



The IMF Program in Yemen:

Limits of Effectiveness and Reform Requirements in a Divided and Fragile Economy

Study



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We are a research institution concerned with studying Yemeni affairs and the regional and international influences on it. Through interpreting history, analysing the present, and predicting the future, in the aim of positive participating for better future of Yemen

Executive Summary

This paper examines the proposed 18-month economic program monitored by the staff of the International Monetary Fund (IMF) and agreed with Yemen's internationally recognized government in July 2026, against the backdrop of institutional, fiscal, and monetary fragmentation; the suspension of oil exports following attacks by the Houthi group on export terminals; weak revenues; scarce reserves; and widespread poverty. It aims to assess the extent to which the program's reforms are suited to Yemen's economic realities, the capacity of state institutions to implement them, and the sequencing and economic and social costs of these reforms.

The paper concludes that the program does not constitute a rescue mechanism or a source of direct financing. Rather, it provides a framework for strengthening discipline and credibility and for building a reform track record that could pave the way for future external financing and support. Its effectiveness, however, remains contingent on the ability of state institutions to implement the reforms amid the existing fragmentation. The paper also finds that the fiscal imbalance is not attributable solely to insufficient revenues, but is also linked to resource leakages, weak oversight, and the continued existence of revenues and expenditures outside the budget.

Addressing these deficiencies should therefore take precedence over expanding taxes and fees, whose costs are passed on through higher prices and lower real incomes and fall more heavily on groups least able to bear them.

On the monetary side, the paper finds that increasing exchange-rate flexibility and restricting monetary financing involve a trade-off between the short-term costs of adjustment and the risks of delaying it. Greater exchange-rate flexibility without adequate preparation could raise inflation and put pressure on incomes, while restricting monetary financing in the absence of sufficient resources or alternative sources of financing could constrain liquidity and economic activity. At the same time, an unsustainable defense of the exchange rate and continued monetary financing of the deficit would deplete reserves and accumulate greater inflationary pressures. Reform of public finances, the foreign-exchange market, and the banking sector is therefore necessary to reduce the cost of monetary stabilization. The paper further finds that electricity-sector reform should begin by reducing production costs and losses and improving revenue collection before raising tariffs, and that social protection should be incorporated into the design of reforms from the outset rather than introduced later as a compensatory measure.

The paper also concludes that sustainable fiscal and external stability requires reliable sources of public revenue and foreign exchange, foremost among them the restoration of oil exports or the provision of viable alternatives, without assuming either an imminent resumption of oil exports or the continuation of external support that is not guaranteed. The success of the program also depends on the sequencing of reforms and on establishing the necessary conditions for implementation before moving to measures that carry higher economic and social costs. This would help limit the effects of adjustment on inflation, poverty, and growth and improve the prospects for sustaining the reforms.

Accordingly, the paper recommends ensuring that public revenues are transferred to the public treasury, integrating off-budget revenues and expenditures into the budget, and gradually consolidating government accounts into a Treasury Single Account. It also recommends improving revenue collection and transparency before imposing new broad-based tax burdens. In addition, the paper calls for a gradual reform of the exchange rate, monetary policy, and the banking sector; strengthening financial intermediation; and rebuilding reserves. Electricity tariff increases should be linked to reductions in costs and losses and improvements in collection, while social protection should be integrated into pricing and tax measures.

The paper further recommends basing the fiscal framework on resources that are actually available, establishing transparent rules for the collection and management of oil revenues once exports resume, and linking external support to reform. At the same time, the IMF should, in designing and reviewing the program, take into account the sequencing of measures and the capacity of the economy and society to absorb their costs, rather than assessing the program's success solely on the basis of quantitative fiscal and monetary indicators.

Introduction

The agreement on the IMF staff-monitored program comes at a time of acute economic complexity. On 16 July 2026, the International Monetary Fund announced that, following discussions held in Amman from 5 to 16 July, it had reached a staff-level agreement with Yemen's internationally recognized government on an 18-month program aimed at strengthening fiscal and monetary policy frameworks, increasing revenues, improving public resource management, rebuilding reserves, reforming the financial and electricity sectors, and strengthening social protection. According to the IMF announcement, the agreement remains subject to approval by IMF management.¹

1. International Monetary Fund. (2026, July 16). *IMF reaches staff-level agreement with Yemen on a new Staff-Monitored Program*. <https://www.imf.org/en/news/articles/2026/07/16/pr26249-yemen-imf-reaches-sla-on-new-staff-monitored-program>

The program comes amid the continued suspension of oil exports following Houthi attacks on export terminals, declining revenues, scarce foreign-exchange reserves, and weak economic activity. The IMF has also projected that real GDP will contract by 1.5% in 2026, marking the fifth consecutive year of economic contraction, while the external position remains heavily dependent on workers' remittances and international support², alongside persistently high levels of poverty and vulnerability.³

Against this backdrop, the paper addresses the following central question: **To what extent can the IMF staff-monitored program contribute to economic stabilization in Yemen, and what institutional requirements and sequencing of reforms are necessary to limit the extent to which the costs of adjustment are passed on to poor and vulnerable groups?**

The paper adopts a policy-analysis approach, drawing on data and documents from the International Monetary Fund, the World Bank, and other relevant international institutions. It evaluates the program's components, the conditions required for their implementation, their sequencing, and their economic and social implications in light of the specific characteristics of the Yemeni context.

2. International Monetary Fund, 2026.

3. World Bank. (2026, May 21). *Economic strain deepens in Yemen as regional risks intensify*. <https://www.worldbank.org/en/news/press-release/2026/05/21/economic-strain-deepens-in-yemen-as-regional-risks-intensify>

First: The Institutional and Fiscal Framework of the Program

The scope of the program's effectiveness is determined, first and foremost, by its institutional nature, the environment in which it is implemented, and the capacity of Yemen's internationally recognized government to manage public resources under conditions of ongoing fragmentation. This section therefore examines the nature of the program, the constraint imposed by economic division, and the priorities for public financial reform.

1. The Nature of the Program and the Limits of What It Can Offer Yemen

The IMF staff-monitored program is not a financing arrangement, but rather an informal framework for monitoring the implementation of an economic program adopted by Yemen's internationally recognized government. It does not entail the provision of financial resources by the Fund or approval by its Executive Board in the sense associated with financing arrangements⁴. Its significance in the Yemeni context lies in providing a framework for measuring reform implementation and building a track record of performance that could support a subsequent transition to financing arrangements or debt restructuring, while strengthening donor confidence in the internationally recognized government's ability to manage additional resources efficiently and transparently⁵.

4. International Monetary Fund. (2023, January). *IMF Staff Monitored Program (SMP)*. <https://www.imf.org/en/about/factsheets/sheets/2023/staff-monitored-program-smp>

5. International Monetary Fund, 2023.

However, the program's economic value is determined less by its institutional form or the measures it contains than by the extent to which those measures can actually be implemented. Institutional, fiscal, and monetary fragmentation, together with weak resources and limited reserves, constrain the ability of the internationally recognized government to translate reform commitments into tangible outcomes. Measures to increase revenues, restrict monetary financing, increase exchange-rate flexibility, and reform the electricity sector may also impose varying economic and social costs, including higher prices or pressure on liquidity, real incomes, and economic activity, depending on the nature of the measure, if implemented before the necessary institutional and fiscal conditions are in place. These effects would ultimately be borne by citizens.

The program should therefore not be assessed according to its ability to “rescue the Yemeni economy,” which lies beyond the scope of its instruments, but rather according to its capacity to improve the management of resources under the control of the internationally recognized government, strengthen fiscal and monetary discipline, and create an environment better able to implement reforms and absorb their costs, thereby improving the prospects for securing support and restoring a degree of economic stability.

2. The Absence of a Unified Fiscal and Monetary Authority: A Binding Constraint on Reform

Economic reform programs generally assume the existence of a unified fiscal and monetary authority, a single market, and a consistent mechanism for collecting revenues, taxes, and customs duties. These conditions do not exist in Yemen. Political and institutional fragmentation has resulted in the emergence of two distinct economic zones: one under the control of Yemen's internationally recognized government and the other under the control of the Houthi group. The two differ in their monetary systems, exchange rates, import procedures, transfer channels, and regulatory policies, limiting the reach of economic policy implementation and weakening the transmission of its effects at the national level.

This reality imposes two constraints on reform programs. The first is geographic: the instruments and measures implemented by the internationally recognized government and the Central Bank of Yemen in Aden do not operate directly across the entire country. The second is institutional: even within government-controlled areas, there are differences in the capacity to collect revenues and enforce fiscal and administrative rules.

Nevertheless, fragmentation should not be used as a justification for suspending reforms that remain feasible. Part of the fiscal imbalance within areas controlled by the internationally recognized government is linked to problems that can be addressed, including the retention of some resources outside the budget, the proliferation of government accounts, irregular data reporting, varying levels of compliance with revenue remittance requirements, and weak oversight and auditing institutions. It is therefore necessary to distinguish between constraints imposed by the conflict, which economic policy alone cannot overcome, and administrative and institutional deficiencies that the internationally recognized government can address despite the continuation of the conflict.

The program derives much of its real importance from the latter area. It provides for the incorporation of off-budget revenues and expenditures into the central budget, tighter oversight of spending at both the central and local levels, and the consolidation of government balances as part of efforts to establish a Treasury Single Account⁶.

In the Yemeni context, these measures form part of the broader process of rebuilding state authority over public finances. Sustainable fiscal reform is not possible while public resources continue to move outside the budgetary system or while regular data are unavailable to enable their effective tracking.

6. International Monetary Fund, 2026.

3. Public Finances and the Distribution of the Costs of Reform

The program places increased domestic revenue mobilization at the center of fiscal adjustment. This is an understandable priority given the sharp decline in resources following the suspension of oil exports as a result of attacks by the Houthi group on oil export terminals, as well as the limited access to external financing. This is particularly important because government expenditure has already undergone substantial cuts since oil exports were halted in 2022, limiting the scope for relying on further expenditure reductions.

Revenue-mobilization measures include strengthening tax compliance among large taxpayers and state-owned enterprises and improving customs collection. However, the economic and social impact of such measures depends on the source of the additional revenue. Recovering existing public revenues that do not currently reach the treasury and improving compliance among large taxpayers are fundamentally different from imposing new taxes and fees or increasing indirect consumption taxes, whose costs are more readily passed on through higher prices and lower real household incomes.

The central issue, therefore, concerns the sequencing of fiscal adjustment measures and the distribution of their costs. Revenue mobilization should begin with identifying and transferring to the treasury public revenues that are already legally due, bringing government accounts, funds, and public institutions under effective oversight, strengthening compliance among large taxpayers, and combating tax evasion before expanding taxes and fees that have broad effects on consumers.

With this sequencing, revenue mobilization becomes not merely an exercise in increasing collections, but a process of restoring fiscal sovereignty, while reducing the likelihood that the largest share of the reform burden will fall on those least able to bear it.

The importance of such sequencing is heightened by the extremely limited fiscal space available in Yemen. In May 2026, the World Bank noted that declining resources had compressed public expenditure, including wages, subsidies, and essential spending⁷. This makes improvements in revenue collection, spending efficiency, and governance more appropriate than across-the-board cuts to necessary expenditures or the premature expansion of indirect taxes and fees.

7. World Bank, Economic strain deepens in Yemen as regional risks intensify, 2026.

Second: Requirements for Economic and Social Stability

Following the institutional and fiscal dimensions, the paper turns to a set of program areas that are directly linked to economic stability and living standards. These include the exchange rate and monetary policy, the banking sector, electricity, and social protection.

1. Exchange Rate and Monetary Policy

The program moves toward greater exchange-rate flexibility, alongside restrictions on monetary financing of the deficit, aligning money supply growth with actual demand, improving liquidity management, and rebuilding foreign reserves. However, the effectiveness of these instruments in Yemen is shaped by the characteristics of the foreign-exchange market and the real economy. Foreign-currency inflows from oil exports have ceased, reserves remain at low levels, and the economy continues to depend heavily on essential imports, remittances, and external support as major sources of foreign exchange.⁸

8. International Monetary Fund, Middle East and Central Asia Department. (2026, April 3). *Republic of Yemen: 2025 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Republic of Yemen* (IMF Country Report No. 26/80). pp. 6, 9. <https://www.imf.org/-/media/files/publications/cr/2026/english/1yemea2026001-source-pdf.pdf>

In this environment, exchange-rate policy involves a trade-off between two options. The first is to allow greater exchange-rate flexibility, which can help correct the imbalance between the supply of and demand for foreign currency and limit the depletion of reserves.

However, currency depreciation may quickly pass through to the prices of food, fuel, medicine, production inputs, and transportation, thereby increasing inflation and reducing households' real incomes⁹, particularly given the limited capacity of domestic production and exports to respond. The second option is to limit exchange-rate depreciation through central bank intervention in the market.

This may temporarily ease pressure on prices and incomes, but it requires sufficient foreign-exchange resources. Continued defense of an unsustainable exchange-rate level may deplete reserves, widen the gap between supply and demand, and result in even greater pressure on the exchange rate at a later stage.

A separate trade-off arises with regard to monetary financing of the deficit. Restricting such financing is necessary to limit monetary expansion and inflationary pressures and to restore a degree of monetary discipline.

9. International Monetary Fund, Middle East and Central Asia Department, 2026, p. 7.

However, in the absence of sufficient fiscal resources or alternative sources of financing, it may lead to liquidity shortages, delays in salaries and other obligations, and weaker demand and economic activity. Conversely, continued monetary financing may help cover part of short-term expenditure needs, but it increases the money supply and inflationary pressures and weakens the exchange rate, thereby aggravating the very imbalances that monetary policy seeks to address.

Exchange-rate flexibility and restrictions on monetary financing should therefore not be treated as stand-alone objectives, but rather as part of a gradual policy package that includes greater transparency in the foreign-exchange market, an expanded role for banks in financial intermediation, redirecting trade and remittance flows through formal channels, strengthening oversight of exchange companies, and rebuilding reserves. In the Yemeni context, the success of monetary policy should be measured by its ability to achieve a degree of stability without excessively shifting the costs of adjustment onto prices, incomes, credit, and economic activity.

2. Banking-Sector Reform as a Precondition for Effective Monetary Policy

The banking sector is one of the program's most important components and should not be reduced to its technical dimension. The program includes the adoption of comprehensive risk-management rules, the extension of supervision to deposit-taking institutions, the publication of banks' audited financial statements, and a transition toward risk-based supervision in the areas of anti-money laundering and combating the financing of terrorism.

These measures are particularly important because weak financial intermediation and the expansion of exchange and transfer channels outside the banking system reduce the central bank's ability to manage liquidity, monitor foreign-exchange flows, and transmit monetary policy to the economy. Banking-sector reform should therefore be viewed as part of rebuilding the basic infrastructure of monetary policy.

Requiring banks to publish audited financial statements represents a central step toward restoring confidence and banking discipline. This should coincide with strengthening the central bank's capacity to conduct meaningful assessments of asset quality, liquidity, capital adequacy, credit risk, and foreign-currency positions, while addressing accumulated weaknesses in bank balance sheets rather than relying solely on formal disclosure requirements.

At the same time, banking reforms should avoid triggering a sudden contraction in credit in an economy that already suffers from limited access to financing. Prudential requirements should therefore be introduced gradually, accompanied by corrective plans for weaker institutions and the development of liquidity-management tools, so that the objective of stability can be maintained without closing off the already limited financing channels available to the private sector.

3. Electricity as the Social and Fiscal Test of the Program

The electricity sector is among the most politically and socially sensitive components of the program. The agreement provides for a phased plan to increase electricity cost recovery, with the aim of improving the sector's financial position, reducing its dependence on government subsidies, and attracting new investment. The sector's significant fiscal imbalance cannot be overlooked.

The World Bank's Spring 2026 report showed that fuel used for electricity generation in areas controlled by the internationally recognized government is purchased at market prices but supplied to electricity utilities at heavily subsidized rates, while the cost-recovery ratio is below 5%, meaning that fluctuations in oil prices are transmitted directly to the public budget.¹⁰

10. World Bank. (2026, May 19). *Yemen Economic Monitor: Pushing Against the Tide* (Report No. 210533).p.15.<https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099630405192627146>

However, low cost recovery does not mean that raising tariffs should be the first step. Part of the sector's financial gap stems not only from low tariffs, but also from high production costs, particularly fuel costs and inefficient generation, as well as technical and commercial losses, weak collection, contractual arrangements, and institutional problems. Raising tariffs before addressing these factors could therefore result in transferring the cost of producer inefficiency directly to consumers.

Reform should instead follow a sequence that begins with reviewing generation costs and power-purchase and fuel contracts, reducing losses, improving collection from large consumers and government entities, modernizing metering and billing systems, and investing in lower-cost energy sources, particularly solar and other renewable energy. Tariff adjustments should then be introduced gradually. The World Bank's own approach to electricity-sector reform similarly emphasizes the importance of combining loss reduction, improved billing and collection, and gradual tariff reform accompanied by measures to protect poor households.¹¹

11. Osman, Y., & Al Akkaoui, M. (2025, December 1). *Yemen Economic Monitor: Navigating Increased Hardship and Growing Economic Fragmentation* (Report No. 206587). World Bank. p. 13. <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/09960331122530091>

4. Social Protection Is Not an Add-On to Reform

Traditional approaches to social protection tend to place it at the end of economic reform programs, treating it as a mechanism for compensating affected groups after adjustment measures have been implemented. Yemen's high level of vulnerability, however, requires social protection to be integrated into reform design from the outset.

In June 2026, the World Food Programme reported that around five million people in areas controlled by the internationally recognized government were facing Crisis-level or worse acute food insecurity, with the number expected to rise to approximately 5.4 million people, equivalent to 51% of the population in those areas, between June and September 2026.¹²

Food insecurity is not confined to government-controlled areas. In areas under Houthi control, the latest available Integrated Food Security Phase Classification analysis estimated that around 12.8 million people, or 52% of the population analyzed, were expected to face Crisis-level or worse food insecurity between September 2025 and February 2026.

12. World Food Programme. (2026, June 3). *Nearly half of the population in Government-controlled areas of Yemen face acute food insecurity as humanitarian support sharply declines*. <https://www.wfp.org/news/nearly-half-population-government-controlled-areas-yemen-face-acute-food-insecurity>

This confirms that households' limited capacity to absorb the costs of reform is a broad constraint across the country, even though economic conditions and policies differ between the two zones.¹³

In such an environment, it cannot be assumed that households are able to absorb additional shocks arising from electricity reform, customs measures, fuel-price adjustments, or exchange-rate depreciation. Yemen is not starting from zero in building social-protection systems. The Social Welfare Fund system, supported by the World Bank, UNICEF, and other partners, has implemented large-scale cash-transfer programs, reaching more than 1.43 million households in one of the 2024 payment cycles. This provides an institutional foundation that can be built upon.¹⁴

What is required, however, is a transition from transfers financed through individual projects and aid programs toward a more regular and predictable social-protection system linked to a reliable database and a payment mechanism that can be scaled up in response to shocks.

13. Integrated Food Security Phase Classification (IPC). (2025, June 27). *Yemen – Sana'a Based Authorities (SBA) Areas: IPC Acute Food Insecurity, May 2025–February 2026*. https://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/docs/IPC_Yemen_SBA_Acute_Food_Insecurity_May2025_February2026_Special_Snapshot.pdf

14. United Nations Children's Fund. (2024, October 2). *1.43 million vulnerable families supported with cash assistance across Yemen*. <https://www.unicef.org/yemen/press-releases/143-million-vulnerable-families-supported-cash-assistance-across-yemen>

Accordingly, no decision affecting the prices of essential goods and services should be taken without first determining its expected cost for different population groups, the number of households requiring compensation, the value of the necessary transfer, its financing source, and the timing of its disbursement. In this context, social protection is not merely a form of social assistance; it is one of the conditions for the economic and political stability of the reform process itself.

Third: Sustainability and Pathways for Program Implementation

The sustainability of the program is linked to the economy's ability to restore sources of revenue and foreign exchange, as well as to the choice of an implementation pathway that takes into account the capacity of institutions and society to bear the costs of reform. This section therefore brings together the issues of oil, external support, potential pathways for implementing the program, and a proposed implementation matrix.

1. Oil, External Support, and the Limits of Sustainability

The suspension of oil exports since 2022, following attacks by the Houthi group on oil export terminals, has simultaneously weakened two major sources: budget revenues and foreign-exchange inflows. It has also contributed to pushing the economy into a new phase of stagnation and increasing dependence on external support¹⁵.

15. International Monetary Fund, Middle East and Central Asia Department, 2026, pp. 5–6, 9.

It is therefore difficult to envisage sustainable stability in public finances and the external sector without restoring oil exports or securing alternative and sustainable sources of foreign currency and public revenue.

However, the resumption of oil exports, whenever political and security conditions make it possible, should not be treated as an automatic solution. The return of oil revenues to a fragmented fiscal system could merely postpone the crisis without addressing its underlying causes. The resumption of exports should therefore be preceded by, or coincide with, a transparent framework requiring all revenues to be deposited into official budget accounts, the publication of data on production, exports, and revenues, and clear rules governing the allocation of these resources among current expenditure, reserve accumulation, and investment.

It is equally necessary not to design the reform program on the assumption that oil exports will resume soon or with certainty. Instead, the baseline fiscal scenario should be built on resources that are actually available, while the restoration of oil exports should be treated as an additional gain. A portion of the resulting revenues should be directed toward rebuilding reserves and financing investment, rather than serving as a justification for a return to uncontrolled expenditure expansion.

As for external support, there is a need to move from an emergency-response model toward a financing framework linked to reform. Donors could provide financing in stages against specific indicators, such as regular publication of data, expansion of the Treasury Single Account, improved remittance of public revenues, regular salary payments, improvements in electricity-sector indicators, and development of the social-protection system. Such an arrangement would generate two benefits: it would provide the internationally recognized government with resources to help absorb the transitional costs of reform, while giving donors greater assurance that their support is being translated into measurable results.

2. Potential Pathways for Implementing the Program

Three main pathways can be envisaged for implementing the program. They differ in the sequencing of reform measures, the distribution of their economic and social costs, and their potential implications for stability and growth.

Pathway One: Rapid Fiscal and Monetary Adjustment

This pathway is based on increasing revenues through the quickest available instruments, raising the cost of certain services and fees, compressing expenditure, restricting monetary financing, and allowing greater exchange-rate flexibility. It could reduce the fiscal deficit and curb monetary expansion and pressure on the foreign-exchange market.

However, it would impose substantial short-term costs on the economy, as higher fees and prices and currency depreciation would feed into inflation, while real incomes, consumption, and domestic demand would decline. This could weaken growth and increase poverty. Financial and monetary indicators might therefore improve at the expense of economic activity and living standards.

Pathway Two: Partial Reform

This pathway involves implementing some governance reforms alongside measures to increase revenues and reform electricity and monetary policy, but without a clear sequence linking each measure to the prior establishment of the conditions necessary for its implementation. It may generate partial improvements in revenues, the exchange rate, or certain fiscal indicators. However, continued resource leakages, institutional weakness, and uneven implementation would leave these gains vulnerable to reversal. Households may also bear the costs of certain pricing and tax measures without a corresponding improvement in services or stability, leaving inflation, poverty, and weak growth vulnerable to further deterioration in the event of a new shock.

Pathway Three: Sequenced Institutional Reform

This is the pathway most suited to the Yemeni context. It is based on the principle that the state should first reform its own instruments before shifting the largest share of the adjustment burden onto society.

It begins by recovering existing and leaked revenues, consolidating government accounts, strengthening oversight and disclosure, controlling non-essential expenditure, developing the foreign-exchange market, reforming the banking sector, reducing electricity-generation costs, and strengthening social protection before gradually expanding tax and pricing measures and increasing exchange-rate flexibility.

The economic rationale for this pathway lies in its attempt to reduce the fiscal deficit and inflationary financing first through the recovery of public resources and improvements in spending efficiency rather than by transferring the burden directly to consumers. Similarly, improving the foreign-exchange market and rebuilding reserves before increasing exchange-rate flexibility reduces the risk of a sharp pass-through to prices. Lowering electricity costs before raising tariffs limits the inflationary impact of tariff reform, while stronger social protection helps contain declines in real incomes and demand and reduces the risk of increasing poverty.

This does not mean that the third pathway is cost-free or that it will generate faster results. It requires greater institutional capacity and transitional financing and may delay some of the gains from fiscal adjustment.

Its advantage, however, lies in reducing the economic and social cost of each unit of adjustment and increasing the likelihood that improvements in public finances, the exchange rate, and inflation can be sustained without pushing the economy into deeper contraction and poverty. This makes it better suited to a fragile and divided economy such as Yemen's, more equitable and sustainable, and more likely to gain social and political acceptance.

Priority	Main Measure	Time-frame	Measurement Indicator	Expected Economic Impact
Fiscal sovereignty	Transfer public revenues to the treasury, identify all government accounts, and incorporate off-budget resources into the budget	0–6 months	Growth in real revenues actually transferred to the treasury	Reduce the financing gap and limit the need for new taxes or inflationary financing
Fiscal transparency	Publish periodic reports on revenues, expenditures, and arrears	0–6 months	Regularity of reporting and scope of coverage	Improve oversight and the efficiency of resource allocation, while strengthening donor confidence
Treasury Single Account	Gradually consolidate government entities' balances into a single account	0–12 months	Number of entities and balances incorporated	Improve liquidity management and reduce fragmentation of public resources
Foreign-exchange market	Establish an organized interbank foreign-exchange market, channel trade financing and remittances through the banking system, require banks and exchange companies to disclose exchange rates and trading volumes, and establish clear and transparent rules for central bank intervention in the market	0–12 months	Banks' share of foreign-exchange trading, interbank trading volumes, reduced price dispersion, narrower bid-ask spreads, and lower volatility	Improve price discovery and bring supply and demand into a more organized market, reduce speculation and arbitrage, and strengthen the central bank's ability to influence the market without excessive reliance on direct intervention
Foreign reserves	Set a target level for reserves and direct part of external support toward rebuilding them	Throughout the program	Months of import coverage provided by reserves	Increase the central bank's capacity to absorb shocks and ease pressure on the exchange rate

Banking sector	Publish audited financial statements and gradually implement risk-based corrective plans	3–18 months	Share of compliant banks and financial soundness indicators	Restore confidence and financial intermediation while avoiding a sharp contraction in credit
Electricity	Reduce production costs and losses and improve collection before implementing major tariff increases	0–18 months	Unit cost, losses, collection rates, and hours of service	Reduce the subsidy burden while limiting the direct transmission of reform costs to prices and household incomes
Social protection	Activate targeted cash transfers before, or alongside, broad-based pricing and tax measures	Before each broad-based pricing or tax measure	Share of affected households covered by compensation	Limit declines in real income and increases in poverty, while preserving purchasing power
Oil and sovereign resources	Establish transparent rules for managing revenues before oil exports resume	Before the resumption of exports	Publication of production, revenue, and remittance data	Direct export revenues, once resumed, toward fiscal stability and reserve accumulation rather than reproducing existing imbalances
External support	Link financing to specific institutional and economic reform indicators	Throughout the program	Volume of financing linked to the achievement of agreed indicators	Finance the transitional costs of reform and reduce the need for sharp fiscal and monetary adjustment

Findings

The paper reaches the following conclusions:

1. The IMF staff-monitored program does not constitute a rescue package or a source of direct financing. Rather, it provides a framework for strengthening discipline and credibility and for building a reform track record that may support access to financing and external assistance at a later stage. Its effectiveness, however, remains contingent on the capacity of state institutions to implement reforms amid fiscal, monetary, and institutional fragmentation, which limits the scope of policy implementation and the transmission of its effects at the national level.
2. The fiscal crisis is attributable not only to declining revenues, but also to fragmented resource management, the persistence of off-budget resources, and weak revenue remittance and oversight. Recovering existing and leaked revenues, improving compliance among large taxpayers, and enhancing spending efficiency should therefore precede the expansion of indirect taxes and fees, whose costs are passed on through higher prices, lower real incomes, and weaker domestic demand.

3. Monetary stability requires an integrated approach to the exchange rate, monetary financing, and the banking sector. Greater exchange-rate flexibility without adequate preparation may increase inflation and put pressure on incomes, while restricting monetary financing may constrain liquidity and economic activity in the absence of sufficient resources or alternative sources of financing. Conversely, an unsustainable defense of the exchange rate and continued monetary financing would deplete reserves and lead to the accumulation of inflationary pressures. Weak financial intermediation also limits the effectiveness of monetary policy.

4. The feasibility of reforms with significant price and social effects depends on the sequencing of their implementation. In the electricity sector, tariff increases should be preceded by reductions in production costs and losses and improvements in collection and generation efficiency. Social protection should also be incorporated into the design of tax and pricing measures from the outset in order to limit the transfer of adjustment costs to groups least able to bear them.

5. The success and sustainability of the program depend on securing sustainable sources of revenue and foreign exchange, foremost among them the restoration of oil exports or the development of viable alternatives. At the same time, the fiscal framework should not be built on the assumption of an imminent resumption of oil exports or the continuation of external support that is not guaranteed. Success also depends on the sequencing of reforms, beginning with the recovery of public resources, improvements in governance and spending efficiency, and reform of the foreign-exchange market before expanding pricing and tax measures, thereby reducing the adverse effects of adjustment on inflation, poverty, and growth.

Recommendations

Based on its findings, the paper proposes the following set of practical recommendations:

1. Give priority to restoring control over public resources by ensuring the remittance of sovereign and central government revenues, incorporating off-budget revenues and expenditures into the budget, gradually consolidating government accounts into the Treasury Single Account, and improving compliance among large taxpayers, revenue collection, spending efficiency, and transparency before expanding indirect taxes and fees with broad effects on consumers.

2. Implement exchange-rate, monetary-policy, and banking-sector reforms in a gradual and integrated manner by developing an organized foreign-exchange market, strengthening financial intermediation, publishing banks' audited financial statements, improving trading transparency, rebuilding reserves, and restricting monetary financing in parallel with public-finance reform. Banking-sector imbalances should also be addressed gradually in a manner that preserves stability without causing a sharp contraction in credit.

3. Link reforms with price effects to measures that reduce their economic and social costs. Electricity tariff increases should be preceded by reductions in production costs and losses and improvements in collection. Likewise, broad-based tax and pricing measures should be preceded by an assessment of their effects on income and poverty, together with the activation of appropriate social-protection mechanisms before implementation or in parallel with it.

4. Build the program's fiscal framework on resources that are actually available, while working to restore oil exports and establish transparent rules for the remittance, use, and allocation of oil revenues, including dedicating part of those revenues to rebuilding reserves and financing investment. External support should be transformed into reform-linked financing.

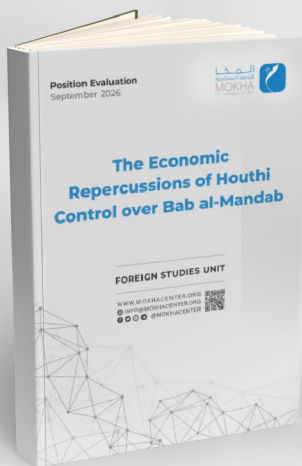
At the same time, the IMF should, in designing and reviewing the program, take into account the sequencing of measures and the capacity of the economy and society to absorb their costs, and performance assessment should not be limited to quantitative fiscal and monetary indicators.

References

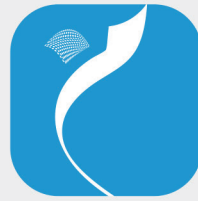
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