

Repercussions of Houthis' Coinage on the Economy and Peace in Yemen

Situation Assessment

Political Analysis Unit

April 2024



Table of Contents:

- Introduction..... 3
- Significance and Dimensions..... 3
- Repercussions: Risks of conflict resurgence and peace obstruction..... 4

- **Introduction:**

In a notable escalation, Houthi group recently has announced the issuance of a new-100 riyal metal coin, justifying the action as a necessary measure to replace damaged banknotes of the same denomination. This unconventional move has sparked widespread controversy regarding its economic consequences and potential to further deteriorate the country's fragile economic situation. However, the results of this move go beyond the economic aspect; it is a multi-faceted manoeuvre that reflects not only a practical attempt to address the issue of the damaged banknotes but also has political dimensions, with serious and potential repercussions for the political scene and its dynamics, including the peace process.

- **Significance and Dimensions**

The Houthi group's decision to unilaterally take this move, without discussing the issue with the Yemeni government and the Central Bank of Yemen (CBY) (in Aden), highlights the deep divisions within the political scene and the complex dynamics of the ongoing conflict in the country. It also reveals the power dynamics and the complicated economic control in play. Furthermore, it underscores the challenges faced in formulating economic policies and the complex governance of finance in Yemen. Importantly, this development demonstrates the Houthi group's readiness to engage in economic activities and unilaterally make decisions that challenge the existing financial system and further confusing and complicating the political scene.

There is no doubt that the Houthis' coinage serves a real purpose -i.e. addressing the acute shortage of usable currency. But in the Yemeni context, it is difficult to separate economic measures from political intentions and consequences. Houthis did not take this step solely out of good intentions or a desire to address the issue of damaged currency, nor was it merely a symbolic assertion of their control over the financial and economic sector. The manner in which the coinage was carried out, going beyond the relevant legal frameworks, is a politicized move aimed at achieving political objectives.

What gives this conclusion credibility is there are alternative and peaceful solutions available at the hands of Houthis to address the problem of currency damage. They could have, with or without the government's consent, allowed for introducing the new currency issued by CBY (in Aden, in denominations of 100 and 200 Riyals, without triggering any negative repercussions on the economy, as affirmed by economic experts. On the other hand, Houthis will not overlook the fact that taking such unilateral measures, which challenge the CBY (in Aden and the internationally recognized Yemeni government, will not go without legal, economic, and political consequences. Also, they will not miss the fact that their adversaries, at least, will exploit these actions locally and internationally, particularly as they) Houthis (are currently engaged in a confrontation with Western countries. Most importantly, the statements of the group and its leaders following the announcement of the currency introduction clearly indicate their political objectives, as we will find below.

Houthis likely seek to achieve a list of political objectives through this move, including demonstrating their de facto control over various aspects of life, asserting the legitimacy of their authority, and enhancing the perception of this legitimacy both locally and internationally. The logical counterpart to this objective is to demonstrate the weakness of the internationally recognized government and undermine its legitimacy. They think that the government will not manage to respond effectively to this step, which will expose its impotence and weaken its position.

As much as they desire to solidify the existing reality of their authority ,they also try to persuade both the internal and external parties to accept them as the only reasonable and influential authority .Taking such a step still constitutes a way to test many issues and positions ,and gauging the reactions, intentions ,and capabilities of the other parties .This includes the government ,its allies ,and international financial institutions .Moreover ,it is a test of how far they can go to achieve what they want to do .Such a move can indicate a disdainful or indifferent attitude towards the peace process in Yemen.

Minting a coin in this way may cause harm to this process ,but Houthis declared that they want to push the stalled peace process forward .The governor of Central Bank in Sana'a affiliated with the group stated that the issuance of the currency is supposed to contribute to expediting the signing of the roadmap and threatened to take further steps "if Saudi Arabia continues to procrastinate." Such an objective is intertwined with another goal, which is to pressure for concessions and getting new gains.

- **Repercussions: Risks of conflict resurgence and peace obstruction**

The Houthi group's decision to issue its own currency is a perfect recipe for bringing back all kinds of tensions to the Yemeni scene and deepening its divisions. It will further complicate efforts aim to reach a peaceful resolution to the conflict in the country. The issuance of currency and the regulation of monetary policy are privileges reserved for the recognized legitimate authority, represented by (CBY) in Aden. The Houthi group's printing of currency in any form and amount, as an unauthorized entity, violates this legal framework. It oversteps the authority of (CBY) and the Yemeni government, challenges their legitimacy and erodes trust in them.

Furthermore, there are logical concerns about the impact of this step on the macro-economy, including the potential for inflationary pressures and threats to financial stability, and the devaluation of the Yemeni Rial. Likewise, the introduction of new currency into the market without disclosing the amount raises anxieties and uncertainties among businesses, commercial institutions, and investment entities. Yet, the Houthi group has not disclosed the amount of the currency they have issued. While officials in Sana'a claimed that the new currency would only replace damaged currency that will be withdrawn from the market, there is no guarantee that this will happen. Ahmed Hashid, MP, hinted that a new two-banknote coin is waiting to be released into the market.

As mentioned above, the Houthi group's unconventional step is intended to gauge the responses and reactions of other parties; if it passes without a strong response, it will likely embolden the group's appetite for further currency printing .Any deterioration in financial and monetary stability would ultimately be a failure for the government and the CBY in Aden ,as the entities responsible for the economic situation .The government ,for its part ,will find it difficult to pass up this valuable opportunity to exploit the situation against the Houthi group .Therefore ,it is not expected that they will adopt a lenient stance.

This development not only marks a new chapter in the currency war between Houthis and the Yemeni government, but also opens the door to the most dangerous and comprehensive chapters of the economic war that the two parties have been waging since the end of 2022. The economic war began when Houthis halted oil exports from government-controlled areas after targeting export ports and threatening ships, importing companies, and carriers. They also did not allow the entry and sale of gas produced in government-controlled areas within their territories.

The) CBY (affiliated with the legitimate government has taken a firm and strongly opposing stance against this measure. It has described it as a dangerous and illegal escalation, labeling the minted currency as counterfeit and issued by an illegitimate entity, and warned against its trading. The bank has also decided to relocate the main headquarters of commercial banks, Islamic banks, and micro-finance banks from Sana'a to Aden, giving them a 60-day deadline for implementation. The CBY has warned the concerned banks that non-compliance with this decision to be dealt with according to the provisions of the Anti-Money Laundering and Terrorism Financing Law.

The decision of relocation the banks' headquarters has disrupted the Houthi group, as it threatens their control over these banks and undermines their position. Consequently, they have accused the Yemeni government of escalation and threatened to respond, calling for intervention from Riyadh. The failure to reach a calm and find solutions to the situation resulting from the Houthi group's actions, along with the complications and positions it has caused, indicates the potential for further escalation.

While the governor of the Sana'a Bank hinted at the possibility of printing paper currency, the governor of the) CBY (in Aden affirmed that there are still more effective measures and impactful steps than those taken so far .He stated that if the steps taken so far were organizational ,the next steps would be punitive and precautionary .This escalation in the economic war raises concerns about a potential military escalation ,as evidenced by recent events such as the Houthi group's military escalation in the Karish front, Lahij governorate, and the targeting Mocha City with a ballistic missile. It is clear that the group is attempting to convey warning messages through this escalation.

Certainly, this move goes beyond deepening the temporary political division to entrenching a state of economic fragmentation, damaging the concept of a unified state. It shifts the conflict to the banking sector and poses a threat of further monetary division as well as the emergence of a dual currency system. There are concerns that this move could ultimately result in the establishment of a de facto separate currency system. The existence of two currencies not only means further fragmentation of the fragile economic scene but also undermines economic unification. This unification is symbolized by a unified currency that represents the state sovereignty and is linked to all transactions and economic activities. Ultimately, this creates a significant obstacle to achieving a unified economy. Moreover, the Houthi measure may undermine the efforts and discussions that have taken place over the past two years regarding monetary policy unification. The divergence in currency and the rise in banking division will create operational challenges and complicate commercial transactions between the areas controlled by Houthis and the rest of the country.

In addition to hindering the necessary unified economic policies for conflict resolution and national reconciliation, the Houthi measure comes at a sensitive time for the peace process. It will exacerbate the economic war, increase tension and political divisions, and lead to a return to military confrontations. This will undoubtedly have a negative impact on the peace process, threatening its continuation and restarting the cycle of conflict. In this context, it is important to note that Houthis have accused the Yemeni government of escalation, considering its measures an attempt to evade peace commitments and sabotage the roadmap. Houthi Deputy Foreign Minister (unrecognized government), Hussein Al-Ezzi, even hinted at backtracking about the outcomes of talks with Saudi Arabia if they did not intervene to stop the measures taken by (CBY) in Aden.

Regarding the repercussions on the parties involved in the conflict, this development favors the Yemeni government and harms the position of the Houthi group. Although Houthis may think they will gain benefits or achieve certain objectives, it has a negative impact on the international community. The governor of the CBY in Aden stated that no steps were taken against Houthis in the past, and measures that were intended to be taken against them postponed at the request of the international community. However, the international community has welcomed and has not opposed the recent decisions taken by the CBY, (even though they have requested an opportunity to talk to Houthis, expressed their displeasure with the group and condemned their actions.

The United States, through its embassy in Yemen, condemned what had been done by the Houthis and described the currency as counterfeit coins. It emphasized that the coins must not be further introduced into the market and reaffirmed its support for (CBY) in Aden. France, through its embassy, adopted the same position, while the United Kingdom described this action as reckless behavior. The European Union Mission to Yemen stated that the Houthi unilateral decisions undermine the country's compliance with international AML-CTF standards and do not help the cause of peace and the wellbeing of Yemenis. The EU Mission pledged to support the CBY (in Aden). These Western positions provoked angry reactions from Houthis, as the Bank of Sana'a considered the statements issued by the American and British embassies as blatant and illegal interference in the affairs of the Yemeni Republic, and continuation of the economic war led by the "US-Saudi aggression" against the Yemeni people.

By taking this step, the group has placed itself in a difficult situation. This move reinforces doubts about its intentions and presents a negative image of the group that is unconcerned about peace and always inclines towards escalation. It may result in further political and financial isolation, which would reach its peak if the CBY (in Aden) insists on relocating the main headquarters of commercial banks to Aden. This is especially significant considering that approximately 107 international organizations (out of 122 organizations) have already shifted their headquarters to Aden recently.

Additionally, the government may find itself in a difficult position due to the decision of the CBY (in Aden), which requires banks to move their headquarters there. Implementing this decision will not be easy for several reasons. It poses a threat to these banks, as the majority of their clients and transactions are in areas controlled by Houthis. Furthermore, it is unlikely that Houthis will allow these banks to freely make their own decisions. They may resort to threats, punishment, or even looting the banks' assets if they decide to comply with the CBY's decision in Aden. On the other hand, the government will need strong support from Saudi Arabia to enforce this decision, which may not happen. Instead, there may be pressure on the government to backtrack. Previously, the government reversed a decision to suspend dealings with five banks. If the government retreats from this decision without obtaining any concessions in return, it will find itself in a weak position and will lose a significant amount of confidence in it and its decision. Ultimately, that will be considered a win for Houthis.



مركز أبعاد للدراسات والبحوث
Abaad Studies & Research Center

مركز أبعاد للدراسات والبحوث
Abaad Studies & Research Center

-  0 0 9 6 7 7 3 7 8 8 7 7 7 8
 -  0 0 9 6 7 7 3 7 8 8 7 7 7 8
 -  a b a a d s t u d i e s
 -  a b a a d s t u d i e s
 -  Abaad Studies & Research Center
 -  مركز أبعاد للدراسات والبحوث
- abaadstudies@gmail.com
info@abaadstudies.org
www.abaadstudies.org

Abaad Studies & Research Center (Abaad) is a non-profit organization that has a license from Yemen's Social Affairs Ministry No. (436) issued on October 18 2010.

focuses on politics, intellect, democracy, election, political parties, terrorism, freedoms as well as economic and social issues.