevant for SWIFT transactions and compliance, but have largely been displaced from everyday settlement activities. This report examines how we arrived at this juncture and what it means for Yemen's financial future.

Macroeconomic Deterioration: A Decade of Decline

Yemen's economy has experienced catastrophic contraction since 2014. Real GDP growth has remained consistently negative, declining from +2.0% in 2014 to an estimated -1.5% in 2025. The real income per capita has plummeted to just 45% of its 2015 baseline, representing a loss of more than half the population's purchasing power within a decade.

Poverty rates have surged from 54% in 2014 to a projected 76% in 2025, affecting three-quarters of the population. The exchange rate collapse—from 215 riyals per dollar in 2014 to approximately 2,800 in 2025—has fundamentally undermined economic stability and household welfare across all regions.

Key Economic Indicators (2014–2025)

Indicator	2014	2020	2023	2025	Primary Source
Real GDP Growth (%)	+2.0	-4.8	-2.0	-1.5	**World Bank / IMF**
Real Income Per Capita (vs 2015)	100%	62%	46%	45%	**World Bank**
Overall Poverty Rate (%)	54	68	74	76	**World Bank / UN**
Inflation—Government Areas (%)	5	23	7	20	**Central Bank—Aden**
Inflation—Sana'a Areas (%)	5	-2	-11.8	-5	**Central Bank—Sana'a**
Exchange Rate (YER/USD)	215	600	1,225	2,800	**Central Bank / Parallel Market**
Remittances (USD Billion)	4.0	3.7	3.3	3.4	**World Bank**
Foreign Reserves (USD Billion)	5.0	0.9	0.7	<1.0	**Central Bank—Aden**

This comprehensive dataset reveals the systematic erosion of Yemen's economic foundations, characterised by currency collapse, deepening poverty, and divergent inflation patterns between northern and southern regions.

Yemen's Economic Collapse: A Deepening Crisis

Yemen's protracted conflict has triggered a severe and multi-faceted economic crisis, dismantling national institutions and plunging the population into unprecedented hardship. The fragmentation of monetary authority, coupled with severe supply-side shocks and diminished foreign exchange reserves, has accelerated economic decline, leading to catastrophic humanitarian outcomes. The following indicators underscore the profound devastation.

58%

Real GDP Per Capita Contraction

Since the onset of the conflict in 2015, Yemen has experienced a staggering 58% decline in real GDP per capita, signaling a dramatic erosion of living standards and productive capacity.

35%

Projected Annual Inflation Peak

By July 2025, year-on-year inflation is projected to reach 35%, severely eroding purchasing power and exacerbating the cost-of-living crisis for Yemeni households.

2,905

Yemeni Rial's Historic Depreciation

The Yemeni Rial (YER) is forecast to hit a record low of 2,905 per USD by July 2025 in northern regions, reflecting profound macroeconomic instability and dual market challenges.

17.1M

Escalating Food Insecurity

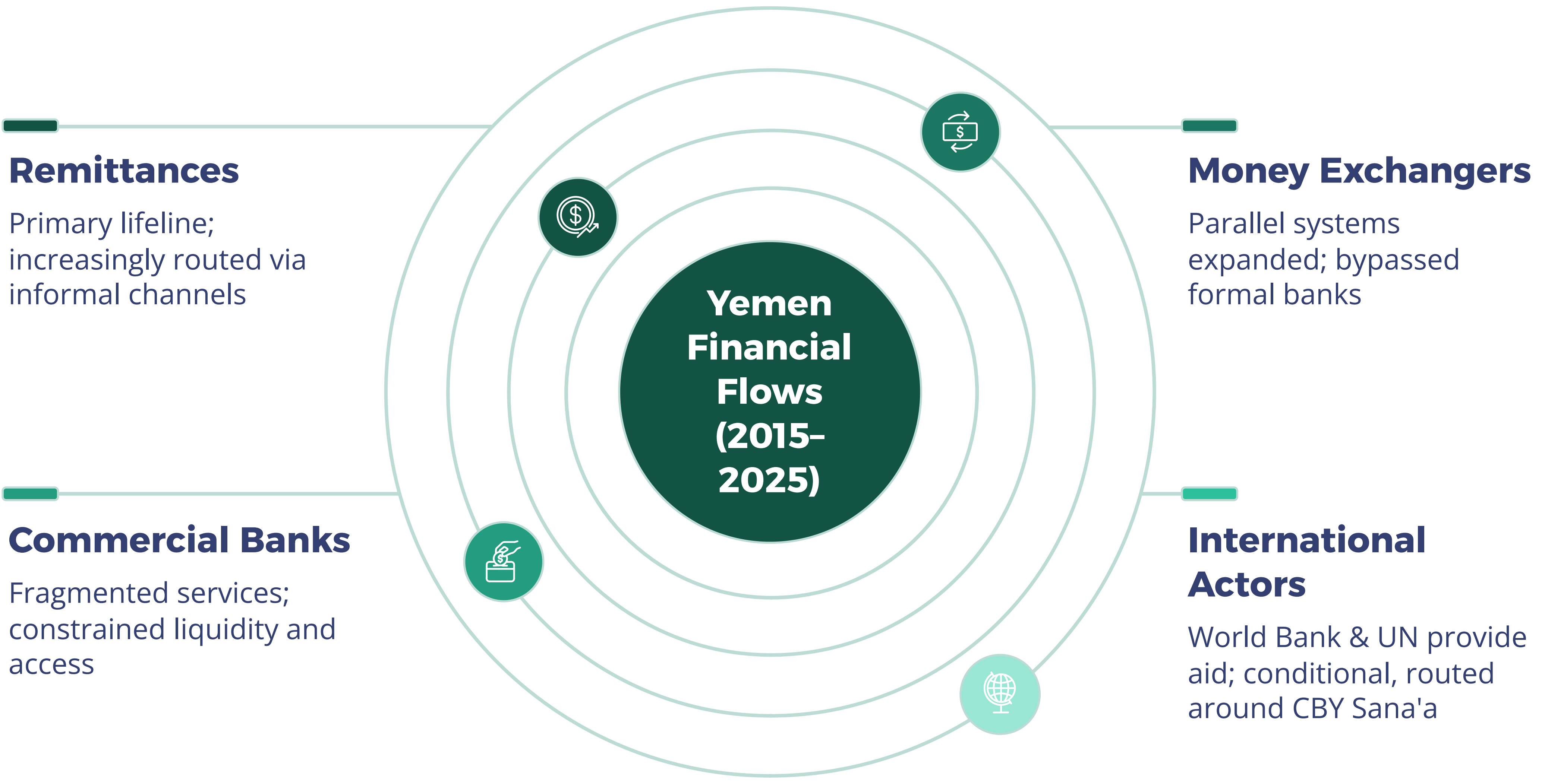
A projected 17.1 million people will face acute food insecurity by February 2025, highlighting the critical humanitarian emergency stemming directly from economic collapse.

The table below further illustrates the alarming deterioration of key economic and social indicators over the past decade, underscoring the systemic nature of the crisis.

Indicator	2014	2023	2025 (Projected)
USD/YER Exchange Rate	~215	~1,200	~2,800
Population	26.5M	37.0M	41.8M
Poverty Rate	~54%	~74%	Worsening

The dramatic increase in the USD/YER exchange rate, nearly 13-fold since 2014, reflects a profound loss of monetary stability and the severe economic fragmentation between northern and southern regions. This currency divergence, coupled with a surging population and an escalating poverty rate, paints a grim picture of humanitarian disaster. The persistent decline in the YER's value, fueled by the absence of coherent national monetary policy and dwindling state revenues, continues to drive inflationary pressures, making essential goods inaccessible for a majority of the population. Addressing this economic breakdown requires urgent, coordinated intervention to restore unified monetary institutions and foster conditions for recovery and stability.

Yemen's Financial Flows Network: A Decade of Transformation (2015-2025)



The financial landscape in Yemen has undergone profound transformations between 2015 and 2025, largely shaped by the ongoing conflict and the resulting fragmentation of state institutions. This network diagram visualizes the intricate web of domestic and external financial flows, highlighting the critical roles played by various actors in sustaining the Yemeni economy.

Key components of this network include:

- **Remittances:** A vital lifeline for many Yemeni households, remittances from the diaspora have consistently been the largest source of external financing, often bypassing formal banking channels.
- **Money Exchangers:** These informal financial service providers emerged as central players, facilitating remittance flows, currency exchange, and liquidity management, particularly as commercial banks faced operational constraints. Their influence significantly increased due to their extensive reach and ability to operate across divided territories.
- **Commercial Banks:** While severely impacted by the conflict and institutional fragmentation, commercial banks continued to play a role, albeit diminished, in facilitating transactions and holding deposits, especially for businesses and organizations.
- **Central Bank of Yemen (CBY) Sana'a and CBY Aden:** The split of the CBY into two rival entities in Sana'a and Aden created a dual monetary framework, complicating financial regulation, currency management, and international financial relations. Their struggle for legitimacy and control over financial resources profoundly influenced flow patterns.
- **World Bank and UN Agencies:** These international actors channel significant humanitarian and development aid into Yemen. Their financial flows often navigate complex operational environments, engaging with both formal and informal financial systems to reach beneficiaries.

Over the decade, the network evolved significantly. The conflict led to a dramatic increase in the reliance on money exchangers as formal banking infrastructure weakened and trust in official institutions eroded. The bifurcation of the CBY disrupted traditional monetary policies and created parallel exchange rates and regulatory environments. International aid, while crucial, had to adapt to this fragmented ecosystem, often empowering non-state actors or informal channels due to operational necessities. This analysis reveals a resilient yet highly vulnerable financial ecosystem, where informal mechanisms have become dominant, reflecting the adaptive strategies employed by Yemenis to cope with prolonged crisis.

The Disintegrated Financial System: A Foundation of Economic Ruin

Yemen's financial sector has fractured along political lines, culminating in a disintegrated system that actively exacerbates economic instability and hinders any prospect of recovery. This fragmentation is not merely an outcome of the conflict but has become a significant driver of humanitarian and economic distress, creating parallel and often contradictory financial architectures.

Dual Central Banks: Eroding Monetary Sovereignty

The existence of two parallel central banks – the Central Bank of Yemen (CBY) in Aden (internationally recognized government) and the CBY in Sana'a (Houthi authority) – represents a profound institutional schism. This dualism has resulted in divergent monetary policies, uncoordinated currency issuance, and a complete absence of a unified national financial strategy. This unprecedented fragmentation of monetary authority directly undermines trust, impedes national economic planning, and creates fertile ground for financial speculation.

Banking Sector in Disarray: Operational Paralysis

The relocation of major bank headquarters to Aden, largely in response to US sanctions targeting Houthi-controlled entities, has created a regulatory and operational nightmare. Banks are forced to navigate conflicting directives from the two CBYs, leading to severe operational inefficiencies, a reluctance to engage in long-term lending, and a substantial reduction in the scope and availability of financial services across the country. This paralysis further constrains private sector activity and hinders capital formation.

Currency Warfare: Hyperinflationary Pressures and Destitution

The deliberate manipulation and devaluation of the Yemeni Rial (YER) by both authorities constitutes a form of economic warfare, with devastating consequences for the civilian population. The Sana'a-issued currency is not recognized in Aden, creating distinct and rapidly diverging exchange rates. The Aden rate, which previously surged to an unprecedented YER 2,905 per USD, reflects the extreme pressures on commodity prices and purchasing power, despite subsequent stabilization measures bringing it to YER 1,676 per USD. This 'currency war' directly fuels hyperinflation, particularly for imported essentials, and systematically impoverishes Yemeni households, trapping them in a cycle of destitution.

Profound Financial Exclusion: Hindering Development and Resilience

The Yemeni financial system exhibits alarming levels of exclusion, with only 6% of adults holding formal bank accounts. This figure plummets even further for the private sector, where an estimated 95% of businesses remain unbanked. Such widespread exclusion severely limits access to credit, prevents efficient capital allocation, and significantly constrains economic growth and resilience. It forces a reliance on informal mechanisms, which, while resilient, lack the regulatory oversight and scale necessary for systemic economic recovery and development.

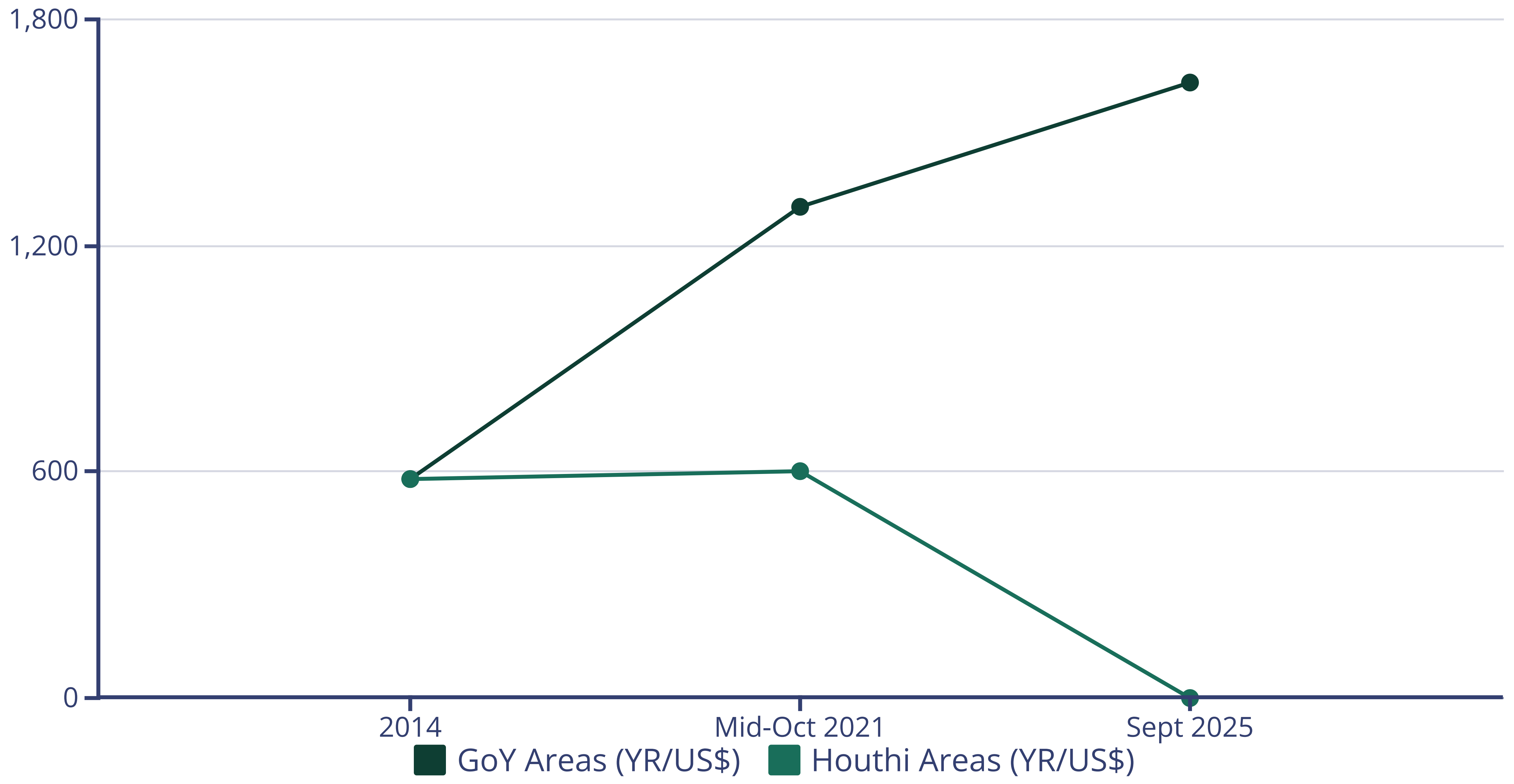
The functional capacity of Yemen's financial ecosystem is further elucidated by the following structural components and operational realities:

Banking Landscape: A Fragile Network Under Duress

- **Operational Banks:** Despite the conflict, **19 financial institutions** continue to operate, comprising 11 commercial banks, 4 Islamic banks, and 4 microfinance banks. This composition highlights a nascent but struggling formal sector, attempting to meet diverse financial needs under immense pressure.
- **Key Commercial Entities:** Notable players like the International Bank of Yemen and the Yemen Bank for Reconstruction & Development represent the core of the traditional banking system, striving to maintain essential services amidst fragmentation.
- **Microfinance as a Lifeline:** Institutions such as Al Amal (18 branches) and Al Kuraimi Islamic (23 branches) play a critical, albeit limited, role in providing financial access to underserved populations, particularly within the informal economy and rural areas. Their extensive branch networks underscore their importance in reaching those most excluded from traditional banking.
- **Dominance of Informal Remittances (Hawala):** The vast majority of financial transactions, especially remittances, bypass the formal banking system. Hundreds of hawala operators facilitate an estimated **$3.4 billion annually** in remittances. This informal network, while vital for humanitarian aid and household survival, signals a profound lack of trust in and accessibility to the formal system, posing significant challenges for national financial stability, monetary policy effectiveness, and anti-money laundering efforts. This reliance on hawala is comparable to other conflict-affected states where formal financial infrastructure has collapsed or been deliberately undermined.

The implications of this fragmented financial system are profound, driving economic stagnation, exacerbating humanitarian crises, and posing formidable challenges to any future efforts at national reunification and economic reconstruction. A unified and functional financial system is a prerequisite for stabilizing the economy and fostering sustainable development in post-conflict Yemen.

Fragmented Economies: Yemen's Diverging Exchange Rates and Monetary Crisis



The line chart above graphically illustrates the profound economic fragmentation gripping Yemen, particularly evident in the escalating divergence of exchange rates since the onset of the conflict in 2015. This phenomenon, known as currency bifurcation, serves as a critical barometer of the country's deepening monetary crisis and the entrenchment of parallel economic systems.

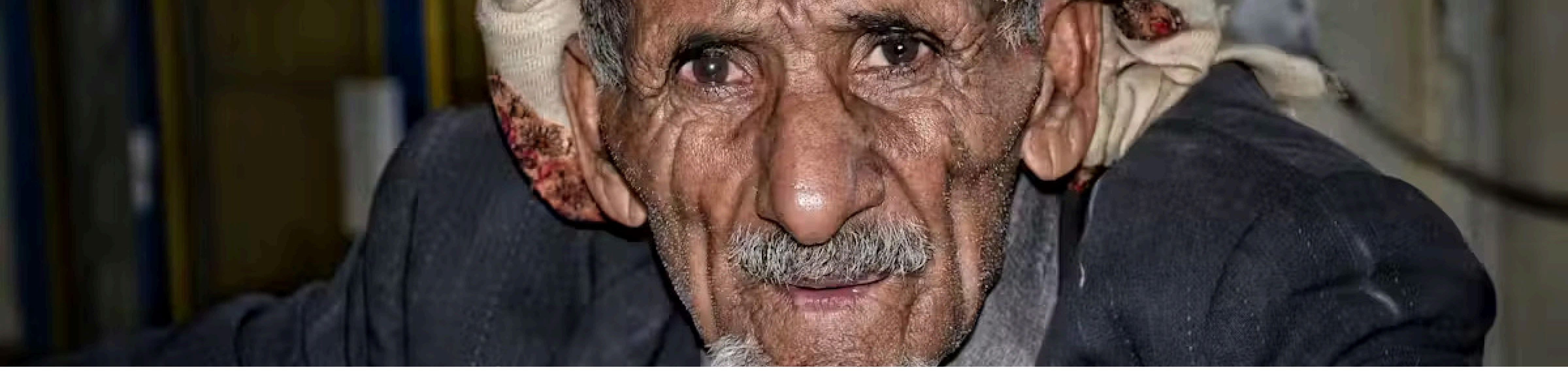
Beginning from a unified pre-war baseline of approximately 580 Yemeni Rials (YR) per US dollar in 2014, the exchange rate initially reflected relative stability across all regions. However, the subsequent years witnessed a dramatic schism. By mid-October 2021, the market-determined exchange rate in Government of Yemen (GoY)-controlled areas had depreciated sharply to around 1,300 YR per US dollar. In stark contrast, Houthi-controlled regions maintained a significantly stronger, albeit arguably artificially stabilized, rate of approximately 600 YR per US dollar.

This widening gap is a direct consequence of the effective division of the Central Bank of Yemen and the implementation of divergent monetary, fiscal, and trade policies by the warring parties. In GoY areas, uncontrolled money supply expansion, dwindling foreign reserves, and a lack of effective economic management fueled hyperinflation and rapid currency depreciation, severely eroding purchasing power and exacerbating humanitarian conditions. Conversely, Houthi areas, through strict import controls, informal capital controls, and a more restricted, less liquid financial environment, managed to suppress depreciation, though often at the cost of market distortions and shortages.

By September 2025, the trajectory in GoY-controlled areas indicates further depreciation to approximately 1,630 YR per US dollar. However, this figure also reflects a significant, albeit partial, appreciation of over 40% from its lowest points (not explicitly shown in the chart's fixed points but implicitly by the September 2025 data compared to earlier predictions/trends) following concerted efforts by the Aden-based Central Bank of Yemen. These efforts include the introduction of new financial controls and mechanisms for import financing, signaling attempts at monetary stabilization and policy coordination despite persistent economic and political challenges. This intervention mirrors patterns seen in other conflict-affected economies where authorities attempt to regain control over inflationary spirals through direct market management.

Policy Implications and Recommendations:

- **Monetary Unification:** A primary goal must be the reunification of the Central Bank and a harmonized monetary policy to restore confidence and stabilize the national currency. This requires political will and consensus among all parties.
- **Economic Reform:** Implementation of transparent fiscal management, revenue collection, and expenditure control is crucial in GoY areas to curb inflation and build sustainable economic foundations.
- **Humanitarian Impact Assessment:** Any policy interventions must be thoroughly assessed for their potential impact on vulnerable populations, ensuring that economic stabilization efforts do not inadvertently deepen the humanitarian crisis.
- **International Support:** Sustained international technical and financial assistance is vital to support Yemen's central bank and broader economic recovery initiatives, focusing on capacity building and anti-corruption measures.



Crisis Timeline: Economic Fragmentation and Collapse

2015: Onset of Conflict and Economic Collapse

The intervention of the Saudi-led coalition following Houthi consolidation of power triggered a profound economic shock. This led to an immediate collapse in real GDP, widespread destruction of infrastructure, disruption of trade routes, and a cessation of critical oil exports, severely depleting state revenues and foreign exchange reserves.

2016: Central Bank Fragmentation

The unilateral relocation of the Central Bank of Yemen (CBY) to Aden resulted in the emergence of dual monetary authorities. This critical institutional schism initiated a "currency war," characterized by divergent monetary policies, escalating exchange rate volatility, and deepening financial fragmentation across the country.

2020-2022: Exacerbated Economic Deterioration

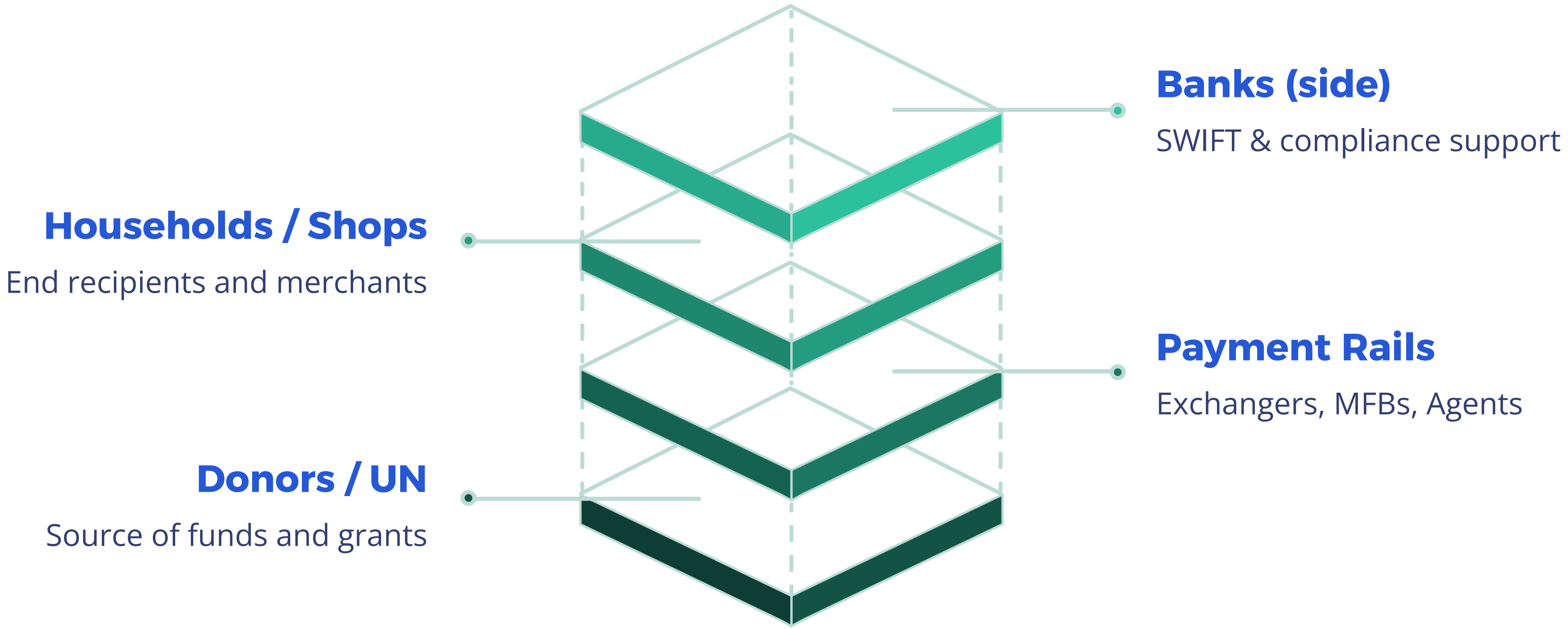
The COVID-19 pandemic further strained Yemen's fragile economy, compounding humanitarian needs and disrupting supply chains. Concurrent attacks on vital oil facilities led to a severe reduction in remaining oil exports, critically impacting fiscal revenues and exacerbating the divergence in currency values between northern and southern regions, hindering inter-regional trade.

2024-2025: Peak Financial Instability

By July 2025, the Yemeni rial reached a record low of 2,905 per USD, fueling hyperinflationary pressures that severely eroded purchasing power. The designation of the Houthis as a Foreign Terrorist Organization (FTO) by the US precipitated the relocation of major banks to Aden, further fragmenting the financial system and complicating the flow of remittances and international transactions, particularly in Houthi-controlled areas.

Shadow Ledger: The Emergence of Off-Bank Financial Settlement

The protracted conflict in Yemen has fundamentally reshaped its financial landscape, leading to the emergence of a 'shadow ledger' where the majority of financial settlements occur outside the formal banking system. This profound shift, driven by the fragmentation of financial authority and a severe erosion of trust, is intrinsically linked to the currency bifurcation illustrated in the preceding analysis. As traditional monetary policy mechanisms ceased to function effectively across all regions, non-bank intermediaries rapidly expanded their operational footprint to maintain critical liquidity and payment flows.



As depicted in the diagram, the core of this system involves humanitarian funding from Donors/UN flowing through a robust network of 'Payment Rails,' comprising informal exchangers, microfinance banks, and agent networks, ultimately reaching Households and Shops. This non-bank infrastructure has become the primary conduit for remittances, aid distribution, and retail transactions. In stark contrast, traditional commercial banks have been largely relegated to providing essential but limited SWIFT and compliance services, primarily for international transfers and correspondent banking relations, underscoring their marginalization from domestic financial intermediation.

The proliferation of this shadow ledger poses significant challenges for future economic stability and recovery. It exacerbates issues of financial exclusion, complicates anti-money laundering (AML) and counter-terrorist financing (CTF) efforts due to reduced oversight, and severely impairs the efficacy of any future unified monetary policy. Understanding the mechanics and resilience of this parallel financial system is crucial for designing effective interventions and rebuilding a transparent, inclusive, and stable financial architecture in post-conflict Yemen.

Decade Timeline: Navigating Yemen's Economic Fragmentation (2015–2025)

This timeline outlines the critical shifts in Yemen's financial landscape, illustrating the progressive fragmentation of its monetary system and the adaptive emergence of informal financial channels in response to protracted conflict and institutional breakdown.

1

2015–2016 — "Systemic Fracture and Monetary Divergence"

- **Central Bank Fragmentation:** The administrative division of the Central Bank of Yemen (CBY) into competing entities led to divergent monetary policies and a critical loss of unified financial governance.
- **Interbank Settlement Collapse:** The disintegration of interbank clearing mechanisms eroded trust and liquidity, effectively paralyzing the formal financial system's ability to facilitate transactions.
- **Rise of Informal Remittances:** Consequently, retail financial activities shifted predominantly to cash-based transactions and the Hawala informal transfer system, bypassing official banking channels due to their dysfunctionality and perceived risk.

2

2017–2019 — "Humanitarian Monetization and Informal Sector Entrenchment"

- **Scaling Cash-Based Humanitarian Aid:** International agencies significantly increased cash-based interventions, becoming a de facto driver of monetary circulation in a liquidity-scarce environment.
- **Reliance on Non-Bank Financial Providers:** Aid disbursements were increasingly channeled through money exchangers and emerging microfinance institutions, leveraging their broader reach and operational capacity in areas where formal banks were defunct.
- **Legitimization of Informal Actors:** This symbiotic relationship unintentionally bolstered the capacity and legitimacy of money exchangers, enabling them to expand their operations, accumulate significant fee income, and fill the vacuum left by commercial banks.

3

2020–2022 — "Accelerated Disintermediation and Shadow Banking Expansion"

- **Erosion of Bank Profitability:** Formal banks experienced a sharp decline in traditional fee-based income streams, forcing a greater reliance on speculative balance-sheet activities and foreign exchange operations to sustain solvency.
- **Intensified Cash Movement Challenges:** The segmentation of financial territories and heightened security risks made the physical movement of cash prohibitively difficult and costly, further fragmenting financial flows.
- **Growth of Extra-Banking Transactions:** A substantial portion of economic activity, including trade finance and salary payments, migrated outside regulated banking channels, solidifying the parallel financial infrastructure.

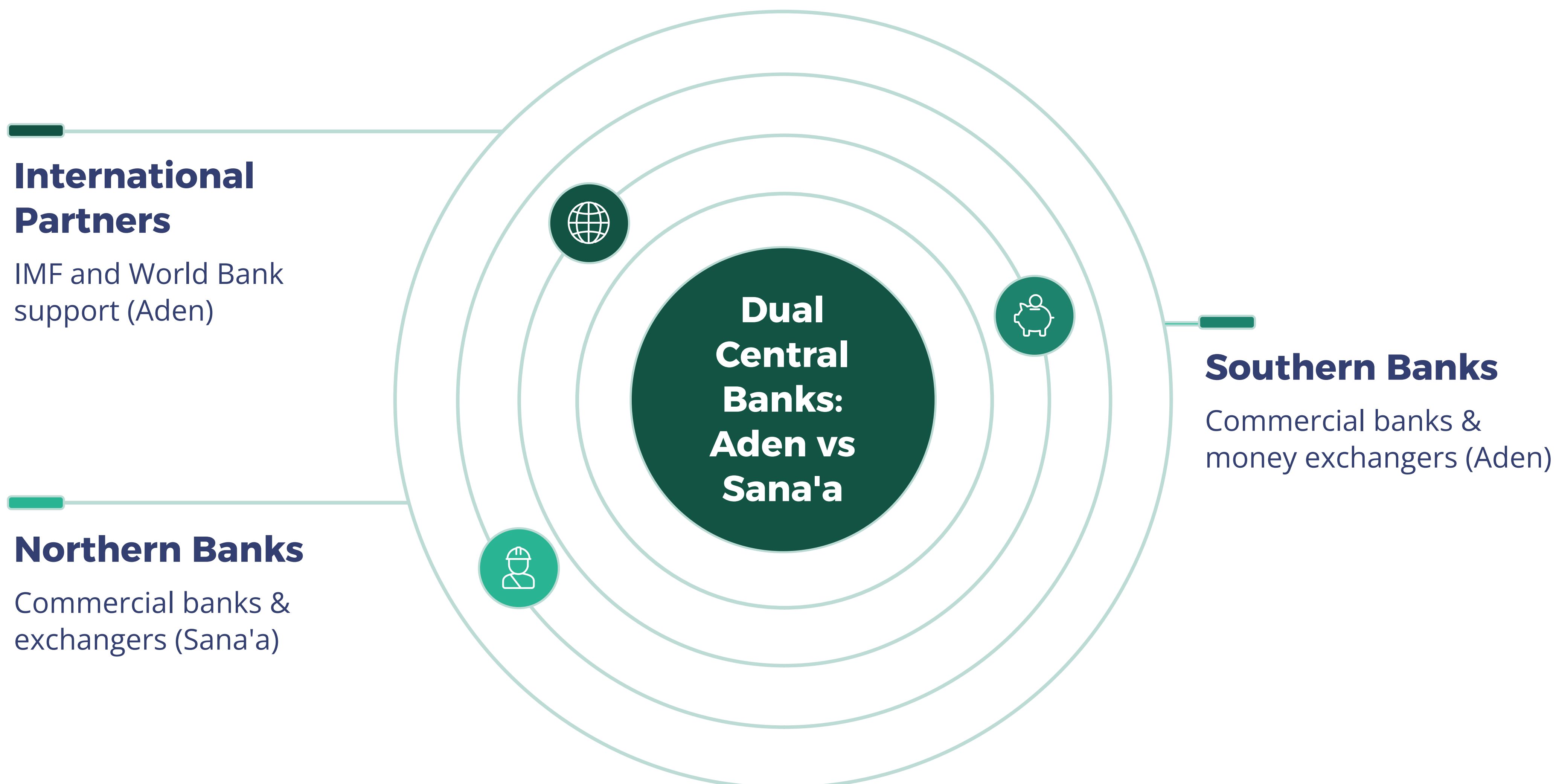
4

2023–2025 — "Formalizing the Informal and Digital Emergence"

- **Regulatory Adaptation for Exchangers:** Money exchanger houses began to transition into licensed microfinance banks, reflecting an attempt by authorities to formalize and regulate previously informal financial flows.
- **Proliferation of Licensing Frameworks:** The increase in licensing for non-bank financial institutions marked a nascent effort to exert regulatory oversight over the expanding shadow financial sector.
- **Digital Payments Expansion:** Mobile money and e-payment platforms witnessed rapid expansion, offering a digital alternative to physical cash constraints and potentially fostering financial inclusion for unbanked populations. These platforms effectively operate as a functional "shadow ledger" in the absence of a unified, robust formal banking system.

Yemen's Dual Central Bank Structure: Fragmentation and Its Impact

The Yemeni financial system is uniquely fractured, operating under two distinct central bank authorities since 2016. This division, a direct consequence of the ongoing conflict, has profound implications for monetary policy, economic stability, and the daily operations of financial institutions across the country.



The split of the Central Bank of Yemen (CBY) occurred in September 2016, when the internationally recognized government relocated its operations from the capital Sana'a to Aden. This move effectively created two parallel monetary authorities:

- **Central Bank of Yemen (Aden):** Recognized by the international community, it is responsible for managing monetary policy in government-controlled southern regions. It maintains foreign relations with international financial institutions, administers Gulf deposits, and plays a crucial role in supporting currency stability and international transactions for its jurisdiction.
- **Central Bank of Yemen (Sana'a):** Operating under the de facto Ansar Allah authority, it manages financial affairs in the northern regions. Its functions include tax and customs collection, regulatory oversight of northern commercial banks, and the implementation of independent monetary policies, leading to a distinct financial ecosystem in the north.

This institutional fragmentation has led to a severe lack of monetary policy coordination. Each central bank issues its own currency notes (though the Sana'a branch initially demonetized newer notes printed by Aden), sets different exchange rates, and implements independent regulations. The result is a divergence in inflation rates and economic conditions between the north and south, further exacerbating humanitarian and economic challenges.

For commercial banks and money exchangers, navigating this bifurcated system presents significant operational challenges. They are often forced to operate under two sets of regulations, dealing with different currency valuations and conflicting directives. This complicates inter-regional trade, impedes the flow of capital, and increases transaction costs, ultimately affecting businesses and individuals alike who rely on these vital financial services.

The Tale of Two Central Banks

Central Bank–Aden

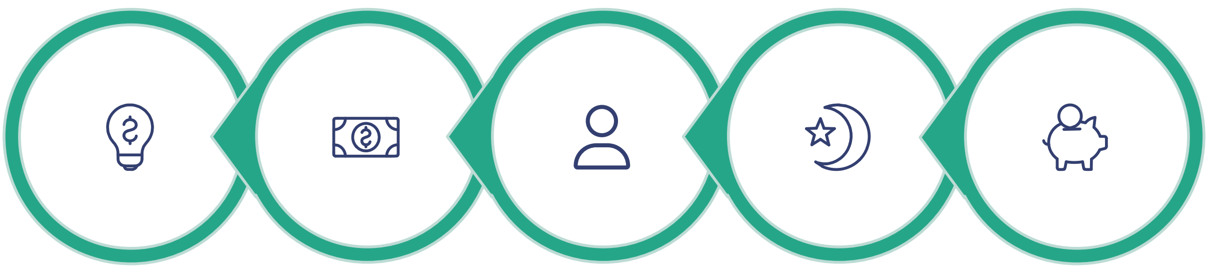
Internationally recognised authority operating under the legitimate government. Manages monetary policy in southern regions, maintains foreign relations with international financial institutions, and administers Gulf deposits supporting currency stability.

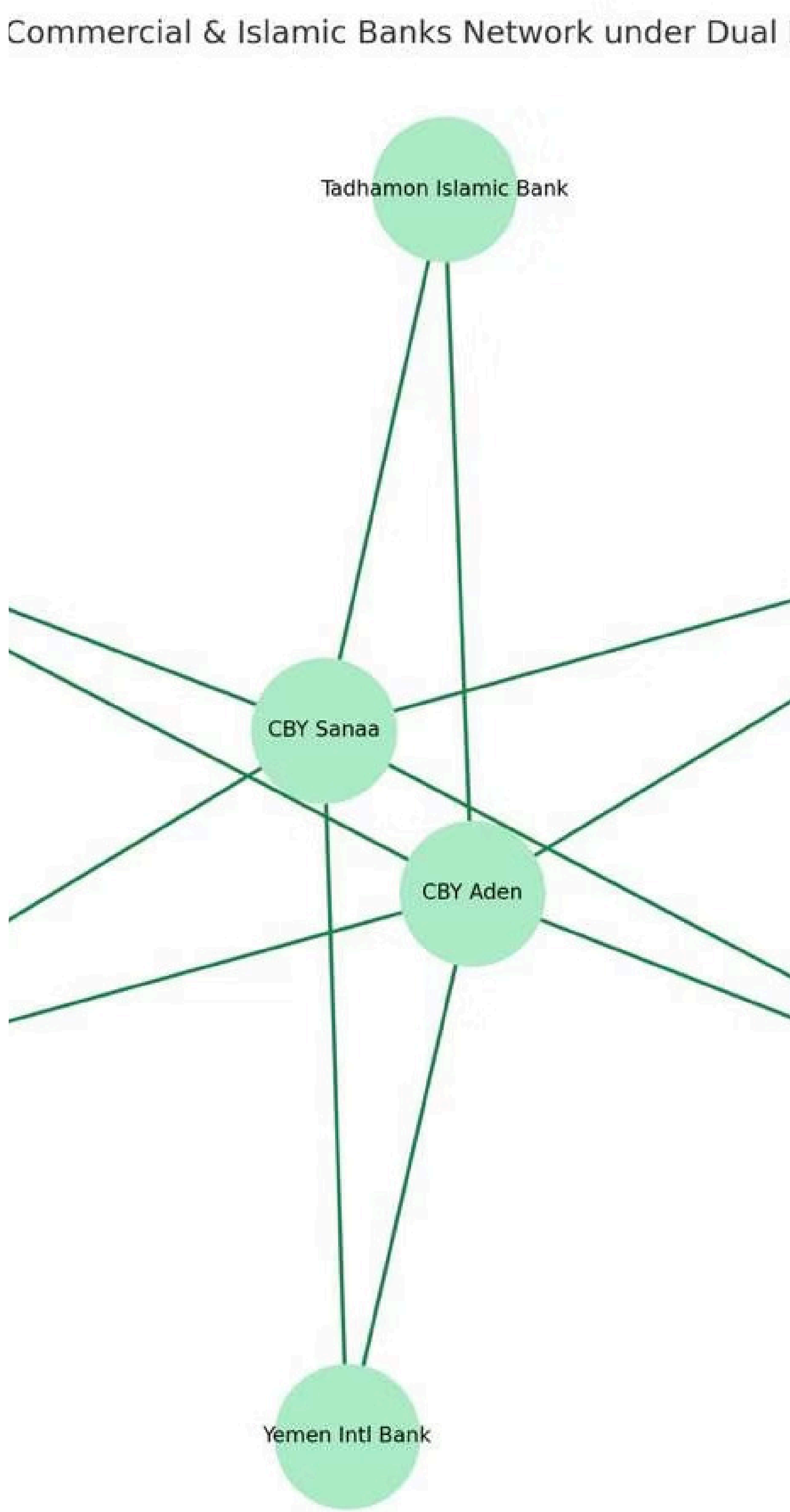
Central Bank–Sana'a

De facto authority under Ansar Allah control in northern regions. Manages tax and customs collection, exercises regulatory oversight of northern commercial banks, and implements independent monetary policies, creating parallel financial systems.

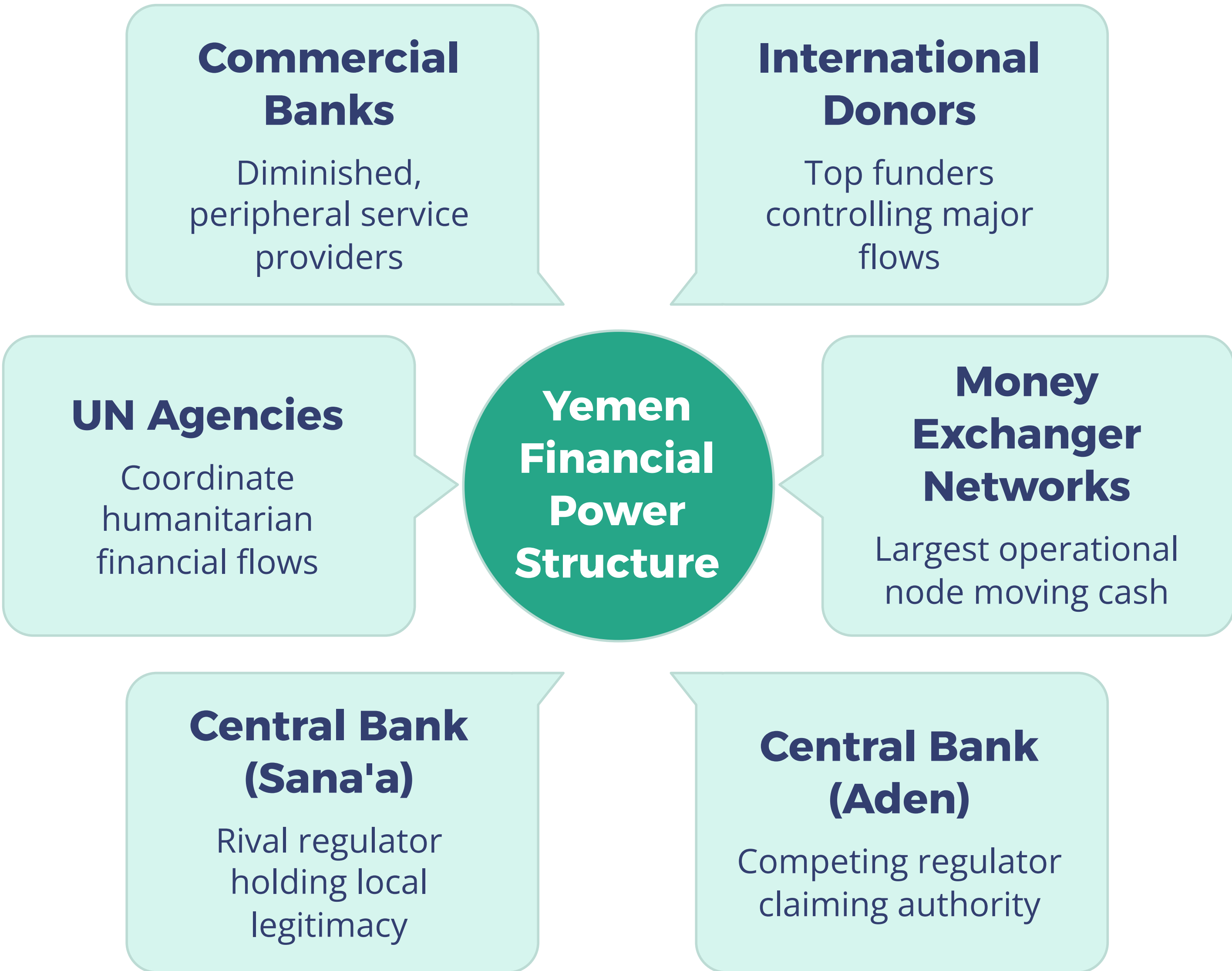
This institutional fragmentation represents the core challenge facing Yemen's financial system, with two competing monetary authorities issuing currency, setting policy, and regulating banking operations independently.

هيكل النظام المالي والمصرفي في اليمن (2022)





Current Financial Power Architecture



Dominant Players

- Money exchanger networks
- Microfinance institutions
- International donor agencies

Weakened Actors

- Commercial banks
- Fragmented central banks
- State financial institutions

Power Sources

- Operational reach
- Liquidity access
- Public trust

🟨 ثانياً: هيكل النظام المالي والمصرفي

الجدول (2): القطاع المصرفي والمؤسسي في اليمن (2022)

الفئة	العدد	أبرز الأمثلة	نطاق النشاط
البنوك التجارية	11	بنك اليمن الدولي، بنك الإنشاء والتعمير، بنك التسليف التعاوني الزراعي	تغطية وطنية جزئية
البنوك الإسلامية	4	بنك التضامن، بنك سبأ، بنك الشامل	في الشمال والجنوب
بنوك التمويل الأصغر	4	بنك الأمل، بنك الكريمي	تركز في المدن الكبرى
شركات الصرافة الكبرى	120+	الكريمي، العمقي، الصيفي	شبكات وطنية للحوالات
شركات تحويلات خارجية	20+	شبكات مغتربين (السعودية، مصر، شرق إفريقيا)	تحويلات بالعملة الصعبة
البنك المركزي – عدن	1	الحكومة الشرعية	إدارة السياسة النقدية جنوباً
البنك المركزي – صنعاء	1	سلطات الأمر الواقع	إدارة النقد والإيرادات شمالاً

Banking and Financial Infrastructure

Commercial Banks (11)

Including Yemen International Bank, Construction and Development Bank, and Agricultural Cooperative Credit Bank. These institutions provide partial national coverage but face operational constraints due to the divided monetary system and limited liquidity.

Islamic Banks (4)

Tadhamon Bank, Saba Bank, and Al-Shamil Bank operate across northern and southern territories, offering Sharia-compliant financial services. They maintain relatively stronger cross-regional presence despite political divisions.

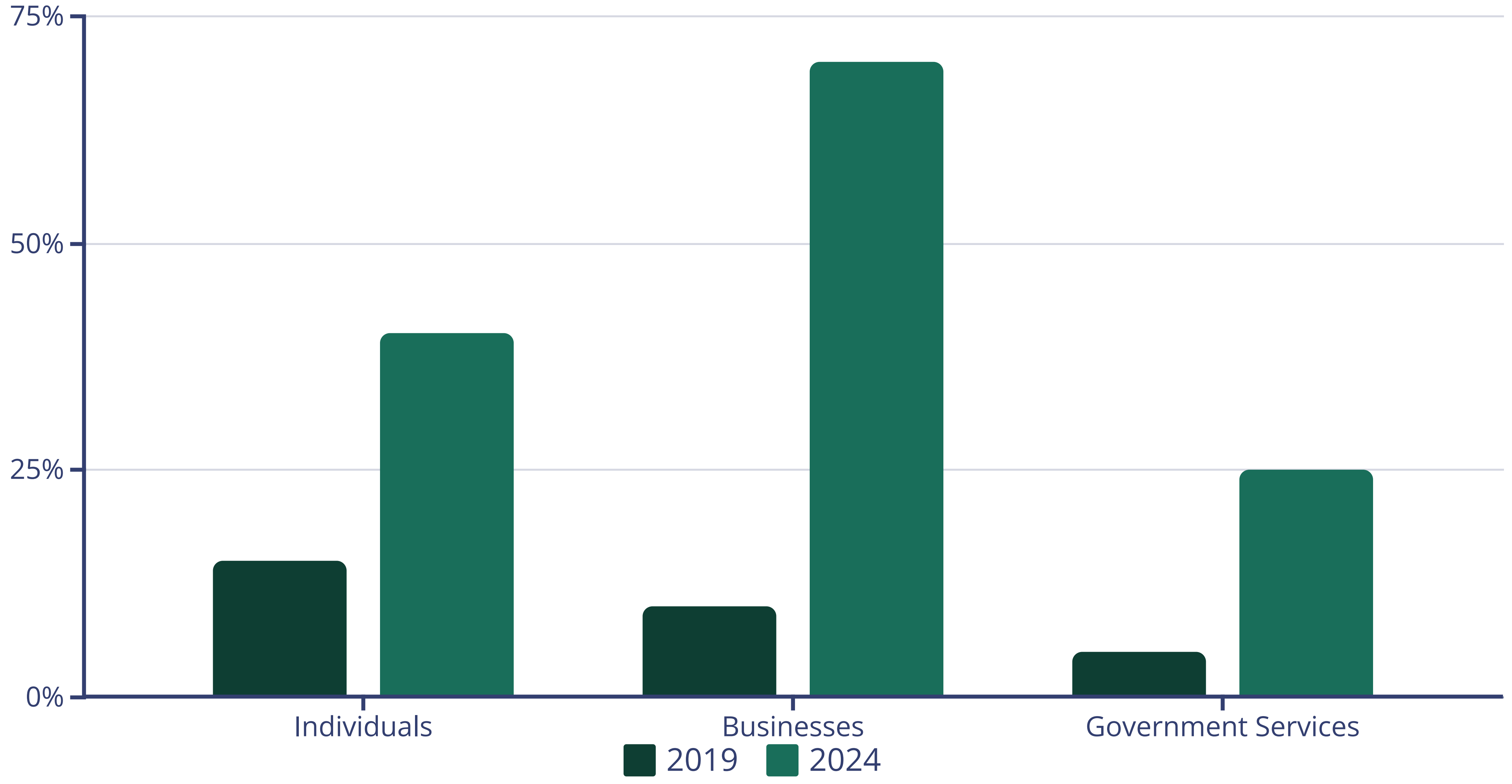
Microfinance Banks (4)

Al-Amal Bank and Al-Kuraimi Microfinance Bank focus on urban centres, providing small-scale lending to entrepreneurs and households. Their operations remain concentrated in relatively stable areas with functioning infrastructure.

Exchange Houses (120+)

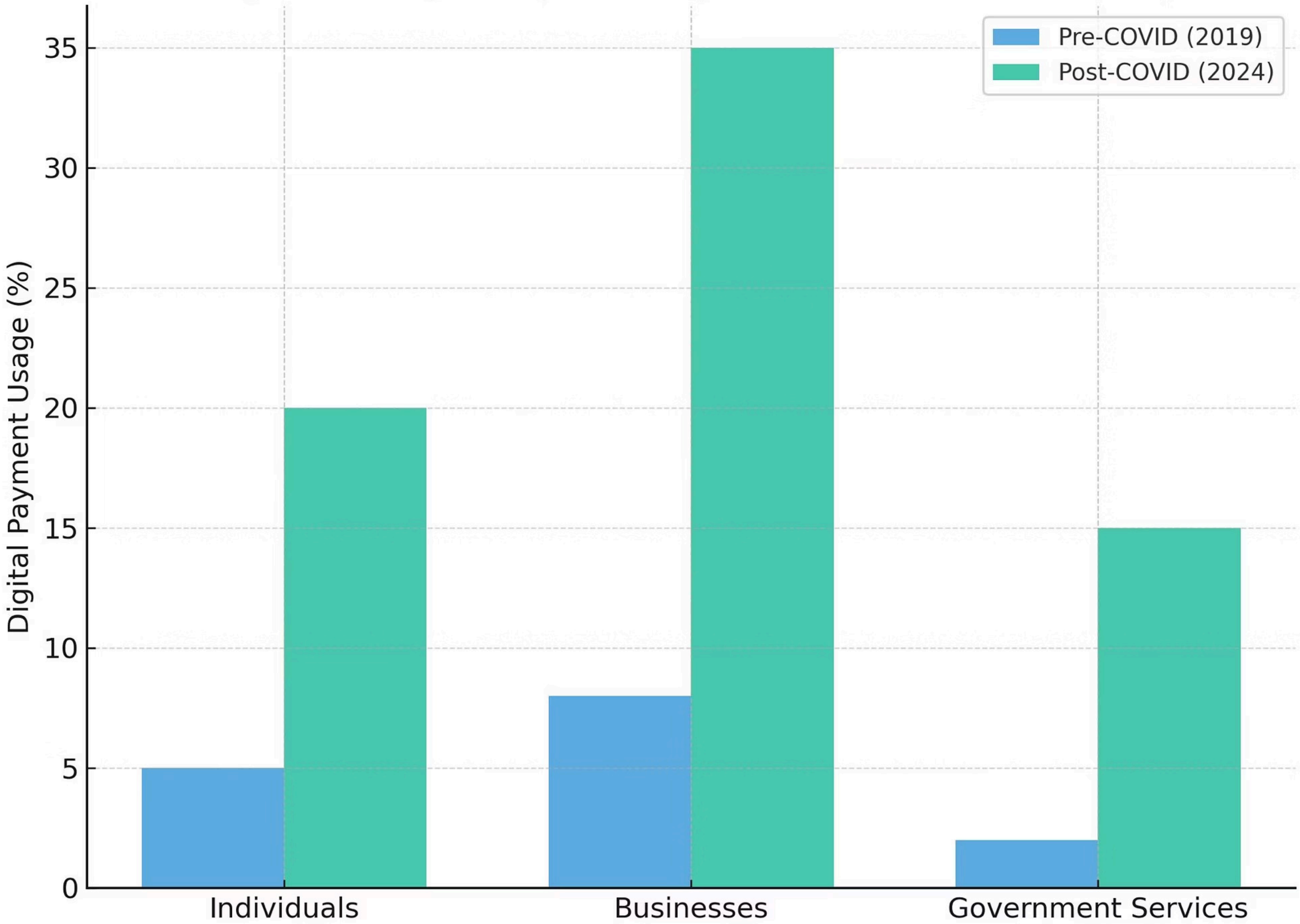
Al-Kuraimi, Al-Omgy, and Al-Saifi lead extensive nationwide networks facilitating domestic and international remittances. These informal financial service providers often fill gaps left by formal banking sector constraints.

Digital Payment Adoption in Yemen



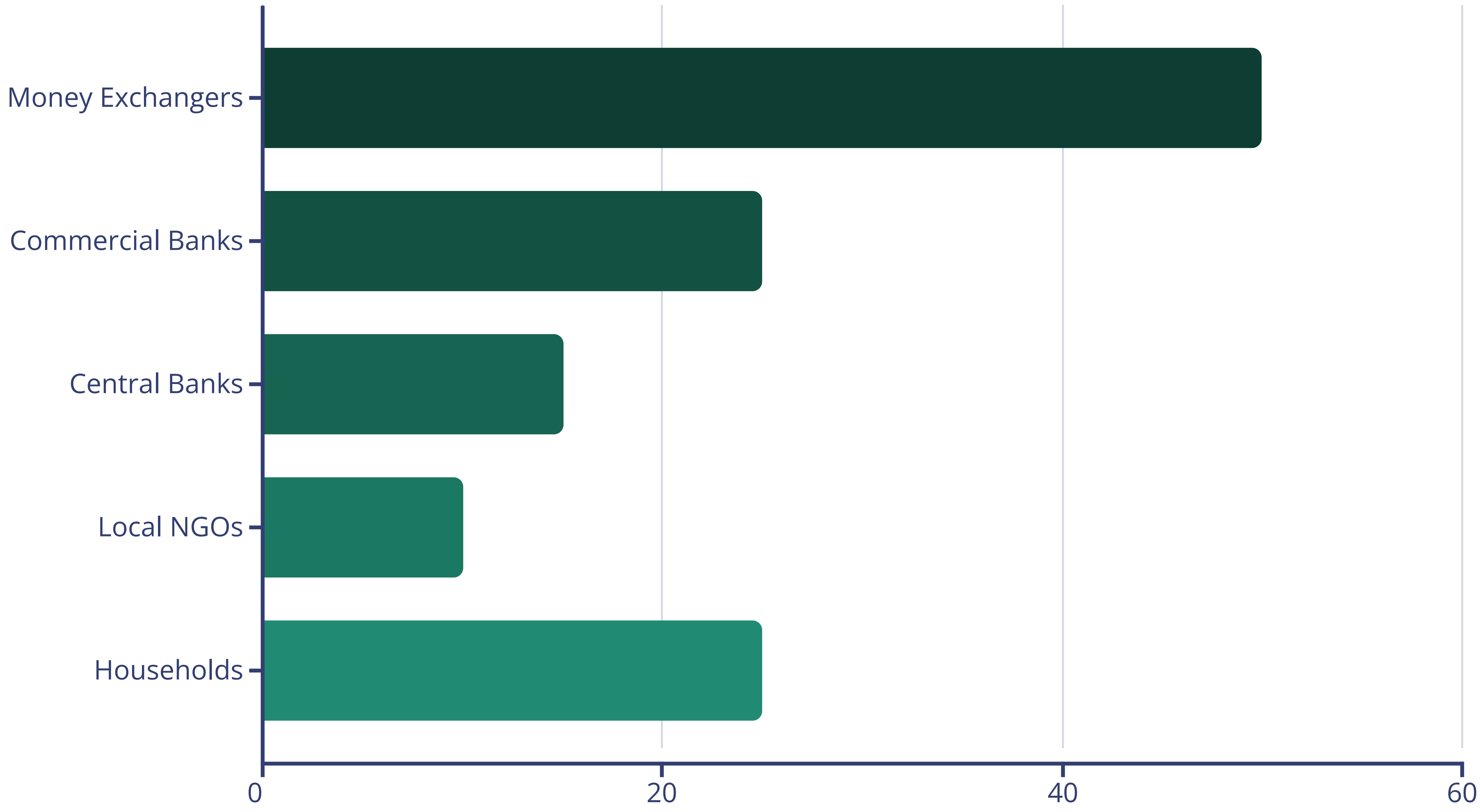
The chart above illustrates the dramatic increase in digital payment adoption across Yemen from pre-COVID (2019) to post-COVID (2024). While all categories show significant growth, businesses have experienced the most profound shift, with adoption rates skyrocketing from an estimated 10% in 2019 to 70% in 2024. This highlights a fundamental change in how commercial transactions are conducted, driven by necessity and the evolving financial landscape. Individual use has also more than doubled, and even government services have seen substantial increases in digital payment integration.

Figure 12 – Digital Payment Adoption in Yemen (2019 vs 2024)

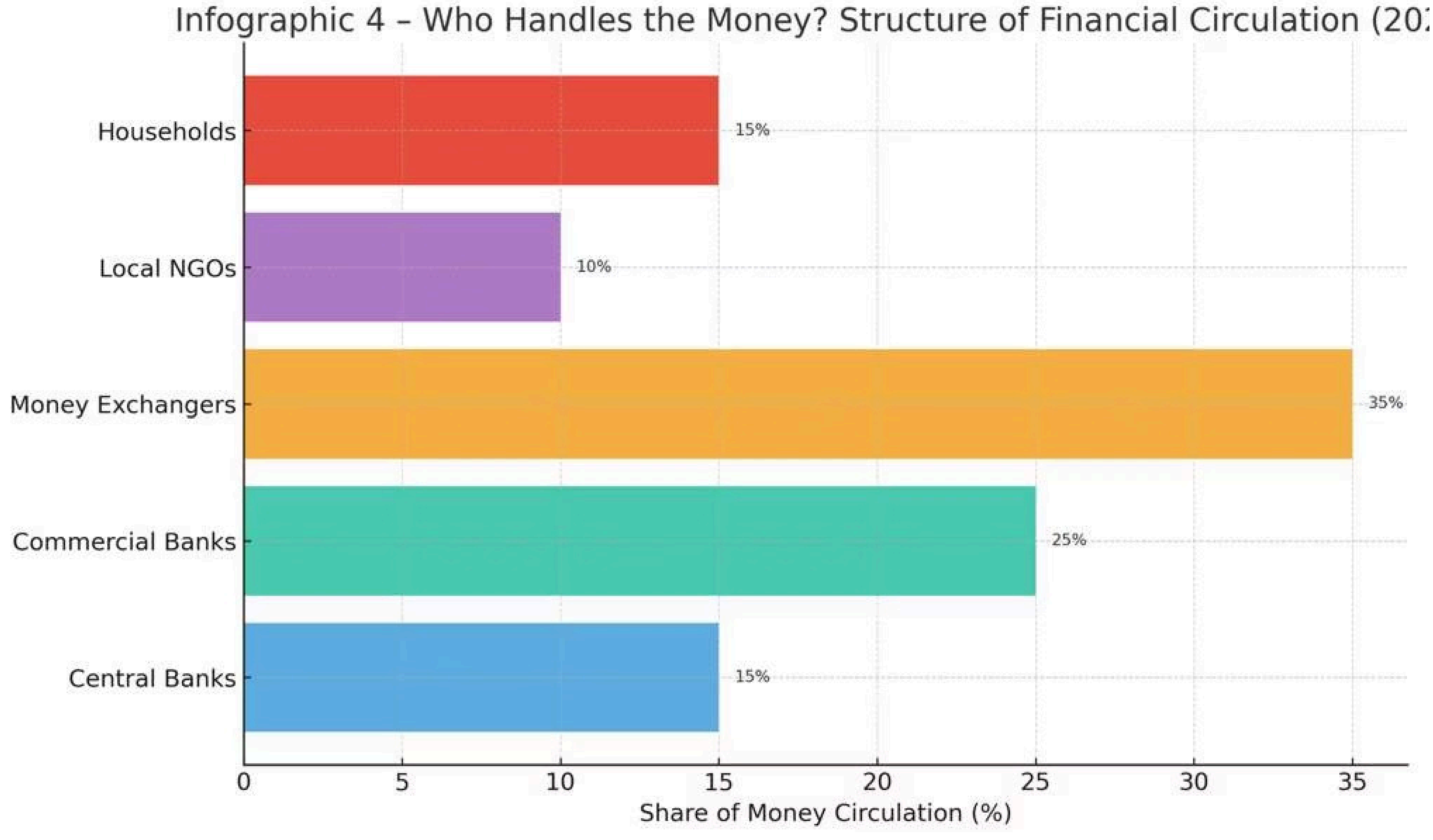


Financial Circulation Structure

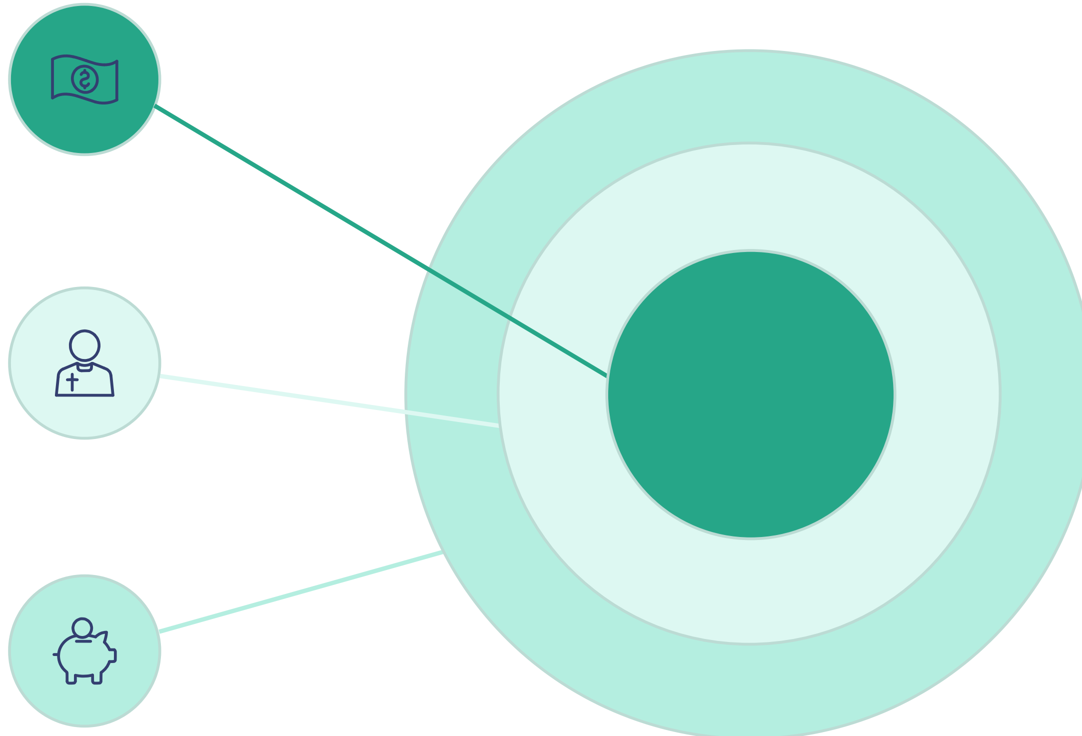
Understanding who handles the money in Yemen's financial system is crucial for grasping its unique dynamics. The chart below illustrates the approximate share of money circulation handled by various key actors.



This distribution highlights the significant role played by non-traditional financial actors, particularly money exchangers and households, in facilitating financial transactions across the country. Commercial banks and central banks maintain a presence, but their overall share in circulation reflects the fragmented and complex financial landscape.



تحليل النفوذ المالي والتدفقات المالية في اليمن



نفوذ - مرتفع الصرافون وشبكات الحوالة، المانحون الدوليون.

نفوذ متوسط - سلطات صنعاء (أنصار الله)، المجتمع المدني المحلي.

نفوذ منخفض - الحكومة الشرعية (عدن)، المجلس الانتقالي الجنوبي، البنوك التجارية والإسلامية.

يوضح الرسم البياني الدائري مستويات التأثير المالي لمختلف الجهات الفاعلة الرئيسية في اليمن، حيث تتمتع جهات مثل الصرافين ومانحين دوليين بنفوذ مرتفع، بينما تمتلك الجهات الأخرى مستويات نفوذ متفاوتة.

Key Stakeholders and Financial Influence

Actor	Status	Financial/Monetary Influence	Level of Control
Recognised Government (Aden)	Internationally recognised	Currency issuance, foreign relations, Gulf deposits	Partial in South
Sana'a Authorities (Ansar Allah)	De facto authority	Tax and customs collection, northern bank oversight	Near-complete in North
Southern Transitional Council	Armed political component	Local revenue and expenditure control	Partial in Aden & Al-Dhale'
Commercial & Islamic Banks	Divided private sector	Limited banking intermediation	Partial nationwide
Exchange Houses & Networks	Informal private sector	Remittances and cash liquidity control	High influence
International Donors	Financing institutions	Conditional humanitarian and development support	High, selective
Local Civil Society	Project implementers	Limited by external funding	Moderate in stable areas

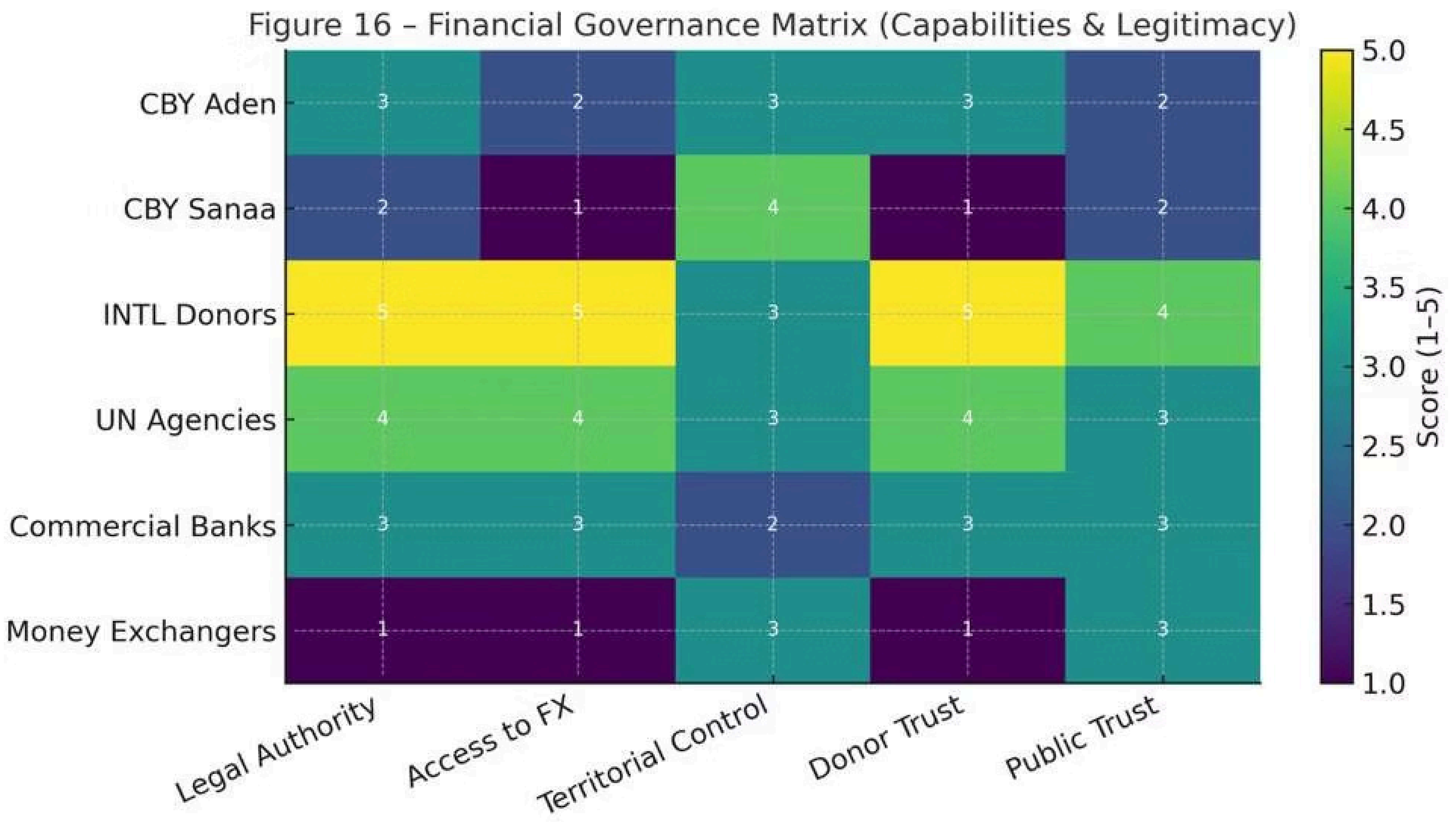
🟧 رابعاً: الفاعلون الرئيسيون وخريطة النفوذ المالي

الجدول (4): الجهات الفاعلة الرئيسة وتأثيرها المالي

الفاعل	الصفة	النفوذ المالي/المصرفي	مستوى السيطرة
الحكومة الشرعية (عدن)	سلطة معترف بها دولياً	إصدار نقدي – علاقات خارجية – ودائع خليجية	**جزئي في الجنوب**
سلطات صنعاء (أنصار الله)	سلطة أمر واقع	تحصيل ضرائب وجمارك – رقابة على البنوك الشمالية	**شبه كامل في الشمال**
المجلس الانتقالي الجنوبي	مكوّن سياسي مسلّح	تحكم محلي بالإيرادات والنفقات	**جزئي في عدن والضالع**
البنوك التجارية والإسلامية	قطاع خاص منقسم	الوساطة المصرفية المحدودة	**وطني جزئي**
الصرافون وشبكات الحوالة	قطاع خاص غير رسمي	تحويلات وتحكّم بالسيولة النقدية	**مرتفع**
المانحون الدوليون	مؤسسات تمويل وتنمية	دعم إنساني وتنموي مشروط	**مرتفع انتقائي**
المجتمع المدني المحلي	منفّذ مشاريع	محدود بالتمويل الخارجي	**متوسط في المناطق المستقرة**

Financial Governance Matrix: Capabilities and Legitimacy

This matrix provides a comprehensive assessment of the capabilities and legitimacy of key financial actors in Yemen. The heatmap image below visually represents scores across critical dimensions, offering insight into their relative influence and operational capacity within the complex Yemeni financial landscape.



Understanding the Dimensions:

Legal Authority

Reflects the extent to which an actor's financial operations are officially recognized and sanctioned by national and international laws and institutions.

Access to Foreign Exchange (FX)

Measures an actor's ability to acquire, control, and disburse foreign currencies, crucial for international trade, remittances, and economic stability.

Territorial Control

Indicates the physical geographic areas where an actor can effectively implement and enforce financial policies and operations.

Donor Trust

Represents the level of confidence international humanitarian and development donors place in an actor for effective and accountable financial management.

Public Trust

Gauges the confidence and reliance of the general population and local businesses on an actor for financial services and stability.

Key Insights from the Heatmap:

The heatmap reveals critical disparities and strengths among financial actors:

- **Central Bank of Yemen (CBY) - Aden:** Scores high on "Legal Authority" and "Donor Trust" due to its international recognition. However, its "Territorial Control" is significantly limited, primarily to southern regions, impacting its overall operational reach and economic influence across Yemen.
- **Central Bank of Yemen (CBY) - Sana'a:** Demonstrates strong "Territorial Control" across northern areas, reflecting its de facto authority. Conversely, it scores low on "Legal Authority" and "Donor Trust" due to lack of international legitimacy, severely constraining its access to international financial systems and foreign exchange.
- **Money Exchangers:** Exhibit high "Public Trust" as they are often the primary and most accessible channel for remittances and cash liquidity for ordinary citizens. However, their "Legal Authority" is typically low, operating largely within informal structures, which can pose risks to financial transparency and regulation.
- **International Donors:** Naturally, they score high on "Donor Trust" as they are the source of this trust. While they have significant "Access to FX" and financial resources for aid, their direct "Operational Presence" and "Territorial Control" are limited, relying heavily on local partners for implementation.

This matrix underscores the fragmented nature of Yemen's financial landscape, where no single actor possesses high scores across all dimensions, necessitating complex coordination for economic stability and humanitarian response.

🟥 خامساً: مصفوفة المخاطر والتوصيات (2025-2027)

الجدول (5): تقييم المخاطر والسياسات المقترحة

الجهة المسؤولة	الإجراءات المقترحة	مستوى الخطورة	محور المخاطر
البنكين المركزيين / الأمم المتحدة	إنشاء لجنة نقدية مشتركة برعاية أممية	مرتفع جداً	استمرار الانقسام النقدي
البنك المركزي – عدن	إطلاق برنامج استبدال منظم للأوراق التالفة	مرتفع	انهيار الثقة بالعملة
الحكومة والمانحون	برنامج دفع رواتب عبر منصة رقمية ممولة من الصندوق الدولي	مرتفع	توقف رواتب القطاع العام
البنوك / مؤسسات التمويل	توسيع التمويل الأصغر والمدفوعات الإلكترونية	متوسط	ضعف الشمول المالي
وزارة التخطيط / البيئة	تأسيس وحدة وطنية للتمويل المناخي	مرتفع	عجز التمويل المناخي
البنكين المركزيين	نظام رقابة موحد ومتابعة تراخيص الصرافين	متوسط	مخاطر غسل الأموال والتحويلات غير الرسمية

Critical Risk Assessment Matrix

Monetary Division

Risk Level: Critical

The continued operation of two competing central banks undermines monetary sovereignty and economic coordination. Proposed intervention: establish a joint monetary committee under UN auspices to harmonise currency management and monetary policy.

Responsible: Both Central Banks / UN

Currency Confidence Collapse

Risk Level: High

Erosion of trust in the riyal requires immediate action. Recommended approach: launch organised currency replacement programme for damaged notes, supported by international financial institutions to restore public confidence.

Responsible: Central Bank—Aden / IMF

Public Sector Salary Crisis

Risk Level: High

Irregular salary payments threaten social stability. Solution: implement digital payment platform funded by international donors, ensuring transparent and timely disbursement to government employees across all regions.

Responsible: Government / Donors

Financial Exclusion

Risk Level: Moderate

Limited access to formal financial services restricts economic participation. Strategy: expand microfinance institutions and digital payment systems to underserved populations, particularly in rural areas and conflict-affected zones.

Responsible: Banks / MFIs

Emerging Challenges: Climate Finance and Money Laundering

Yemen faces severe climate vulnerabilities—water scarcity, agricultural disruption, and extreme weather events—yet lacks dedicated climate finance mechanisms. Establishing a national climate finance unit within the Ministry of Planning and Environment is essential to access international climate funds. This unit would coordinate with the Green Climate Fund and other multilateral mechanisms, developing bankable climate adaptation and mitigation projects tailored to Yemen's specific vulnerabilities.

Money Laundering and Informal Transfers

Risk Level: Moderate

The proliferation of informal exchange houses and unregulated remittance channels creates vulnerabilities for illicit financial flows. A unified regulatory framework, coordinated between both central banks, must enforce licensing requirements and transaction monitoring for

International Aid Composition (2015-2025)

Analyzing Shifts in International Funding for Yemen

The stacked bar chart above illustrates a significant evolution in the composition of international aid directed towards Yemen between 2015 and 2025, reflecting a dynamic response to the country's protracted crisis. Initially, from 2015 through 2019, humanitarian aid (represented in red) was the overwhelmingly dominant form of assistance. This period corresponds to the peak intensity of the conflict, with funding primarily focused on addressing immediate life-saving needs such as food, shelter, and medical care for a population facing widespread displacement and acute shortages.

A notable shift begins around 2020, where there is a gradual but consistent increase in development funding (blue). This indicates a strategic pivot by international donors and organizations towards longer-term recovery efforts, even amidst ongoing instability. Development aid aims to strengthen local institutions, rebuild infrastructure, support livelihoods, and foster economic resilience, signaling a recognition that purely humanitarian responses are insufficient for sustainable recovery. The growth in development funding suggests an attempt to transition from emergency relief to building foundational elements for future stability.

Furthermore, the later years of the depicted period, particularly from around 2022 onwards, show the introduction and gradual expansion of stabilization funding (green). This type of aid is crucial for re-establishing governance, supporting peace processes, reintegrating displaced populations, and mitigating further conflict. The emergence of stabilization funding highlights a comprehensive approach that acknowledges the interconnectedness of humanitarian needs, development goals, and political stability.

These shifts in aid composition have profound implications for Yemen's recovery and the channels through which financial flows occur. The early reliance on humanitarian aid primarily funneled resources through large international NGOs and UN agencies, often bypassing formal banking systems due to their collapse or limited reach. As development and stabilization funding increase, there is a greater potential for engaging local implementing partners, supporting governmental structures (where feasible), and utilizing existing, albeit fragmented, financial institutions. This evolution presents both opportunities for strengthening Yemen's internal capacity and challenges in ensuring transparency, accountability, and effective delivery across a complex and diverse financial landscape.

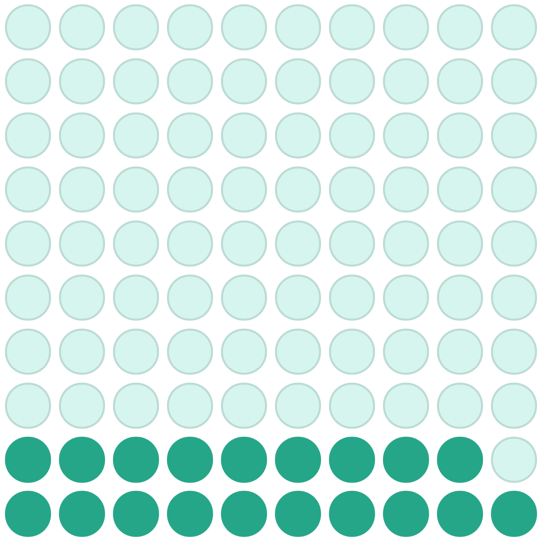
Escalating Humanitarian Crisis: Under-funding, Inefficiency, and Systemic Vulnerabilities

Persistent Funding Deficits and Escalating Food Insecurity

As of September 2025, the humanitarian response in Yemen faces critical under-resourcing, with only 19% of the required $2.5 billion appeal secured. This chronic shortfall directly correlates with a severe deterioration in food security; the World Food Programme reports a staggering 62% of Yemenis now experience inadequate food consumption, representing a 15% increase from the previous year's assessment. This trend underscores a worsening humanitarian catastrophe driven by insufficient international commitment. While major donors include the World Bank ($3.9B since 2016), Saudi Arabia, UAE, and UN agencies, escalating U.S. sanctions introduce significant systemic risk, threatening to further disrupt critical humanitarian aid delivery channels and essential remittance flows, which are lifelines for the Yemeni populace.

Disparity in Aid Delivery: The Underutilized Potential of Local NGOs

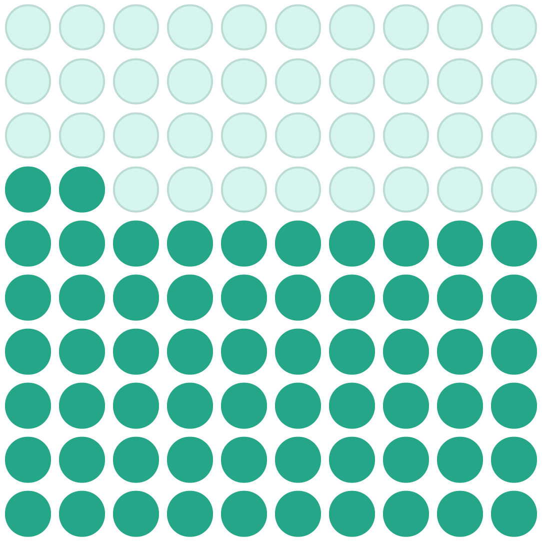
Despite the operational presence of approximately 90 national non-governmental organizations, a mere 20% of humanitarian funds are channeled through local entities. This figure remains substantially below the internationally recognized target of 40% for direct local funding. This persistent gap not only compromises the efficacy and sustainability of aid efforts by sidelining community-rooted actors with invaluable contextual understanding and reach, but also impedes the critical capacity-building necessary for long-term recovery and resilience. Maximizing local engagement is crucial for culturally sensitive, cost-effective, and ultimately more impactful humanitarian interventions in the fragmented Yemeni context.



19%

Humanitarian Appeal Funding Rate

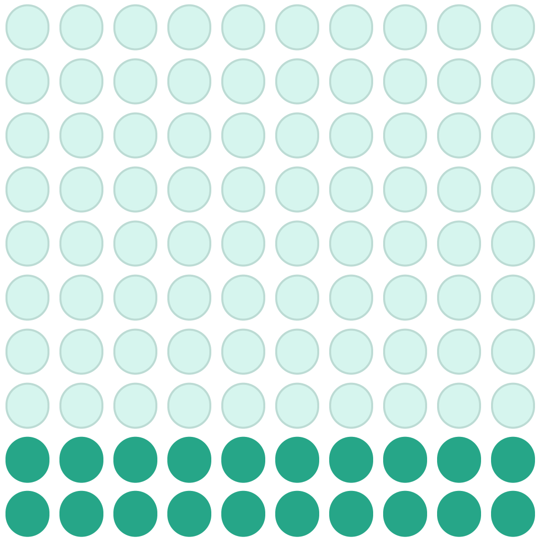
Percentage of 2025 target met



62%

Population Facing Food Insecurity

Direct impact of under-funding



20%

Aid Localized Through Yemeni NGOs

Well below the 40% efficiency target

التدفقات المالية في اليمن

الإيرادات الداخلية الضرائب (20%)، الجمارك (15%)، إيرادات نفطية وغازية (10%)، إيرادات الاتصالات (5%).

التدفقات المالية في اليمن

الدعم الخارجي المساعدات الإنسانية (30%)، الودائع الخليجية (10%)، تحويلات المغتربين (10%).

🟦 ثالثاً: المساعدات الإنسانية والتمويل الدولي (2016–2025)

الجدول (3): التدفقات المالية الخارجية الرئيسة

الجهة المانحة / المصدر	إجمالي التمويل (مليار دولار)	طبيعة التمويل	الملاحظات
مؤسسة التنمية الدولية (البنك الدولي)	3.9	منح تنموية وإنسانية	**برامج الغذاء والصحة والحماية**
السعودية والإمارات	2.5 (تقديري)	ودائع ومنح نقدية	**دعم استقرار العملة في عدن**
الأمم المتحدة (منظومة وكالاتها)	16.5	مساعدات إنسانية منذ 2015	**برامج طارئة قصيرة الأمد**
الاتحاد الأوروبي والدول الإسكندنافية	1.2	دعم حوكمة وتمكين محلي	**برامج في الحكم الرشيد والمرأة**
تحويلات المغتربين (قطاع خاص)	30+ (تراكمي)	تحويلات فردية	**أكبر مصدر عملة أجنبية مستمر**

الرسوم المقترحة:

- **رسم دائري (Pie Chart):** يوضّح نسب المساهمين في إجمالي التمويل.
- **مخطط زمني (Timeline):** يربط سنوات الحرب مع ذروات تدفق المساعدات وتراجعها.

Causal Analysis: Did Emergency Cash Create This System?

Pre-Existing Conditions

Risk-averse banking sector, treasury asset concentration, weak intermediation, and strong informal networks already in place before 2015.

Market Forces

Remittances, trader finance, and public-salary arrears were flowing through hawala channels regardless of humanitarian interventions.

ECT's Distinctive Effect

Scale and legitimacy: routing nationwide social protection through exchangers accelerated capacity-building and normalized these rails for all transactions.

Key Finding: Emergency cash transfers didn't create hawala dominance—they institutionalized and accelerated it. The intervention was necessary for humanitarian outcomes but had lasting structural consequences that require deliberate policy responses.

Counterfactual Scenarios: Testing Alternative Paths

If ECT Had Been Paused Mid-Stream

Short-term: Sharp consumption shock affecting food security, rent payments, and medicine access. Negative coping mechanisms including distress asset sales and increased child labor risk.

Medium-term: No structural re-banking occurs. Retail flows remain on exchanger rails through remittances and trader credit. Aid-driven path dependency slows but shadow infrastructure persists.

If No ECT Had Been Implemented

Human cost: Significantly worse poverty, malnutrition, and displacement outcomes. Higher aid delivery costs through in-kind or ad-hoc modalities with greater leakage.

Financial structure: Hawala still dominant due to banking sector weaknesses. Exchanger consolidation occurs anyway, just slower and less professionalized without humanitarian capital injection.

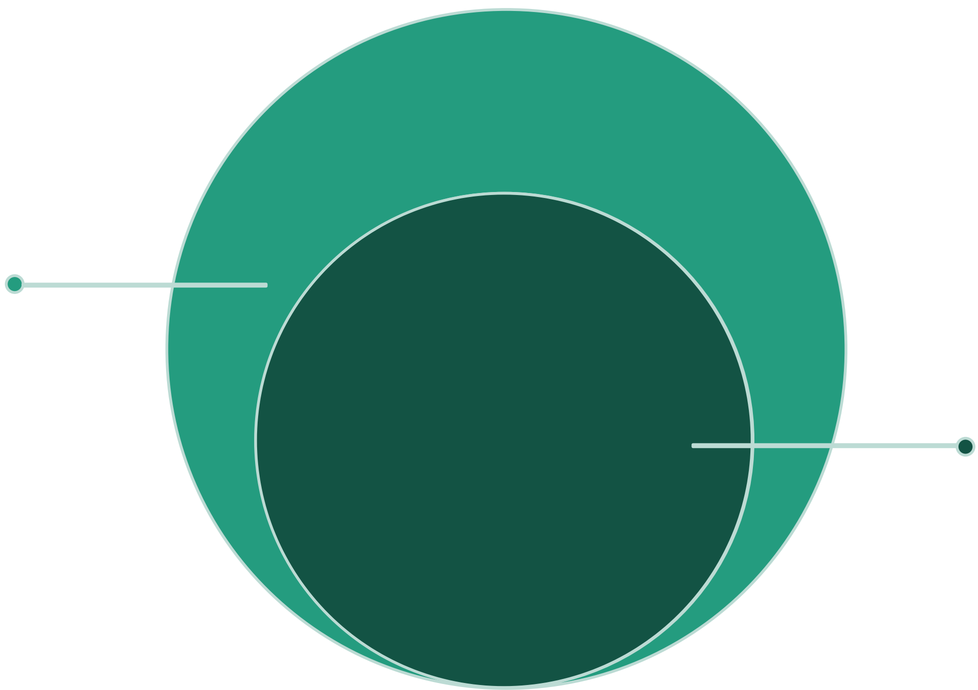
The evidence suggests emergency cash transfers saved lives and reduced harm while simultaneously hardening a pre-existing structural shift. The appropriate lesson is not to avoid cash-based assistance, but rather to couple it with deliberate re-banking strategies.

Counterfactual Scenarios: Testing Alternative Paths

Understanding the potential outcomes of alternative decisions provides crucial insights into the complex dynamics at play in Yemen's financial landscape.

Long-Term Fragility

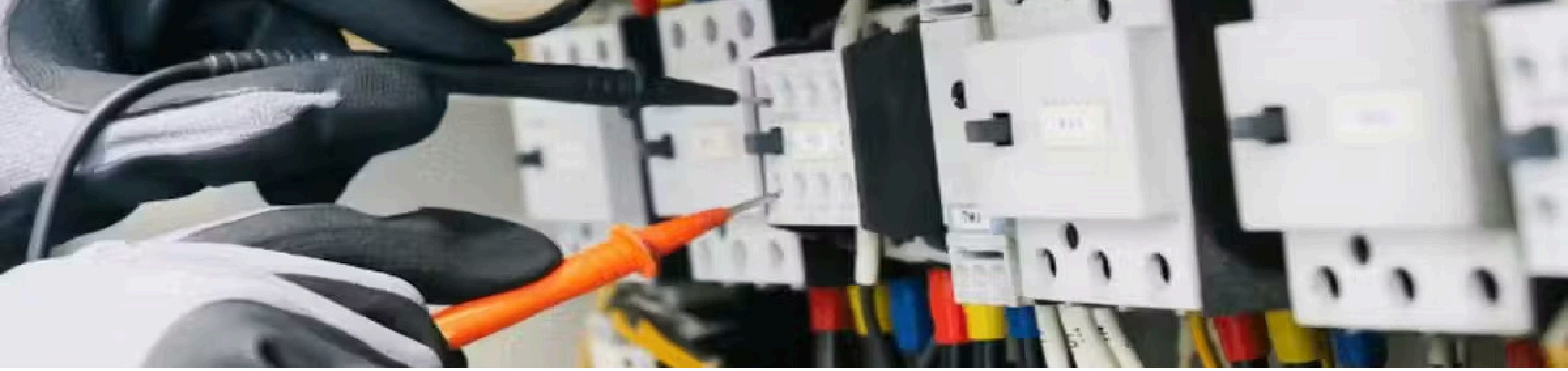
Systemic issues lead to prolonged instability and vulnerability.



Immediate Hardship

Payment gaps and continued relief needs create widespread hardship.

The evidence suggests emergency cash transfers saved lives and reduced harm while simultaneously hardening a pre-existing structural shift. The appropriate lesson is not to avoid cash-based assistance, but rather to couple it with deliberate re-banking strategies.



Policy Recommendations: A Pragmatic Path Forward

Hybrid Rail Strategy

Certify major exchangers as banking agents under tiered KYC requirements. Push settlements through bank master accounts with daily or weekly reconciliation. Establish donor-backed risk-sharing windows to enable bank re-entry into last-mile payments.

Regulatory Discipline

Implement temporary pause on new microfinance bank licenses. Establish minimum prudential and client-protection thresholds. Create shared credit registry to prevent over-indebtedness. Require urban-rural service obligations similar to telecom universal service mandates.

National Clearing Infrastructure

Develop a neutral, low-cost clearing utility for domestic retail payments that includes banks, microfinance institutions, and payment service providers—even while central banks remain fragmented.

Transparency & Consumer Protection

Publish payment-agent rosters, fee schedules, and grievance redress statistics. Establish gender-safe access protocols with discrete queues and female agent quotas. Create cross-rail consumer protection hotline with emergency fee cap guidance.

Strategic Pathways for Yemen's Economic Recovery

Addressing Yemen's profound economic fragmentation and fostering sustainable recovery necessitates a multi-faceted approach, integrating monetary policy, financial support mechanisms, digital innovation, and local capacity building. These interconnected strategies aim to mitigate the immediate crisis, unify economic institutions, and lay the groundwork for long-term resilience, drawing lessons from similar post-conflict contexts in the Middle East and North Africa (MENA) region.

Monetary Unification & Dialogue

Facilitate neutral, UN-backed mediation between the Sana'a and Aden branches of the Central Bank of Yemen (CBY) to establish unified exchange rate policies and inter-bank clearing mechanisms. This is critical to halting the destabilizing divergence of the Yemeni Riyal (YER), which currently sees a 100% disparity between northern and southern regions, severely impacting purchasing power parity and trade. Such unification is a foundational step, preceding broader economic reforms, akin to efforts seen in post-conflict Lebanon or Iraq in their initial recovery phases.

Targeted Financial Stabilization

Implement conditional liquidity injection programs, overseen by multilateral institutions such as the IMF or World Bank, to stabilize the financial system and support essential imports. Strict safeguards are paramount to prevent diversion of funds and ensure accountability, drawing on international best practices for fragile states. This direct support must complement, rather than supplant, the necessary reforms in public financial management and revenue diversification, including the potential resumption of oil exports, which historically constituted over 50% of government revenue prior to their suspension in 2022.

Accelerated Digital Financial Inclusion

Prioritize the scaling of mobile money and e-payment systems to circumvent physical cash shortages and the fragmented banking infrastructure. This initiative will expand financial access to unbanked and underserved populations, including the 70% of Yemenis without formal bank accounts, enhancing remittance efficiency—a lifeline for millions—and fostering micro-enterprise growth. This digital transformation can also improve transparency in aid distribution and tax collection, reflecting successful models deployed in fragile states across Sub-Saharan Africa.

Empowering Local Economic Actors

Significantly increase the proportion of humanitarian and development aid channeled directly through Yemeni national and local non-governmental organizations (NGOs), moving closer to the international 40% localization target. This not only strengthens local ownership and ensures culturally appropriate interventions but also builds the institutional capacity necessary for effective post-conflict governance and economic management. Capacity-building programs should focus on financial governance, program management, and data reporting to enhance accountability and sustainability.

> **Unifying the national currency and reactivating critical revenue streams, such as oil exports, are indispensable for reigniting Yemen's economic growth. "Yemen's economy is being torn between fragmentation and fragility, yet the potential for recovery remains real," emphasizes the World Bank Country Manager, underscoring the imperative for concerted action despite ongoing challenges.**

While a sustained peace dividend could propel Yemen's economy to an average annual growth rate of 5% over the next 15 years, contingent on robust investment and institutional reforms, the prevailing political stalemate casts a shadow over near-term prospects, with economic contraction anticipated through 2025. This divergence highlights the critical linkage between political stability and economic viability.

Yemen's Economic Crossroads: From Collapse to Potential Recovery

This conclusion synthesizes the multifaceted challenges and opportunities facing Yemen's economy, emphasizing the imperative for a coordinated international and domestic response to transition from protracted collapse to sustainable recovery. The preceding analysis has illuminated a landscape marked by profound fragmentation, yet punctuated by critical windows for intervention.

Yemen's economy has endured a devastating three-phase collapse since 2015. The initial phase was characterized by widespread destruction of infrastructure, trade routes, and productive assets. This transitioned into a period of acute institutional fragmentation, notably the divergence of the Central Bank of Yemen and the resulting 100% disparity in the Yemeni Riyal's value between northern and southern regions. The current phase, projected through 2025, sees the economy trapped in a cycle of severe liquidity crises, erosion of productive capacities, and extreme humanitarian dependency, further exacerbated by external shocks and the ongoing political stalemate.

A striking paradox of this crisis is the resilience of Yemen's informal financial sector. Mobile money and remittance networks have emerged as crucial lifelines, sustaining millions amidst the near-total breakdown of formal banking and state institutions. While this informal system has prevented even greater humanitarian catastrophe, it simultaneously impedes formal economic development, tax collection, and comprehensive financial regulation, perpetuating a fragmented financial landscape that complicates broader recovery efforts.

Monetary Unification

Facilitate UN-backed dialogue to unify exchange rate policies and inter-bank clearing mechanisms, halting the destabilizing divergence of the Yemeni Riyal.

Targeted Financial Stabilization

Implement conditional liquidity injection programs overseen by multilateral institutions, ensuring accountability and supporting essential imports.

Digital Financial Inclusion

Prioritize the scaling of mobile money and e-payment systems to bridge fragmented infrastructure, enhance remittance efficiency, and foster micro-enterprise growth.

Empowering Local Actors

Significantly increase direct aid channeling through Yemeni NGOs to strengthen local ownership, capacity, and culturally appropriate interventions, aligning with the 40% localization target.

The path forward presents two distinct scenarios: continued economic fragmentation or a nascent recovery. Without decisive and coordinated action, the risk of deepening division, humanitarian crises, and socio-political instability remains high. However, by leveraging the identified policy windows—particularly monetary unification, targeted financial stabilization, and digital inclusion—Yemen could begin to build the foundations for long-term resilience and inclusive growth. This hinges on reversing the currency divergence and reactivating critical revenue streams like oil exports, which could unlock a potential average annual growth rate of 5% over 15 years under sustained peace.

The international community bears a profound responsibility to sustain humanitarian aid while simultaneously pivoting towards strategic development support. This includes providing technical assistance for institutional reform, advocating for an end to economic weaponization, and ensuring transparent and accountable financial mechanisms. A unified political resolution remains paramount, but economic stabilization initiatives cannot wait. Proactive engagement now will not only mitigate suffering but also create the indispensable conditions for any future peace to be durable.

Conclusion: Reconciling Humanitarian Necessity with Financial Stability

Key Takeaway

Cash assistance via exchangers was necessary and effective for human outcomes—and it accelerated a lasting power shift from banks to non-bank intermediaries that requires deliberate policy intervention.

Yemen's experience offers a critical lesson for humanitarian finance in fragile states: emergency interventions that save lives can simultaneously reshape institutional power structures in ways that persist long after the crisis.

The emergency cash transfer program was unquestionably the right choice for reaching vulnerable populations at scale. However, the absence of a parallel re-banking strategy has left Yemen with a financial system that is operationally effective but structurally fragile—highly dependent on a small number of non-bank intermediaries operating outside comprehensive regulatory oversight.

The path forward requires a both/and approach: preserve the inclusive reach of exchanger networks while deliberately rebuilding banking sector capacity in settlement, clearing, and consumer protection. This is not about reversing the clock, but about creating a more resilient, diversified financial architecture.

This analysis was prepared by Maher F. S. Farea.

Date: November 2025