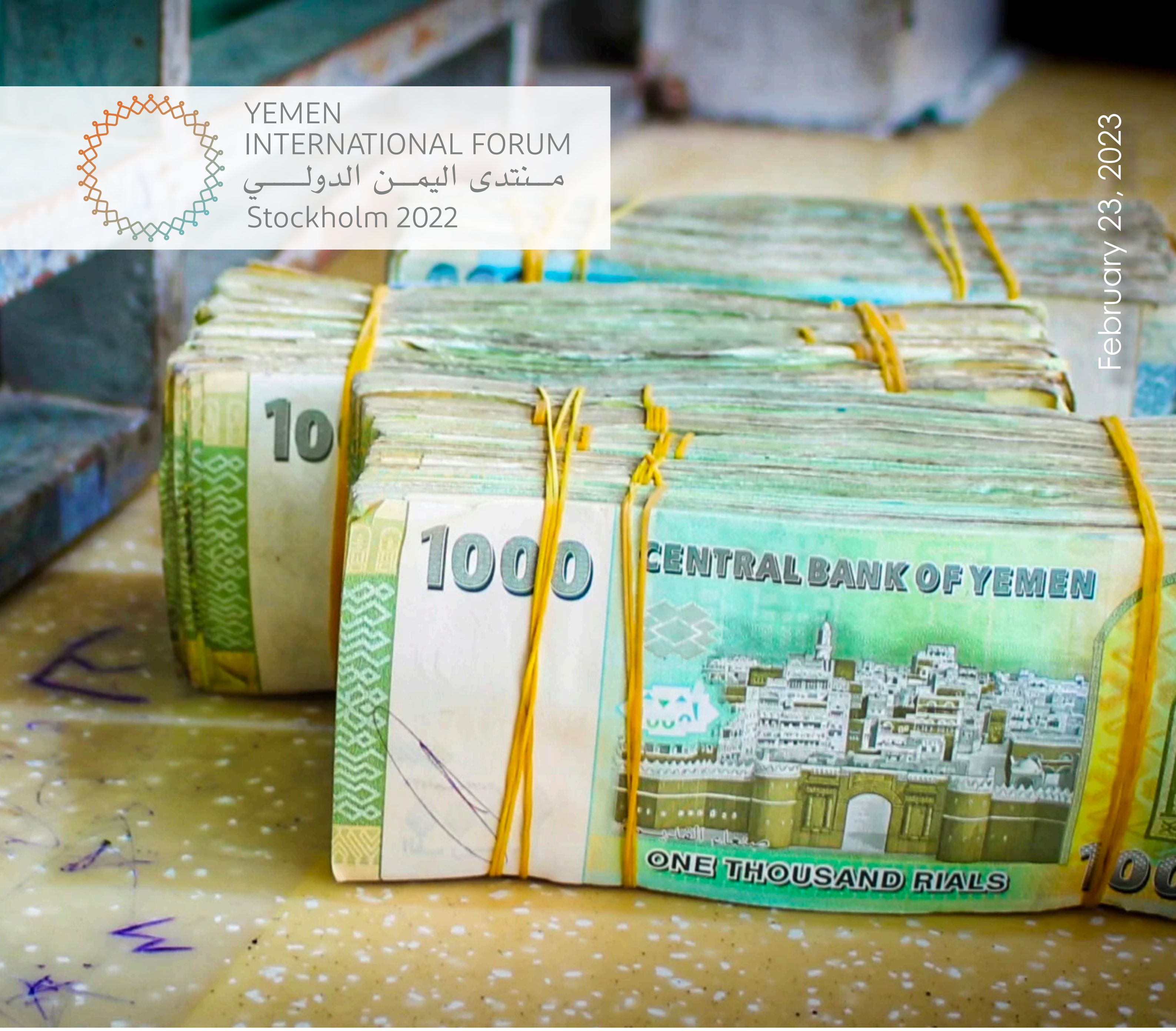

BRIDGING THE DIVIDE:

MITIGATING THE IMPACTS OF THE CBY SCHISM ON YEMEN'S BANKING SECTOR

By the Sana'a Center Economic Unit

SANA'A CENTER FOR STRATEGIC STUDIES
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FBA

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Caption: Bundles of YR 1,000 banknotes, issued by the Yemeni government-controlled central bank, sit on the counter at Bin Yazid money exchange in Al-Mansoura district, Aden, on October 1, 2020 // Sana'a Center photo by Ahmed al-Shutiri

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INTRODUCTION

The September 2016 rupture of the Central Bank of Yemen (CBY) into rival branches associated with the main warring parties has severely undermined the country's banking sector. The most fundamental issues affecting Yemeni banks are the differing currency systems that have emerged between areas controlled by the internationally recognized government and Houthi authorities, and the associated competing centers of financial sector regulation, which have adopted increasingly coercive measures in their attempts to assert exclusive authority. The banking sector liquidity crisis, which emerged prior to the central bank schism, has only been compounded and complicated since.

This policy brief was produced as part of the Yemen International Forum (YIF) 2022 and will offer an overview of the evolving challenges facing the banking sector, the implications these have had for Yemen's economy and humanitarian situation, and the steps stakeholders should consider when pursuing mediation to isolate the country's banking sector from involvement in the broader conflict. Importantly, the economic confrontation between the belligerent parties has recently escalated. In the latter half of October, Houthi forces began striking oil export facilities on the southern coast, threatening the foundation of government finances by preventing oil sales.[1] The government responded by designating the Houthi movement as a terrorist organization and has been formulating a raft of retaliation measures focused on securing dominance over banking and financial sector regulation. In early 2023, the government's fiscal woes were further compounded afterHouthi authorities began carrying out a campaign to pressure commercial importers to redirect shipments from i government-controlled ports to the Houthi-held port of Hudaydah.

Heightened animosity between the belligerents has complicated efforts to mediate a resolution to the critical issues hobbling the country's banks. Prospects for successful mediation appear exceedingly low at present. It continues to be important, however, to assess the most realistic and viable steps to address the impact of the CBY schism on the banking sector, in the event that a window of opportunity to do so arises.

[1] "Houthi Strikes Prompt Government Terrorism Designation, The Yemen Review, October 2022," Sana'a Center for Strategic Studies, November 14, 2022, https://sanaacenter.org/the-yemen-review/october-2022/19003

THE IMPACT OF THE WAR AND THE CBY DIVIDE

Yemen has historically had an overwhelmingly cash-based economy. Prior to 2014, the country's commercial and Islamic banks largely concentrated their investments of customer deposits in treasury bills, due to the relatively high interest rates the CBY offered on public debt instruments and sukuk (Islamic financial bonds). The country's underdeveloped economy offered few other enticing investments.[2] The armed conflict escalated between 2014-15, bringing a dramatic economic downturn and an end to oil exports, the CBY's largest source of foreign currency. Through 2015, the central bank increasingly brought in capital controls to preserve its diminishing foreign currency stocks, with local banks in turn limiting foreign currency withdrawals, fueling mistrust of the banking sector.

Beginning in early 2016, declining faith among traders and wealthy Yemenis in the banking system led to a massive migration of financial flows from formal to informal networks.[3] Banks then faced an increasing liquidity crisis in both foreign and domestic currencies and, lacking Yemeni rials (YR) themselves, had few available to deposit at the CBY. The central bank's supplies of physical rial banknotes subsequently began to deplete rapidly, with the government, then based out of the interim capital in Aden, prohibiting the CBY from issuing new bills. In August 2016, with both its foreign and domestic currency stocks nearly exhausted, the CBY ended regular salary payments to most public servants.

In September 2016, then-President Abdo Rabbu Mansour Hadi ordered that the CBY headquarters be relocated to Aden.[4] This had the effect of creating two central bank entities in Yemen. The CBY in Sana'a, affiliated with the Houthis, maintained the physical infrastructure, information archives, and most of the human resources of the original central bank, as well as purview over the country's largest financial, commercial, and population centers. The CBY in Aden took with it international recognition, with its associated privileges.

Both branches subsequently suspended payments on public debt obligations, turning bank-held treasury bills into stranded assets. In August 2019, the CBY-Sana'a froze interest accumulation on treasury bills, and in September 2022, the Sana'a-based Council of Ministers approved a draft law banning interest-based transactions associated with treasury bills and government bonds as usurious, a move toward the full Islamization of the financial system. The Sana'a-based Ministry of Finance and the CBY is currently studying a proposal to remove more than YR1.7 trillion in domestic treasury bills held by banks from the public debt system and turn their respective balances into non-cash balances at the central bank.

[2] Sana'a Center Economic Unit, "Addressing the Crushing Weight of Yemen's Public Debt," Sana'a Center for Strategic Studies, July 2022, https://sanaacenter.org/files/Rethinking_Yemens_Economy_No12_En.pdf

[3] Farea al-Muslimi, "Revitalizing Yemen's Banking Sector: Necessary Steps for Restarting Formal Financial Cycles and Basic Economic Stabilization," Sana'a Center for Strategic Studies, February 15, 2019, https://sanaacenter.org/publications/analysis/7049

[4] Mansour Rageh, Amal Nasser and Farea al-Muslimi, "Yemen Without a Functioning Central Bank: The Loss of Basic Economic Stabilization and Accelerating Famine," Sana'a Center for Strategic Studies, November 2, 2016, https://sanaacenter.org/publications/main-publications/55

The new draft law would force commercial banks to end interest-bearing deposits, but Houthi authorities have offered no alternative Islamic financing tools to reinvest stranded assets as of writing. The Houthi move to Islamize banking debt risks intensifying the banks' liquidity crunch. This would leave them even less capable of honoring customer obligations, threatening to further erode confidence in commercial banking services and jeopardizing their financial solvency.

CONFLICTING MONETARY POLICIES AND DIVERGENT EXCHANGE RATES

As the internationally recognized monetary institution for Yemen, the CBY-Aden has leveraged this exclusive right to print new rial banknotes abroad to offset dwindling public resources. Beginning in early 2017, the government embarked on a massive monetary expansion, issuing new currency to cover its vast budget deficit, primarily driven by public salaries in government-held areas.[5] This helped spur recurrent cycles of exchange rate volatility and depreciation, in response to which the CBY branches in Sana'a and Aden implemented ad hoc emergency measures to restore currency stability.[6] Increasingly, however, the parties to the conflict adopted measures to weaponize aspects of the economy and financial sector as part of their wider war efforts.[7] These included divergent approaches to monetary policy and contradictory regulations, putting banks and other large commercial and financial actors in an increasingly precarious position.

Between 2017 and 2019, a currency divergence began after Houthi-aligned security agencies and the Sana'a-based public prosecutor's office implemented measures targeting market traders, including financial institutions, that sought to prevent them from trading the 'new rials' printed by the CBY-Aden after 2017.[8] The initial ban on the new banknotes served several purposes; the Houthis wanted to limit the overall rial supply in areas under their control relative to government areas and prevent the utilization of new rial notes from draining foreign currency from Sana'a to Aden. The restrictions also allowed them to maintain a larger degree of control over the money market and undermined the monetary credibility and capacity of the CBY-Aden. Though the Houthi ban partially succeeded in maintaining price stability, the de facto emergence of two currencies prevented banks from utilizing new rial banknotes to address the shrinking money supply and a lack of physical rial liquidity in more densely populated Houthi regions.

Another crucial juncture came in January 2020, when Houthi authorities officially implemented a ban on new rials in areas the group controls.[9] This had the effect of officially creating two monetary zones in Yemen. In Houthi-controlled areas, where 'old' rials circulate, the exchange rate has been relatively stable, holding at roughly YR604 per US$1 from January 2020 until April 2022, when it appreciated to roughly YR560 per US$1, and again to YR550 since mid-January.

[5] Amal Nasser and Alex Harper, "Rapid currency depreciation and the decimation of Yemeni purchasing power," Sana'a Center for Strategic Studies, March 31, 2017, https://sanaacenter.org/publications/analysis/89

[6] "Renewed rapid currency depreciation and diverging monetary policy between Sana'a and Aden," Sana'a Center for Strategic Studies, October 31, 2017, https://sanaacenter.org/publications/analysis/5035

[7] "Another Stage-Managed Fuel Crisis in Northern Yemen, The Yemen Review, June 2020," Sana'a Center For Strategic Studies, July 8, 2020, https://sanaacenter.org/publications/the-yemen-review/10258#Another_Stage-Managed_Fuel_Crisis; "Battle for Control Over Yemeni Banks and Money Exchangers, The Yemen Annual Review 2019," Sana'a Center For Strategic Studies, January 30, 2020, https://sanaacenter.org/publications/the-yemen-review/8923#Battle-for-Control-Over-Yemeni-Banks-and-Money-Exchangers

[8] Anthony Biswell, "The War for Monetary Control Enters a Dangerous New Phase," Sana'a Center for Strategic Studies, January 21, 2020, https://sanaacenter.org/publications/analysis/8674

[9] Anthony Biswell, "The War for Monetary Control Enters a Dangerous New Phase," Sana'a Center for Strategic Studies, January 21, 2020, https://sanaacenter.org/publications/analysis/8674

This came in response to news reports claiming progress in peace efforts, which might result in new financial support. Money exchange outlets in Houthi-controlled areas have exploited rial fluctuations to profit from arbitrage. The stability of the old rial has been achieved through the Houthi authorities' strict enforcement of a fixed exchange rate, as well as the supply of banknotes gradually declining as old bills become damaged and unusable. By contrast, new rials circulating in government-held areas have seen wild fluctuations in value since January 2020, ranging between YR1,700 to YR800 per US$1. This volatility was partly the result of the government continuing its monetary expansion to cover its budget dues until the end of 2021, creating a significant oversupply of currency relative to the economic activity in areas it controls. The government's inconsistent ability to supply the market with foreign currency has also been a major factor in exchange rate instability, though the CBY-Aden's implementation of regular, weekly foreign currency auctions in November 2021 has helped mitigate fluctuations. At the auctions, the CBY-Aden has consistently made available US dollars for pre-qualified banks to purchase, with the funds earmarked for basic commodity import financing.

The formation of the government's new Presidential Leadership Council in April 2022 last year was accompanied by Saudi Arabia and the United Arab Emirates announcing US$1 billion each in financial support for the government, which buoyed the exchange rates of both new and old rials. Riyadh and Abu Dhabi made the support conditional on the government and CBY-Aden carrying out institutional reforms, which heavily delayed its release.

POLITICIZATION OF LETTERS OF CREDIT

Prior to the conflict, Yemeni banks had been a primary means for traders to move money abroad to pay for vital imports – the country imported up to 90 percent of its food. De-risking measures by western financial institutions since the start of the conflict heavily constrained banks' ability to facilitate international trade. They then sought to use Lebanese banks as an intermediary to connect to global financial networks, but this practice ended when Lebanon entered its own financial crisis in early 2020 and implemented capital controls, trapping hundreds of millions of dollars of Yemeni funds in the Lebanese financial system.[10]

During the conflict, contradictory policies have emerged in the regulation of Letters of Credit (LCs) for basic commodity import financing, and each central bank has sought to exploit its respective points of leverage. The CBY-Aden's leverage is derived from its control over the country's access to the Society for Worldwide Interbank Financial Telecommunications (SWIFT) network, its recognition by international financial institutions, and that it is the only central bank that can support banks in financing imports through its foreign currency reserves. Following the CBY split, the government cut off the CBY-Sana'a's connection to SWIFT in November 2016, but the SWIFT network didn't come online at the CBY-Aden until April 2017, resulting in a suspension of import financing and money transfers through the network.[11] In the spring of 2018, the CBY-Aden relaunched LCs, offering lines of credit drawn from a US$2 billion deposit it received from Saudi Arabia to help finance the import of essential food commodities and relieve downward pressure on the rial. However, the implementation mechanism that the CBY-Aden developed to utilize this new financial support involved complex requirements, the most prominent of which stipulated that only physical rials would be accepted as payment to access foreign currency funds.[12]

The Houthis' leverage is derived from the fact that most banks continue to be headquartered in Sana'a and conduct most of their business in Houthi-controlled areas. The CBY-Sana'a pursued increasingly coercive measures to discourage and threaten companies and financial institutions from adhering to the CBY-Aden's LC requirements. In November 2018 it mandated that banks use non-cash payments, such as checks and account transfers, to put up the necessary collateral to access funds from the Saudi deposit.

The battle for control and oversight of banking sector operations, including the regulation of banks' participation in the CBY-Aden LC scheme, has further escalated since the launch of the CBY-Aden's foreign currency auctions. In July 2022, the CBY-Aden began talks with foreign banks, including Saudi and UAE correspondent banks, and subsequently demanded Yemeni

[10] Ryan Bailey and Anthony Biswell, "Yemen Economic Bulletin: Lebanon's Financial Collapse Traps Yemeni Banks' Money," Sana'a Center for Strategic Studies, May 8, 2020, https://sanaacenter.org/publications/analysis/9948

[11] Farea al-Muslimi, "Revitalizing Yemen's Banking Sector: Necessary Steps for Restarting Formal Financial Cycles and Basic Economic Stabilization," Sana'a Center for Strategic Studies, February 15, 2019, https://sanaacenter.org/publications/analysis/7049

[12] "The CBY-Aden's Crisis of Confidence – Assessing the UN Panel of Experts' Corruption Allegations," Sana'a Center for Strategic Studies, March 26, 2021, https://sanaacenter.org/publications/analysis/13577

banks connect to SWIFT Scope[13] by mid-January.[14] All Yemeni banks except three met the new mandate and were connected to SWIFT Scope. The de facto authorities in Sana'a allowed this to happen because without SWIFT Scope, banks would be completely isolated from the global financial system and unable to facilitate international trade, including imports, or to conduct any overseas financial transactions.

In November 2022, the CBY-Aden mandated that banks participating in the auctions share operations data to ensure compliance with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) statutes; a condition for accessing US$300 million in Special Drawing Rights from the International Monetary Fund (IMF).[15] As part of the arrangement, the United States Federal Reserve would exchange the SDR for US dollars and deposit the funds in the CBY-Aden's account at the Fed.[16] Furthermore, the Fed required that any bank participating in the auctions should be subject to a CBY-Aden assessment every six months to certify their compliance with AML-CTF statutes.[17] For the CBY-Aden to do so, the banks would have to share operations data.

The requirement for banks to share data related to operations conducted locally has perpetuated a new battleground in the economic war. Houthi authorities warned banks against sharing information with CBY-Aden. In early November, both CBY branches started circulating divergent lists of banks subject to their supervision, while threatening those classified as non-compliant with punitive measures. In mid-January 2023, Houthi authorities issued new directives prohibiting commercial traders in their areas from conducting financial transactions with four local banks, three of which are headquartered in Aden, and banned them from receiving FX originating from CBY-Aden foreign currency auctions,[18] creating a de facto geographical division over the LC scheme. A few days later, the CBY-Sana'a escalated the battle, issuing a circular to prevent banks and commercial importers from participating in the CBY-Aden auctions, claiming this was vital to prevent the smuggling of hard currency from Houthi to government-controlled regions and address a critical shortage of liquidity there.[19] Since the end of last year, banks participating in the CBY-Aden's auctions and LC scheme have had the opportunity to receive certificates, signed by the CBY-Aden and under the Fed's guidance, to show their compliance with AML-CTF statutes. These certificates are important for Yemeni banks to improve their capacity to deal with foreign correspondent banks and function with limited restrictions in the global financial system. However, the coercive measures adopted by the Sana'a-based authorities to prevent Yemeni banks and commercial importers from participating in the CBY-Aden's auctions complicate how Yemeni banks function in the global financial system and deepen their vulnerability to risks related to noncompliance.

[13] SWIFT Scope is a business intelligence solution designed to support central banks across the global financial community to monitor markets and transaction flows in order to meet prudential and supervisory objectives.

[14] Interview with a Yemeni banker based in Aden, January 2023.

[15] "Oil Exports Remain Halted As Govt Agrees Terms for International Support, The Yemen Review, November 2022," Sana'a Center For Strategic Studies, December 16, 2022, https://sanaacenter.org/the-yemen-review/november-2022/19204

[16] Interview with a Yemeni banker based in Aden, January 2023.

[17] Ibid.

[18] "Houthi decision to separate bank branches in militia-controlled areas from the influence of legitimacy," Yemen Youth Satellite Channel Youtube page, January 16, 2021, https://www.youtube.com/watch?v=B9Jgex1g04U

[19] Interview with two bankers, one based in Sana'a and one in Aden, January 2023.

INFORMAL FINANCIAL NETWORKS DISPLACING THE ROLE OF BANKS

With Yemeni banks largely unable to meet their needs, over the years traders have sought out informal and largely unregulated financial sector actors, namely money exchangers and hawala networks, for financing. Informal financial networks have expanded rapidly in number and influence during the conflict.[20] Given their highly unregulated nature, the volume of transactions they carry out is unclear, however, the Sana'a Center Economic Unit estimates that they now handle billions of dollars in domestic and international money transfers each year.[21] The fractured regulatory environment has facilitated the growth of informal financial networks, with the CBY branches in Sana'a and Aden undercutting each other's efforts to gain control over the sector.

There are multiple implications of money exchangers and hawala networks displacing the functions of banks in Yemen. The unregulated nature of informal financial markets makes them riskier and thus more costly intermediaries for importers – costs that are ultimately passed on to consumers. The enormous financial heft that informal financial sector players have accrued has also allowed them to influence the currency market. Money exchangers and hawala networks have been repeatedly accused of acting in concert to collectively profiteer through currency speculation and exchange rate manipulation.[22] Whereas the CBY had previously been able to recruit heavily-regulated banks to help maintain exchange rate stability, in turn helping to ensure price stability, informal financial market actors often work to magnify exchange rate instability for their own profit, spurring inflation and worsening the humanitarian situation. Given the unregulated environment that money exchangers and hawala networks exploit, the risk that they are being used to launder money and finance illicit activities is extremely high.

[20] "Attempts to Curb the Influence of Unlicensed Money Exchange Firms, The Yemen Review August 2018," Sana'a Center for Strategic Studies, September 6, 2018, https://sanaacenter.org/publications/the-yemen-review/6394#Attempts_to_Curb

[21] Sana'a Center Economic Unit, "Yemen Economic Bulletin: The Limited Efficacy of US Sanctions on Houthi Financial Networks," Sana'a Center for Strategic Studies, December 17, 2021, https://sanaacenter.org/publications/analysis/16015

[22] "CBY-Aden Suspends the Licenses of Dozens of Money Exchange Companies," Sana'a Center for Strategic Studies, November 4, 2021, https://sanaacenter.org/publications/the-yemen-review/15660#Money_exchangers

RENEWED FOREIGN CURRENCY SUPPORT

In mid-November 2022, the government announced that the IMF had agreed to release US$300 million worth of Special Drawing Rights (SDR), an internal IMF unit of account, as financial support to Yemen. More foreign currency support arrived in the last week of November, with the government and the Arab Monetary Fund (AMF) announcing a US$1 billion financial support agreement, financed by Saudi Arabia, that is slated to run until 2025. Days later, the Yemeni government announced that the United Arab Emirates had made close to US$300 million in foreign currency available to the CBY-Aden. In late February, Saudi Arabia announced that it would deposit an additional US$1 billion with the CBY-Aden.[23]

The timing of the renewed financial support is fortunate for the government: with oil sales halted since mid-October by Houthi drone strikes, the IMF, Saudi, and Emirati support ensured that the CBY-Aden was able to continue its weekly currency auctions, which should minimize exchange rate volatility in government-held areas. Houthi drone strikes on critical oil infrastructure in October and November provoked the government into designating the group as a terrorist organization. While this designation has no formal basis in Yemeni law, the government has since been planning measures to give it practical impact. These include actions to regulate access to the SWIFT network, in order to force banks into compliance with CBY-Aden regulations or risk losing market share. Combined with the Fed stipulation requiring the CBY-Aden to certify the AML-CTF compliance of banks participating in the foreign currency auctions, these are significant escalations in the battle for control over the banking sector. Banks disqualified from the currency auctions or barred from the SWIFT platform will face heightened risks to their solvency and lose the ability to interact with the financial global system. Additional fiscal pressures on the government came in early 2023 afterHouthi authorities began pressuring commercial importers to redirect import shipments from Aden to the port of Hudaydah with the aim of depriving the government of YR45-50 billion monthly in customs duties.[24]

The schism in the CBY, and the resultant fracture in monetary policy and financial sector regulation, is an impediment to restoring the role of banks in Yemen. Allowing banks to re-establish their relationships with financial institutions abroad would in turn allow them to facilitate international trade for Yemeni importers. This would be a significant step toward re-empowering them and enticing Yemen's financial flows back into formal cycles. But this would require a coherent and unified approach to ensure that the banking sector adheres to global AML-CTF statutes. This in turn would require a basic level of coordination and data sharing between the central banks that they have not been able to agree to.

[23] "Saudi Arabia to deposit $1 billion in Yemen's central bank - source," Reuters, February 21, 2023, https://www.reuters.com/world/middle-east/saudi-arabia-deposit-1-billion-yemens-central-bank-source-2023-02-21/

[24] See television interview with the CBY-Aden GovernorAhmed Ghaleb on February 22, 2023, available at:https://www.youtube.com/watch?v=lPqp_BYFJBA&t=194s

LOOKING AHEAD AND RECOMMENDATIONS

The current environment in Yemen is arguably less conducive to mediating a resolution to the issues impacting the banking sector than at any other point in the war. Sweeping reconciliation agendas are effectively off the table. Rather, focused and precise interventions should look to exploit the limited windows of opportunity that exist to slow the entrenchment of parallel monetary environments and banking systems in Yemen, while also seeking to lay the groundwork for technical coordination between the rival CBY branches. The recommendations below should thus not be regarded as exhaustive, but rather options for processes that are the most realistically achievable in the current circumstances, and which have the potential to facilitate future steps towards remediation. With this in mind, policymakers should:

- Seek to prevent Yemeni banks from being disqualified from the CBY-Aden's foreign currency auctions. This should involve the development of a practical plan to shield the banking sector from the wider political economy of the conflict and include a compromise to exchange banking data, with the goal of strengthening compliance with AML-CTF mandates.

- Seek to restart formal financial flows and address the banking sector's liquidity crisis through current mechanisms and prospective resolutions in other areas, such as UN-led efforts to reach an agreement between the belligerent parties on the payment of public sector salaries in Houthi-controlled areas:

    - A portion of the funds offered at the CBY-Aden's weekly foreign currency auctions could be allocated to pay public sector salaries. This would involve banks receiving the foreign currency from the CBY-Aden and releasing the equivalent amount in old rials to public sector workers in Houthi-controlled areas.

    - Any broader agreement between the belligerent parties regarding the payment of public sector salaries should be facilitated through the banking sector.

- Seek to allocate a portion of the IMF's SDR support to pay out the banking sector's foreign exchange balances currently stranded in the CBY, which would address the banks' liquidity shortage and allow them to begin honoring customer deposits. In return, the CBY-Sana'a should grant banks operating under the Houthi control the green light to share their data records with its counterpart in Aden. Both belligerent parties must understand that the main purpose of sharing operations data is to improve compliance with AML-CTF requirements and must refrain from using this data as an instrument of economic warfare. When de-escalation is feasible, a minimum level of coordination among the fragmented branches of CBY in Sana'a and Aden would be instrumental to reducing conflicting policies over the regulation and management of the sector's basic operations.

- If SDR support from the IMF is not forthcoming, the CBY's estimated US$270 million portfolio, still being held by the Bank for International Settlement (BIS), could be released through a joint agreement and liquidated to address the banks' liquidity crisis. Furthermore, addressing the banking sector's liquidity crisis must come as part of any future agreement to facilitate a gradual resumption of oil and gas exports in exchange for allocating their proceeds through a joint distribution mechanism to pay public salaries. Associated funds must be channeled via Yemeni banks to help banks address the liquidity crisis and regain public confidence.
    - This step would require the CBY-Sana'a to allow the CBY-Aden access to records on commercial and Islamic bank holdings at the central bank prior to September 2016, as this data continues to be held in the CBY's original headquarters. A committee involving both CBY branches and neutral banking sector actors should be formed to coordinate this exchange of information.
- Belligerent parties must be obliged to not use Yemeni banks as a tool in their ongoing economic contest. The government's recent designation of the Houthis as a terrorist group could make the banking sector the next target in the ongoing economic war. The government must remove banks from its plan to sanction and blacklist financial entities and actors allegedly tied to the Houthi movement.
    - On the other side, the Houthis should halt coercive measures that could contribute to deepening the banking sector's isolation from the global financial system and risk its commitment to AML-CTF requirements. This requires an inclusive peace approach that builds on belligerent parties' joint incentives to achieve a minimum level of de-escalation and coordination over regulating and supervising banking sector operations while creating the conditions for further unification of the banking system when political conditions allow.

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