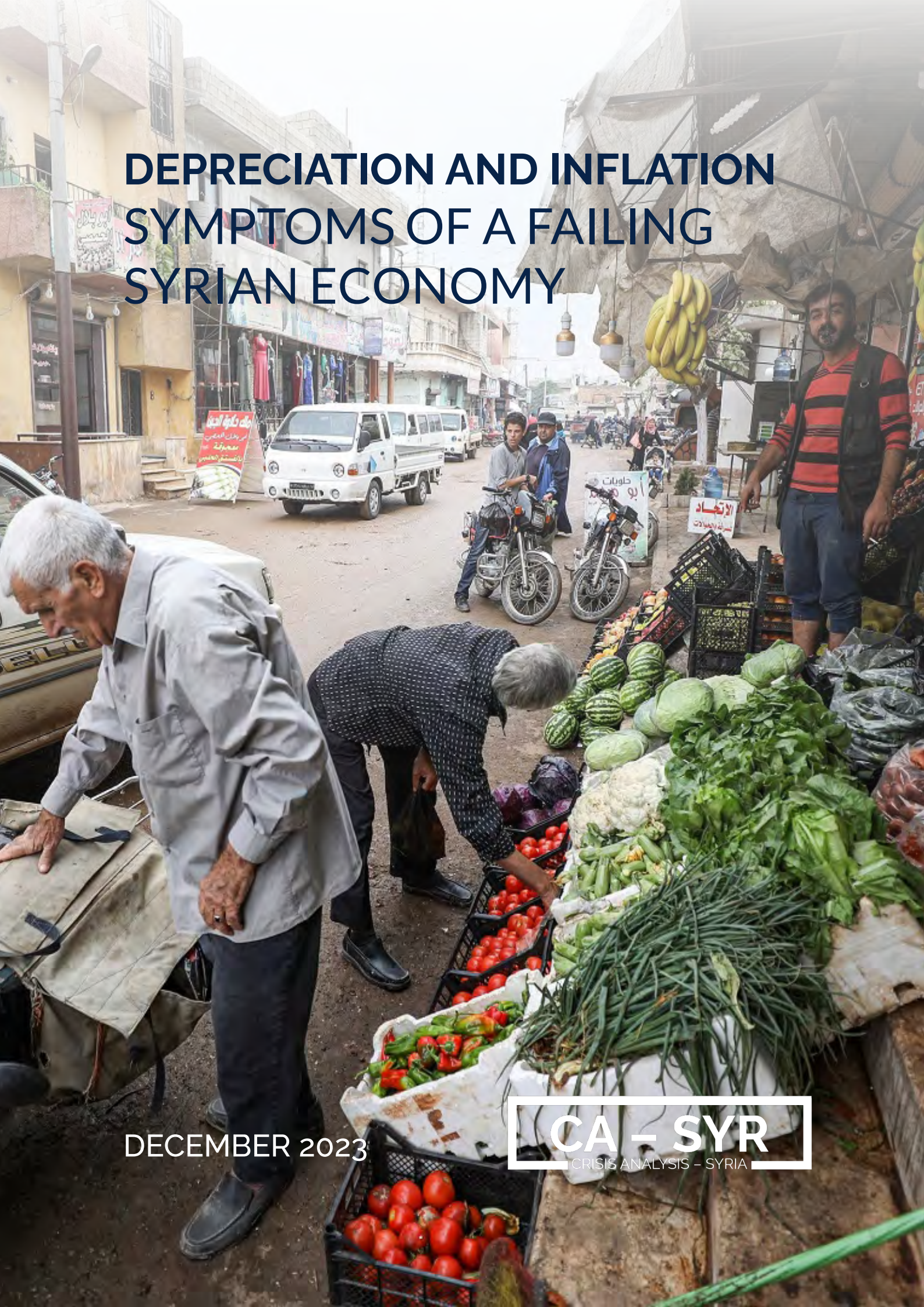


DEPRECIATION AND INFLATION SYMPTOMS OF A FAILING SYRIAN ECONOMY



DECEMBER 2023

CA - SYR
CRISIS ANALYSIS - SYRIA

Contents

Executive Summary	3
Introduction	4
Methodology	5
Inflation and price hikes	6
Impact on household affordability	8
Policies, mitigation and external factors	12
Domestic policies and mitigation measures	12
External factors	14
Coping mechanisms	16
Humanitarian considerations	17

Executive Summary

The regular depreciation of the Syrian pound is a symptom of the failing Syrian economy, causing unchecked price increases and reducing households' already-limited purchasing power. Imports are severely restricted while exports are almost non-existent, and the budget is shrinking. Infrastructure damaged during the conflict remains damaged. At black market inflation rates of over 100% so far in 2023, it is difficult to understand how normal Syrians are coping. Affordability, a key indicator of economic performance, is extremely low, particularly for public sector employees and unskilled daily wage workers – the average government employee has to work for over half a year to be able to afford the minimum items households need to survive. In government-held Syria, Damascus has implemented several reactionary policies to try to stabilize the economy, to limited effect. Blanket pay rises for public sector employees combined with subsidy cuts have only worsened the problem, increasing prices further, while inefficiencies in market interventions have interrupted supply chains, causing shortages and again, higher prices. External sanctions continue to restrict the Syrian economy, preventing efficient imports and causing further shortages. Deteriorating living standards have fuelled protests and social instability, particularly in As-Sweida governorate, however, wide-scale reform looks unlikely. As it stands, the government has neither the political will nor the finances to implement the changes needed to stabilize the economy.

With growing food insecurity, poverty and social instability, all factors exacerbated by fuel shortages for the upcoming winter, humanitarian organizations must prioritize their activities to enable households to receive food, fuel, medicine, electricity and water. There could also be further social instability as people protest deteriorating living standards, and protection issues of child labor and child marriage, already coping mechanisms for the poorest families, could worsen.

Introduction

The value of the Syrian pound has been in freefall since the onset of the Syrian conflict, now worth just SYP 13,850 per USD on the parallel (black) market. Annual depreciation stands at over 100% in 2023, from SYP 6,825 per USD in January to SYP 13,850 as of November, and still rising. The inflationary pressure on prices caused by the constantly depreciating black-market value of the pound has meant that Syrians are finding it difficult to cope. The unaffordability of basic commodities remains high, as shown by CA-SYR's calculation for affordability – which measures how many working days it would take to be able to purchase a Survival Minimum Expenditure Basket (SMEB) – while a reduction in subsidies continues to weigh on the vulnerabilities of households, particularly those relying on day labor for income.

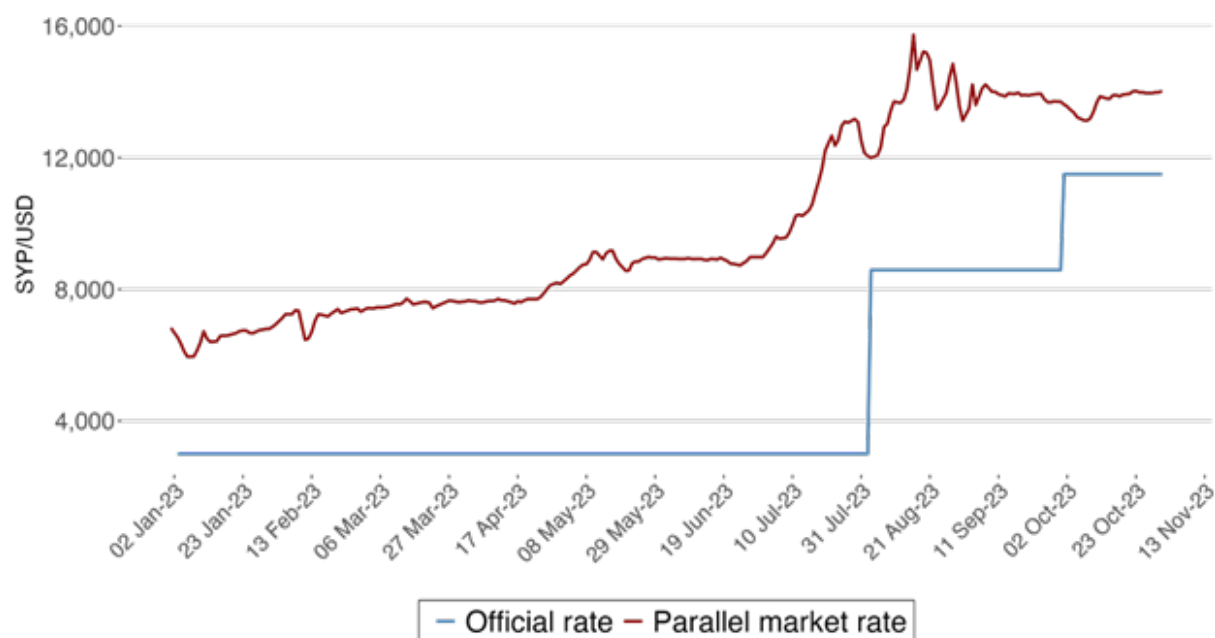


Figure 1. Official and parallel market exchange rates of the Syrian pound from December 2022 to November 2023

Beyond affordability and purchasing power, conflict-damaged utilities and infrastructure continue to suffer from poor maintenance, as repairs and reconstruction are slow. Small pockets of

the population have been able to restore some service provision, either through fundraising or through patronage networks; however the vast majority of people have to either resort to using expensive private services or go without. Shortages of fuel, food and medicine have been present throughout the year, and with winter upcoming, many households are again going to have to work out how to heat their homes with few resources and with minimal government support.

External factors continue to put negative pressure on the Syrian economy. The implementation of [new sanctions](#) in 2023 and the end of the post-earthquake Caesar sanctions waiver have further hampered the government's ability to recover. Much foreign trade and investment is blocked, decreasing revenues and increasing the government's balance of payments deficit. Promoting domestic production looks to be a priority for the government, however with limited money to spend on developing industry, progress is slow. In the meantime, there is more borrowing, more debt, and continued deterioration of living standards.

The Syrian government is keen to show progress in the country, to further legitimize and solidify its position in leadership, particularly in parallel to attempts at normalization with regional actors as exemplified during the Summer of 2023. With international sanctions still in place, and the north of the country fractured and lying outside its control, this remains precarious. Despite the apparent warming of relations with regional actors, the Syrian government has failed to do enough to resolve key terms for reintegration, including combating the narcotics trade, countering Iranian influence, encouraging refugee returns, or moving towards a political solution to the conflict. Domestically, the military, security and intelligence services maintain tight control over the population, but despite this, widespread dissatisfaction with Damascus is very evident. As protests in As-Sweida show, desperate living conditions and a lack of livelihood opportunities can often (and have) spread unrest. It is vitally important that the economy improves, with the hope that social stability improves.

This thematic report discusses the impact of rising prices and black-market inflation on households in government-held areas in Syria. Focusing on the continued depreciation of the Syrian pound as a symptom of a flailing economy, it will explore the impact on market prices, affordability, and how Syrian families are coping and responding and will provide a forward-looking analysis of what humanitarian organizations should consider as priorities in the medium term.

Methodology

A mixed-methods approach was used, with the collection of qualitative and quantitative research to provide novel analysis. CA-SYR referred to primary and secondary sources including media sources, government documents, and studies to understand the economic situation inside the country, track the government's policies and mitigation measures, and determine the factors that have contributed to the economic decline. CA-SYR made use of quantitative data to provide indicators of economic decline. For example, the change in night lights reflectance (NLR) of major cities under Syrian government control was used to assess changes in economic activity. Affordability was calculated by using data collected on market prices and quantities of specific items required by a five-member household. These figures were then averaged and compared to salaries for public sector employees and daily wage laborers prior to 15 August, and the new salaries following a 100% increase. Ways to improve short-to medium-term living standards are then given, for humanitarian actors to be able to help households cope.

Inflation and depreciation

Black market depreciation of over 100% of the Syrian pound through 2023 has placed huge inflationary pressure on prices of goods and services throughout Syria. Based on nominal value alone, most items more than doubled in price (see Table 1 as an example of food price increases in Rural Damascus). Supply shortages also pushed prices up, caused by low import levels, and because traders reportedly took to hoarding items (sugar for example) in times of significant depreciation, to sell at higher prices when the currency stabilized (relatively) at a higher level. The supply of medicine was disrupted when pharmaceutical wholesalers refused to sell stocks to pharmacies because of the price caps placed on many items by the Ministry of Health (which controls prices to ensure market affordability). Patients could not get ahold of medicine, and the black market prices of medicine then increased by up to 100%.¹ Media sources stated that housing and accommodation [increased by 40%](#) compared to last year with rental prices [ranging between SYP 500,000 and 1.5 million per month](#).

Item	1 February (SYP)	15 September (SYP)	% change
Private bakery bread	5,000	12,000	140%
Chickpeas (1kg)	8,900	11,000	24%
Bulgur (1kg)	7,000	12,000	71%
Lentils (1kg)	7,000	22,000	214%
Milk (1L)	3,500	6,000	71%
Rice (1kg)	11,000	18,000	64%
Bananas (1kg)	8,500	28,000	229%
Cucumber (1kg)	2,500	6,000	140%
Sugar (1kg)	7,200	17,500	143%
Cooking oil	23,800	25,000	5%
Minced beef (1kg)	41,000	145,000	254%

Table 1. Food price increases in Rural Damascus, February–September 2023 (Source: CA–SYR).

¹ CA–SYR, [August 2023 Monthly Report](#), September 2023

Box 1 – Multiple exchange rates

The disparity between the official and parallel (black market) dollar exchange rates of the Syrian pound continued to widen throughout the year, making sustaining the official exchange rate on global markets increasingly difficult for the Syrian Central Bank. In September 2023, the Central Bank devalued the pound for the third time in a year, this time by over 280%, from SYP 3,050 per USD set in January, to SYP 8,585 in July, then again to SYP 11,615 in September. Despite the devaluation being an indicator of the poor performance of the Syrian economy in global markets, it is not likely to have had a large impact on inflation in the domestic markets within Syria. The black market exchange rates are a much better measure of price increases. As reported by the World Bank;

The results [from research] show that the parallel market has been the biggest determinant of inflation in Syria since late 2019. From October 2019 to November 2021, the sensitivity of inflation to the parallel-market exchange rate increased markedly and remained high, whereas the sensitivity of inflation to the official exchange rate approached zero.”¹

The Central Bank, throughout the years of conflict, has also set multiple other exchange rates alongside the official rate, in an attempt to make money from cash inflows. Remittances, for example, are generally sent through international monetary transfer agencies, which have their own exchange rates which used to be similar to the official rate. In post-earthquake Syria, the inflow of remittances spiked as Syrians abroad sent money to help family and friends in the country. The Central Bank sought to capitalize on these donations by setting the exchange rate for these agencies much closer to the black market rates, thereby encouraging transfers through official channels from which they could extract fees. The UN rate on the other hand is generally kept low so as to increase the amount of foreign currency needed for purchases in Syrian pounds, for aid inflows.² As with the devaluation of the official rate, changes to either of these exchange rates are unlikely to significantly affect domestic prices or household economies, which are much more impacted by supply and demand dynamics of the black market economy. Government intervention in local markets would therefore be far more likely to affect prices.

Syrian Pound Exchange Rates – The Syria Report

Official rate	The Official rate is the core rate that the Syrian government uses for its state budget and for public sector transactions, such as financing imports and exports of the public sector.
Remittance	The remittance rate was set by the CBS in April 2013 and is used by Syrians sending money from abroad. On February 15, 2023, this exchange rate was discontinued and replaced by the ‘Banks Exchange’ rate.
United Nations	The United Nations rate was set by the CBS in December 2011 and is used by UN agencies operating in Syria.

¹ World Bank, [Syria Economic Monitor, Summer 2023: The Economic Aftershocks of Large Earthquakes, September 2023](#), pp. 14–15

² The Guardian, [Assad regime ‘siphons millions in aid’ by manipulating Syria’s currency](#), October 2021.

Banks and Financial Institutions Mid Foreign Exchange Rate	Also known as the Banks and Financial Institutions rate, was set by the Central Bank in 2012 following the depreciation of the Syrian pound. This rate is used by private banks and financial institutions to conduct transactions, including financing imports and exports of the private sector. On February 1, 2023, the CBS split this exchange rate into two new rates: 'Money Transfer and Cash Foreign Exchange (MTC)' rate and the 'Banks Exchange'.
Banks Exchange	The 'Banks Exchange' rate continued, until April 2, 2023, to use the original Banks and Financial Institutions rate – SYP 4,522 per dollar for bank transactions and SYP 4,500 for companies and entities that are not eligible to benefit from the MTC rate. The criteria for eligibility, according to the details of the decision, remain ambiguous. The rate is now set at SYP 8,542 against the dollar.
Money Transfer and Cash Foreign Exchange (MTC) rate	The MTC rate is used by local money exchange companies, Western Union agents, and local banks to disburse incoming personal and commercial remittances and purchase foreign currency from individuals. Money exchange companies will also use the rate to prepare their own budgets.

Reproduced with permission from *The Syria Report*. Taken from the article '[Syrian Pound Exchange Rates – Central Bank of Syria and Black Market \(2008-2023\)](#).' [Registration required].

Impact on household affordability

Higher prices for essential items of food, fuel, medicine and shelter had the greatest negative impact on living standards as residents searched for alternatives to make up for the lack of supply. To measure the impact of inflation on Syrian household economies, CA-SYR developed an index for calculating affordability. This calculates how many hours it would take for both an average public sector employee,² or an unskilled daily wage laborer, to earn enough to be able to afford a partial Survival Minimum Expenditure Basket (SMEB³), based on World Food Program (WFP) price data.⁴

The nominal price of a partial SMEB increased by almost 100% throughout 2023, from just over SYP 400,000 to just under SYP 800,000. Affordability had been worsening throughout the year, reaching a peak in July with calculations showing it would take 13 months to afford the partial SMEB for an average government employee.⁵ A blanket 100% salary increase for government employees (public sector workers and the military) in August helped households in the short term, with affordability improving by over 30% in the immediate aftermath. Since then affordability has been slowly reducing again as SMEB prices increased, to almost the same level as in January 2023, negating any progress the government may have been aiming for within households.

2 Public sector wages based on a high school diploma as their educational attainment.

3 Contains: Bread, Bulgur, Cucumbers, Dishwashing liquid, Eggplants, Eggs, Gas canister, Lentils, Chicken, Multipurpose soap, Oil, Onions, Rice, Salt, Sanitary pads, Sugar, Tomatoes, and Toothpaste.

4 Calculated using [WFP price data](#).

5 Assuming 20 working days per month.

For unskilled daily wage laborers, affordability has remained relatively stable throughout the year. CA-SYR calculated that it would take about three months to earn enough to purchase a partial SMEB, a level that did not appear disrupted by either depreciation or price increases. This would indicate that the cost of labor is highly responsive to price fluctuations in markets, and more importantly (for affordability) to the black market depreciation of the Syrian pound.

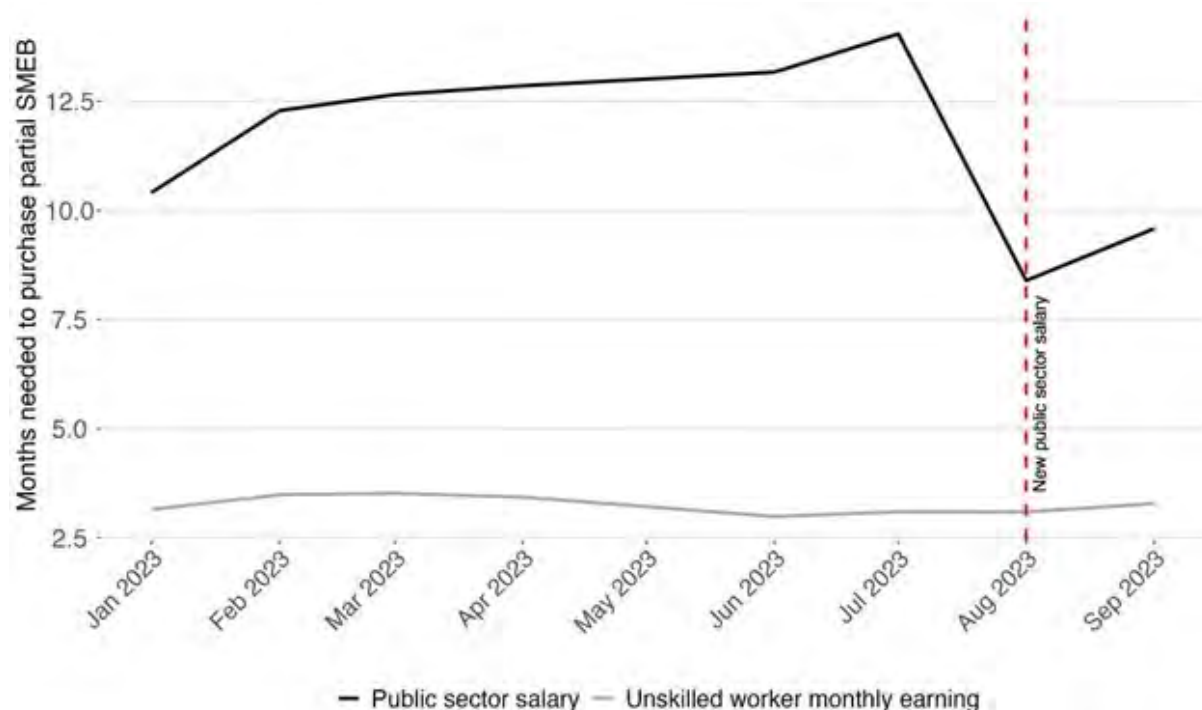


Figure 2. Number of months daily wage laborers and government employees need to work to afford a partial [SMEB](#) (Source: CA-SYR/WFP data).

Although affordability, particularly for daily wage laborers, is not significantly decreased by depreciation, the data shows that there has also not been much improvement for Syrian households in 2023. The Syrian economy remains unstable, and the poorest households are unable to make ends meet month to month, particularly public sector employees. Public service provision, including electricity (as described in Box 2), water and waste management, has only deteriorated as damaged infrastructure goes unrepaired, and maintenance of existing systems is lacking. Protests against deteriorating living conditions spread throughout As-Sweida, and to other government-held governorates. Damascus has failed to intervene to stabilize prices on the black market and has for the most part ignored the protests – or at least opted for now to monitor and contain rather than react violently to the situation.

BOX 2 - Poor service provision

Electricity

The electrical infrastructure throughout Syria has been in decline for a number of years. Syria's electricity grid was damaged in military operations during active conflict, and subsequent acts of sabotage and robbery of wires and other essential parts. The Syrian government has faced a series of challenges to fully restore the electricity sector to its pre-war condition. Insufficient funds prevent the government from conducting necessary repairs to make power plants fully operational and the electricity grid functional; blackouts were reported on several occasions in government-held areas due to damaged electricity lines and malfunctioning transformers.

The government also faces difficulties in procuring a sufficient amount of fuel to power all of its operational power plants and has to share the scarce resources to meet the economic interests of Russian and Iranian state-owned companies inside government-held areas.¹ Reports also emerged that Iran, which signed contracts to rebuild electricity infrastructure, is unwilling or unable to follow through on its commitments, either due to a lack of its own resources or because returns on investment are not guaranteed from Syrian consumers. Local sources reported electricity provision generally worsened during the Autumn season in government-held areas, with rationing of supply decreasing from four to two hours per day when compared with the beginning of the year.

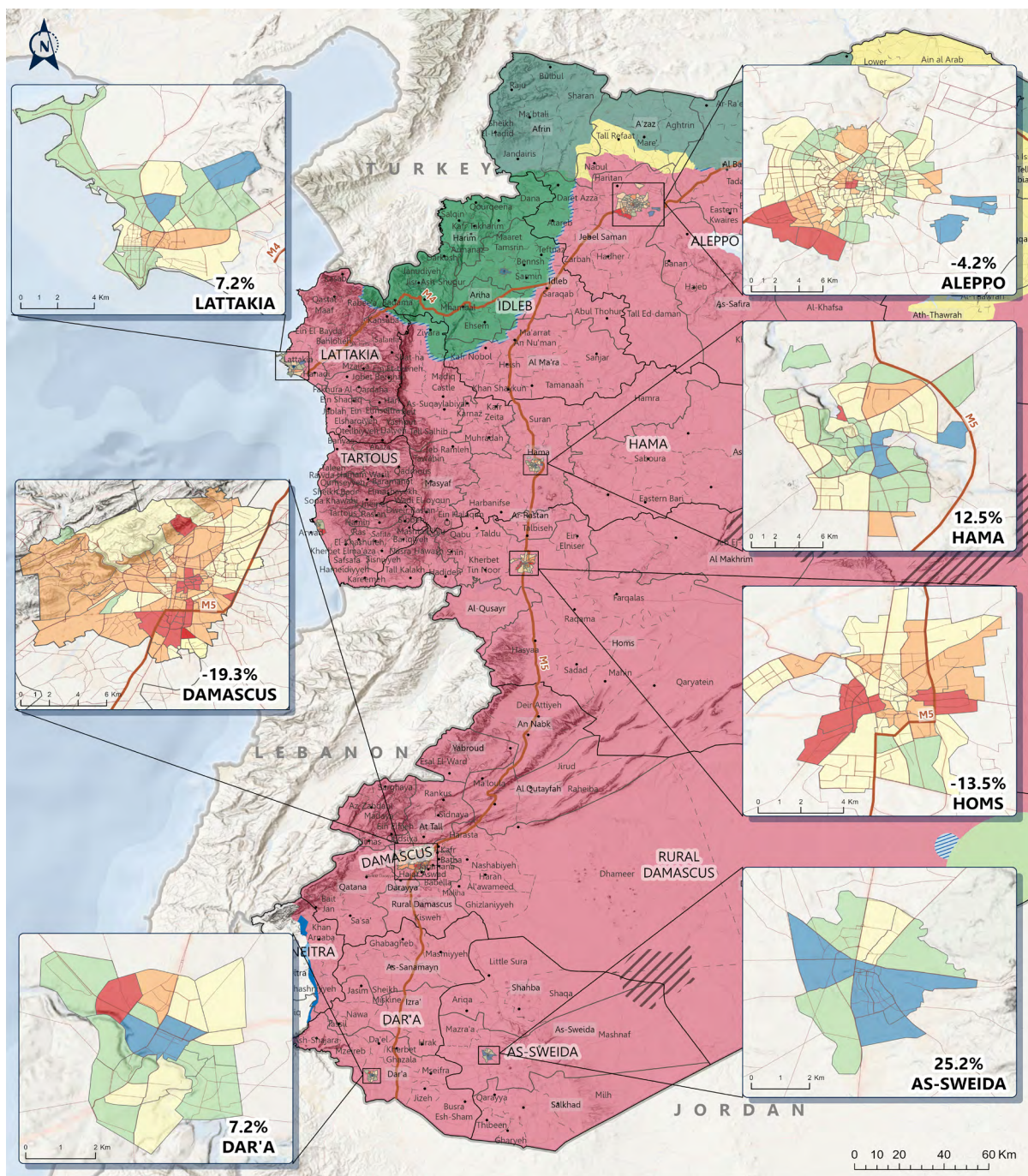
Night lights reflectance in As-Sweida, Dar'a, Lattakia, and Hama cities showed a marked improvement, in comparison to the other cities analyzed (Figure B1.). Local sources reported that the reason for this improvement is likely the initiatives launched by local civil society and international organizations to improve service provision and the presence of facilities that receive 24 hours of electricity. In Dar'a, the UNDP installed solar street lights on the primary roads in Dar'a city, while the Dar'a Tribal Council paid for their installation on secondary roads. Additionally, part of the improvement in electricity provision could have also been paid for by the faza'at that were held in January 2023 which raised \$4 million to improve service provision in the governorate.² In As-Sweida, the city council, with UNHCR funding, [installed 200 solar street lights](#) in the city including on streets where the public market, As-Sweida National Hospital, and hotels are located. In Lattakia, there are tourism resorts and facilities that operate their own private generators in addition to the port that constantly receives electricity. In Hama industrial areas are located inside the city; factories and workshops are usually connected to "[golden electricity lines](#)" that are exempt from rationing and provide electricity without cuts.

Importantly, the improvements have not been government initiatives, but have been implemented by private, humanitarian and development organizations and, to some extent, local initiatives. Although improved electricity provision for lights and public buildings in cities is important, it has less impact on individual households which still face extended rationing and very limited supply; many, for instance, continue to rely on generators to supplement their needs.

1 For example, the Homs Fertilizer Complex managed by the Russian engineering company, Stroytransgaz, consumes 1.2 million m³ of natural gas in its fertilizer production process. This is enough to provide an additional 300 megawatts of electricity if diverted to energy production.

2 CA-SYR, [Faza'at in Dar'a](#), August 2023.

Depreciation and inflation: Symptoms of a failing Syrian economy



Legend

- Main Community
- M4, M5 Highway
- Roads
- Governorate
- District
- Sub District

Zones of Control

- ▨ Contested Areas
- ▨ ISIS Presence
- Syrian Government (GoS)
- Autonomous Administration (AANES/SDF)
- Syrian Salvation Government (SSG/HTS)
- Syrian Interim Government (SIG/SNA)
- Al-Tanf
- UNDOF

Nightlight Reflectance (nW/cm2/sr)

- NRL growth rate (Sep 2022-2023)*
- -71.4% - -30.0% (Decrease)
 - -29.9% - -13.0%
 - -12.9% - 3.0%
 - 3.10% - 30.0%
 - 30.1% - 70.0% (Increase)

*The average night light reflectance of September 2022 and September 2023 was calculated for all the selected cities.

Night light imagery source: NOAA/VIIRS/DNB/MONTHLY_V1/VCMSLCFG
 Basemap: Esri, Garmin, NaturalVue, Esri, NASA, NGA, USGS, Esri, GEBCO, Garmin, NaturalVue, Esri, USGS
 Map produced on: 11/1/2023
 Spatial Reference: Name: GCS WGS 1984
 GCS: GCS WGS 1984
 Datum: WGS 1984

CA - SYR
 CRISIS ANALYSIS - SYRIA

Figure B1. The year-on-year change in night lights reflectance (NLR) calculated using VIIRS satellite imagery, in major cities in government-held areas. NLR in Damascus, Homs and Aleppo declined by 19.3%, 13.5% and 4.2%, respectively, in September 2023 compared to the same period in 2022. The night lights monthly images averages were compared between September 2022 and 2023 to calculate the change in night light reflectance.

Policies, mitigation and external factors

The government and Central Bank have tried to stabilize the currency and mitigate inflationary pressure throughout 2023, with varied results; some measures have served only to increase inflation on domestic prices, rather than lower them. Policies including blanket public salary increases and one-off grants were effective in households only in the short term, as affordability improved slightly, but soon returned to pre-increase levels amid continued inflation and depreciation. Savings made from subsidy cuts are as yet unaccounted for, and attempts at market intervention to keep prices low and promote trade were flawed because they counteracted one another and had an inflationary effect. Rather than long-term institutional reforms, which analysts warn are needed to solve the economic crisis and improve living conditions, these reactionary efforts look to largely benefit the government in its pursuit to address competing priorities with scarce resources, regardless of the broader public benefit.⁶

Sanctions against the Syrian government, Basahr al-Assad and his family, and businesses affiliated with the state are also ongoing. The Syrian government has not shown engagement in comprehensive reform to resolve the crisis via a political solution, as called for by UN Resolution 2254, which would go some way to relieving sanctions against it. Damascus' isolation prevents economic relationships internationally (apart from with a few key allies, including Iran and Russia) despite improved regional reintegration in 2023. Sanctions, low productivity and the loss of its oil and gas resources in the northeast have reduced exports to a tiny percentage of pre-conflict levels, with little indication that the situation will improve. The earthquakes which hit northern Syria caused significant damage which will take large sums of money to repair, and remittances sent to households in the immediate aftermath have slowed considerably, even dropping below 2022 levels. These factors have meant that Syrian households have had to adopt a number of different coping mechanisms, to preserve the little money they have to be able to afford food and basic necessities.

⁶ The Economist Intelligence Unit, [Registration needed], [Syria Economy, Politics and GDP Growth Summary](#). [Updated November 2023].

Domestic policies and mitigation measures

Subsidy cuts

In August, the government announced the total lifting of subsidies on petrol and a partial lifting of subsidies on diesel. The price of petrol rose to SYP 8,000 per liter from SYP 3,000, and diesel to SYP 2,000 per liter from SYP 750.^{7,8} Virtually all economic and commercial activity has been impacted by the higher price of fuel; the cost of mechanical production, transportation, and basic service provision of food and other domestic products went up, and higher costs were passed onto local shopkeepers and consumers.

The removal of state subsidies, a policy announced in early 2022, to be replaced by rationing allocations of essential items via the smart-card system for most in-need households, was reportedly introduced to reduce corruption, waste and government spending.⁹ Hussein Arnous, the Syrian prime minister, publicly announced that the lifting fuel subsidies saved the government SYP 23 billion, reducing subsidy expenditure from SYP 27.5 billion to SYP 4.5 billion.¹⁰ However, economic observers were quick to point out that the reduction in subsidies were more likely caused by the government's inability to sustain wide-ranging subsidy programs rather than a serious commitment to combat corruption. They also leave households struggling to stay out of poverty worse off.

Item	1 February (SYP)	15 September (SYP)	% change
Black market diesel (1L)	10,000	20,000	100%
Subsidized diesel (1L)	750	2,000	167%
Black market petrol (1L)	11,000	19,000	73%
Subsidized petrol (1L)	3,000	8,000	167%

Table 2. Fuel price increases in Rural Damascus, February–September 2023 (Source: CA–SYR)

100% pay rise for public sector and military employees

At the same time as announcing cuts to fuel subsidies, the government announced a 100% increase to government salaries, with the new minimum monthly wage of SYP 186,000, up from SYP 92,000. Although welcomed, the increase in salaries fell well below the black market depreciation rate of the pound (260% since the last wage increase in December 2021)¹¹ and remained well under the global poverty level of \$2.15 per day; a monthly salary of SYP 186,000 at the time was equivalent to \$0.72 per day (at the official rate of SYP 8,585 per USD), and in October following official devaluation of the pound to SYP 11,615 per USD, reduced to \$0.53 per day. Perhaps more realistically, media sources [calculated](#) that one person needs SYP 1 million per month for food alone, while local sources report that a household of five needs a monthly salary

7 BBC News, [Syria doubles public-sector pay and cuts subsidies as economy sinks](#), August 2023.

8 Reuters, [Syria slashes gasoline subsidy, boosts public-sector salaries](#), August 2023.

9 The process began in 2020, with cuts to bread allocations, and restrictions on who could claim subsidized bread. The Guardian, [Syria introduces limits on subsidised bread as economic crisis bites](#), October 2020.

10 Economic expert, Shafic Arbash, [expects the fuel price increase to make the inflation rate reach 300%](#) by the end of the year and consumer prices to increase by 10-15%.

11 The Syria Report [registration required], [Syrian Pound Exchange Rates – Central Bank of Syria and Black Market \(2008-2023\)](#), [Updated October 2023].

of SYP 15 million at least to afford services, quality food, and potable water, among other essential items. The lower-earning households fall short by a significant margin of these amounts.

Prior to the salary increase, in April Assad issued legislative decree 5/2023 that disbursed a [one-time financial grant](#) of SYP 150,000 (≈\$19) to all civilian and military state employees and pensioners.¹² Both the grant and the salary increases were welcomed by households and provided temporary relief from some financial concerns. Essentially, however, a direct consequence of both is to increase the money supply, which inevitably leads to further inflationary pressure. In the case of the one-off grant in particular, respite would have been brief, while data shows affordability following wage increases improved, then began to decrease again from September. The black market depreciation of the Syrian pound also continued as prices rose and stayed high.

Market intervention

For the poorest households, the government has outwardly at least shown some commitment to social support by creating a subsidy system via the Syrian Trading Establishment (STE) in which they are able to purchase essential food and non-food items at lower prices. The state-run STE was set up in 2017 to sell products to poor households at affordable prices, accessible through the electronic smart card system. An example of the STE's efforts to keep prices low in 2023 include [reported](#) bulk purchases of fruit and vegetables directly from farmers, to be resold at cost price, cutting out intermediary wholesalers, and undercutting the market. Although seen to be an example of positive market intervention to keep prices low, the STE ran into criticism when it emerged that farmers had not been paid; the STE had run up a bill of SYP 16 billion, while disgruntled farmers were unhappy about selling it more produce in fear of non-payment. A lack of organization was also evident, when the STE [failed to sell off stocks of potatoes](#) it had purchased, inadvertently increasing their price in markets by reducing supply.

Measures prior to this also discouraged sales to the STE. In January, new rules required food traders to sell 10% of domestic and imported products to the STE at cost price plus a 2% profit margin. This would enable the government to ensure a steady supply of cheap food to the poorest households via STE shops. For traders, these new requirements were a headache. They complained that 'cost price' did not take into account additional expenses, including transportation and storage. Confusing import rules and a volatile exchange rate have [reportedly](#) weakened imports, causing shortages and raising prices.

For consumers, a number of local media reports complaining of the quality, price and reliability of the produce and service, undermining the provision of low-cost goods. Most recently, articles have said that the food that is sold in STE shops is of poor quality (probably due to the low prices offered to suppliers to purchase the produce), rice and sugar, staples in Syria, have not been available since January, shops close in the early afternoon (14:00–15:00) during working hours making it difficult for workers to purchase items or receive their subsidized goods, and finally many items in high demand that are included in the smart card and sold by the STE (such as water bottles during summer) are unavailable.

With over 1,300 stores, and reported profits of over SYP 33 billion in 2023, there are also questions asked over how much the government benefits from the STE's trade of subsidized goods, and how much its mandate has veered from providing affordable produce, to profit-making.¹³

12 Assad has given these grants over the past few years as a means of financially assisting government employees, however, they have not been enough given the [continuously increasing market prices](#).

13 The Syria Report, [Syrian Trade Establishment's SYP 33 Billion Profits Spark Controversy](#), November 2023

Lifting restrictions

In contrast to market intervention via the STE, the government also tried to lift price restrictions to free up traders to price goods as they prefer. The Ministry of Domestic Trade and Consumer Protection issued a circular on 16 January, removing price-setting restrictions for all commodities except medicine.¹⁴ According to the circular, commercial traders would be able to set prices of goods based on receipts of purchase or the cost at which the trader purchased the items – previously, the government would set price lists for specific products, however due to rapid depreciation, these prices would frequently become outdated, and often traders would ignore them. Enforcing price lists was becoming a problem for the government. In theory, the removal of price restrictions would boost imports and trade and reduce volatility by enabling traders to price according to the fluctuating currency and reduce the threat of prices being undermined by black market inflation. In practice though, without the government’s price lists setting market prices, the risk of prices being set high, further increasing inflationary pressure, increased.

External factors

Sanctions

Sanctions have restricted foreign currency into government-held areas and deterred countries from investing or dealing with the Syrian government. The most wide-ranging are those adopted under the US State Department’s Caesar Civilian Protections Act (Caesar Sanctions), which have been in place since June 2020. These were briefly waived for relief activities post-earthquake, to enable rapid emergency funds and materials entering Syria, however were then reinstated in August after 180 days.

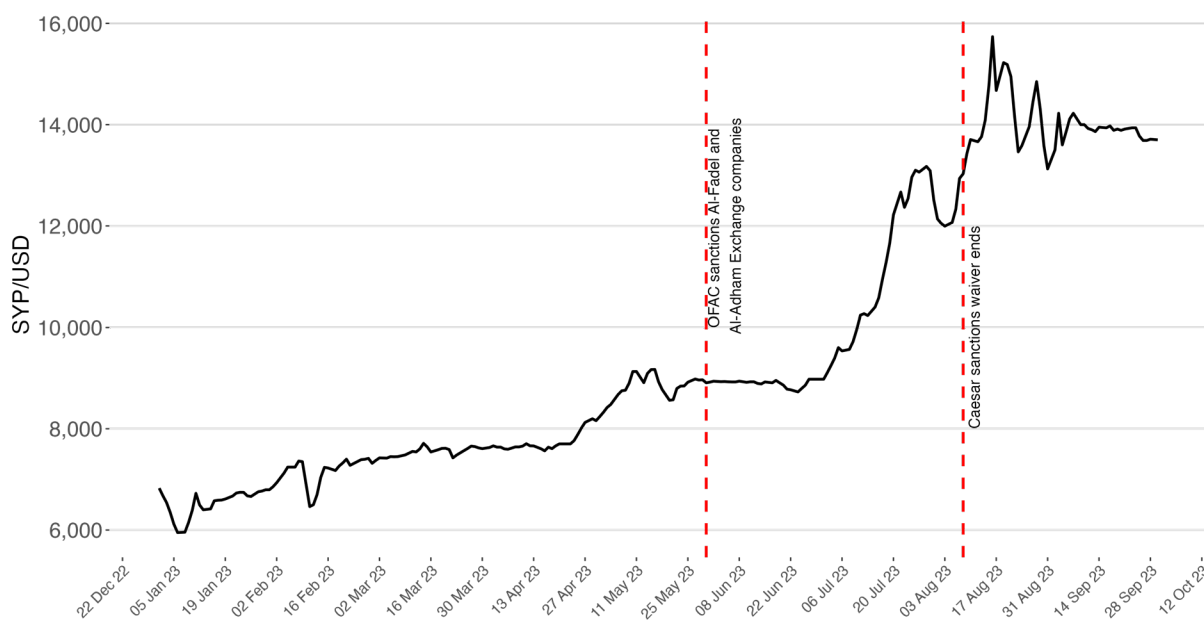


Figure 3. Black market exchange rate with the dates when new sanctions were imposed and the Caesar sanctions waiver ended.

14 CA-SYR reported on the new circular in the [January 2023 Monthly Syria Report](#), February 2023.

In addition to the original 39 individuals and companies with links to the Syrian government, on 30 May, the US Treasury Department [imposed further sanctions](#) on the Al-Fadel and Al-Adham monetary transfer and exchange companies. Al-Fadel was reportedly sanctioned for assisting and supporting the Syrian government and for its ties with Iran-backed militias, while Al-Adham was sanctioned for facilitating “millions of dollars in transfers since 2021 to accounts at the Central Bank of Syria.” Noting the key role that both companies played in assisting the Syrian government and the Central Bank, the sanctions are expected to [affect](#) foreign currency inflows and further hinder the government’s ability to trade internationally. An inability to trade is a key cause of shortages, with this, along with other external factors, putting inflationary pressure on prices.

Reduction in remittances

Remittances play an important role in the Syrian economy, particularly as affordability decreases and livelihood opportunities worsen; this lifeline is also viewed as highly susceptible to global economic and geopolitical shocks, and can lack durability over extended periods of time. Syrian households have survived off remittances for more than a decade.¹⁵ However, remittances to Syria reportedly decreased in 2023 when compared to 2022, reportedly [lower even during holidays](#) when Syrian expats traditionally send their families more money. For example, [remittances sent during Eid al-Adha](#) were three times lower in 2023.

Economists [attributed](#) the decrease to the earthquake response efforts. Syrian expats sent large sums of money to aid families affected by the earthquake, and were unable to continue at the same level, ultimately remitting less in the remainder of the year. Expats, particularly those living in Europe, have also been impacted by the economic fallout and increases in their own cost of living, in part due to volatile global markets and interruptions to supply chains caused by the war in Ukraine, making them unable to conduct large transfers.^{16,17} Analysts expect that remittances sent to Syria will [continue to decrease](#), further reducing living standards in government-held areas.

Coping mechanisms

As far back as 2015, the UN has estimated that over 80% of people live under the poverty line in Syria,¹⁸ growing to over 90% in 2022 and continuing to 2023 – the situation is not getting better.¹⁹ In order to survive, the poorest households have employed different coping mechanisms to either save or raise money to support their basic needs.

Local sources report that, apart from humanitarian aid, residents receive financial assistance through various means: Through (falling) remittances from friends and family abroad, additional jobs, debt and credit from vendors, and, at times, selling their subsidized fuel allocations and other household items on the black market. With food prices increasing, households have cut down on the amount of food they consume, and are choosing cheaper (sometimes less nutritious) alternatives.²⁰ A smaller number of households have had to withdraw children from school, both to

15 Norwegian Refugee Council, [Remittances To Syria](#), July 2015.

16 World Bank, [Russia's Invasion of Ukraine and Cost-of-Living Crisis Dim Growth Prospects in Emerging Europe and Central Asia](#). April 2023.

17 RAND, [Consequences of the War in Ukraine: The Economic Fallout](#), March 2023.

18 UN ESCWA and University of St Andrews. [Syria at War - Five Years On](#), 2016.

19 UN Press, [Briefers Stress to Security Council Syria's Worsening Situation Needs Fully Funded Humanitarian Response Plan, 12-Month Extension of Cross-Border Aid Mechanism](#), June 2023.

20 UNOCHA, [Humanitarian Needs Overview Syrian Arab Republic](#) p.95, December 2022.

save on the cost of education and so the child can work to support the family, increasing risks of protection-related concerns. Some young girls, according to UNICEF, are being forced into child marriage to reduce household expenses.²¹

21 UNICEF [via ReliefWeb], [Humanitarian Action for Children 2023 - Syrian Arab Republic](#). January 2023.

Humanitarian considerations

The outlook for the Syrian economy continues to be bleak. The recently published draft budget for 2024 would [indicate a lack of recovery](#) in 2023, it being the lowest in real (dollar) terms than ever before (although the highest in nominal value (Syrian pound), another indication of continued inflation).²² A shrinking of the national budget will mean further reductions in government support; already there is a [projected reduction](#) from 29.6% to 17% of the total budget.²³ Any attempts by the government to halt black market inflation have also failed – as of the end of October 2023, the exchange rate stands at just over SYP 13,000 per USD, peaking at nearly SYP 16,000 in August, which was nearly double the rate at the start of the year.

Price fluctuations caused by the Syrian pound's instability are likely to make it difficult for humanitarian organizations to appropriately budget their programs, assess household needs, and navigate a highly complex political economy, particularly related to avoiding sensitivities around entrenched conflict actors and legal ramifications related to sanctions. Humanitarian organizations could also find it difficult to source certain items due to supply shortages with imports, particularly for imported food and non-food items. Price increases also leave a lot of programs underfunded, as budgeted items become more expensive – this particularly stings as overall international funding for Syria decreases.

Without an improvement in living standards, many Syrians will continue to be reliant on humanitarian aid for food, livelihood opportunities and for winterization supplies in the upcoming winter. A reduction in funding for the Syria response as a whole will mean humanitarian actors will have to prioritize programming to ensure the most effective support, potentially leaving Syrians in many areas vulnerable and unsupported.

Food security

Food insecurity in government-held areas is predicted to increase, with rising prices, supply shortages and funding cuts contributing to a lack of households' ability to purchase food; meat, chicken, fruit, vegetables, and eggs have already become a luxury for many.^{24,25} The WFP reports that over 12 million people are already food insecure, with a projected 3 million more sliding into

22 CA-SYR, [October 2023 Monthly Report](#), November 2023.

23 The Syria Report, [Syria's 2024 Budget Expenses to Fall by a Quarter](#), November 2023.

24 CA-SYR, [June 2023 Monthly Report](#), July 2023.

25 CA-SYR, [Food \(in\)security in government-held Syria](#), December 2021.

food insecurity in 2023.²⁶ This will likely perpetuate negative coping mechanisms with households having to choose between food, fuel, medicine and education – in more extreme cases, children will be expected to work, and young girls could be forced into marriage.

Winterization

Winterization needs are also likely to increase due to the unavailability and unaffordability of diesel. As CA-SYR reported in 2022, government-held areas experienced high winterization needs in 2022 with the government unable to ensure the timely delivery of diesel for heating to the majority of residents.²⁷ Diesel provision is expected to worsen this year with fuel-related deliveries in government-held areas already facing significant delays. Local sources also noted that black market diesel prices increased by 100% between February and September from SYP 10,000 to SYP 20,000 per liter and remain difficult to procure.

Further supply issues could come if the US chooses to enforce additional sanctions on Iran, in light of regional tensions, by intercepting its oil tankers; likewise, should chokepoints along the Gulf's oil and gas export route, such as Bab Al Mandeb or the Strait of Hormuz, be affected by current regional tensions, global prices will likely skyrocket.²⁸ Iran is the Syrian government's sole international oil supplier and any disruption to the oil supply chain could intensify the existing fuel shortages in government-held areas. More expensive diesel will mean poor households either go cold, or resort to alternative methods to heat their house – some of these methods include burning hazardous fuel, posing health risks in vulnerable communities. Higher fuel prices are also likely to push prices up, eating into household finances and pushing more people into poverty.

Social instability

Considering how sustained it has been since August 2023, social instability is likely to continue – or perhaps increase – in government-held areas as livelihood opportunities and service provision continue to deteriorate. Dissatisfaction with the government's economic mismanagement and poor service provision could lead to further protests, like those seen in As-Sweida. The government has, for the time being, not responded violently (relatively speaking – security services are very much monitoring the situation), however should Assad's authority be threatened it is likely that there will be an escalation of hostilities. Decentralization of governance is called for, but whether Damascus will agree to reduce its power within governorates is unlikely, particularly in potentially unstable areas of As-Sweida and Dar'a.

Civilians are also at a greater risk of extortion, with members of armed groups demanding resources (food, fuel, crops, humanitarian aid allocations) or protection fees. In some cases these crimes extend to kidnapping for ransom and property seizures.²⁹ For young men, joining these groups can be one of the few livelihood options available to them.

26 WFP, [Syria emergency](#), [Updated July 2023].

27 CA-SYR, [Left out in the cold: Knock-on effects of fuel shortages in government-held Syria](#), November 2022

28 New York Post, [Tanker full of Iranian oil intercepted en route to Syria](#)

29 OHCHR, [Syria's abyss: UN Syria Commission warns of escalating violence, plummeting economy and a humanitarian disaster](#), March 2022.



CA-Syria Monthly Report, October 2023

The conflict between Israel and Palestinian militant factions threatens to spill over into Syria, but as it stands, all sides have expressed their intent to avoid regional escalation. The Syrian government proposed a draft budget for 2024 of SYP 35.5 trn, 115% higher than for 2023, but 25% lower in dollar value. In the northeast, delays in the distribution of subsidized diesel and fuel for heating could prove disastrous with the onset of winter. In Deir- ez-Zor, the Autonomous Administration pledged reforms to appease unhappy tribes and locals following clashes with the SDF, but provided no plans for action. Government forces continued to bomb vital infrastructure, markets, hospitals and schools in northwest Syria, killing at least 70 people. Humanitarian actors are working hard to help residents amid funding and resource shortages.

[Go to report](#)

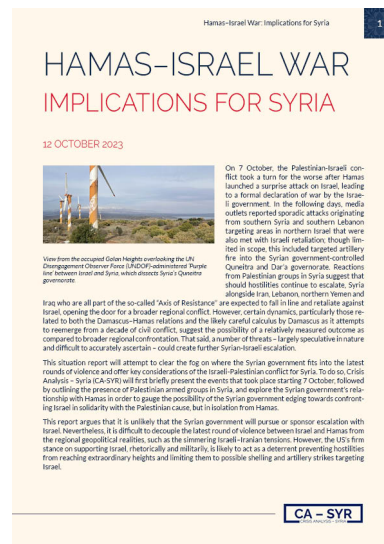


Northwest Syria Series Vol. 7.

Obstacles to post-earthquake rehabilitation

In the aftermath of the February 2023 earthquakes in Northwest Syria, over 265,000 people lost their homes, while many were either moderately or severely damaged. Humanitarian and local governance actors and community and grassroots initiatives responded, however for many there has been a focus on short-term fixes overshadowing longer-term solutions. Political complexities around the Syrian conflict, coupled with a lack of longer-term vision in the humanitarian and development responses, continue to complicate matters.

[Go to report](#)



Hamas-Israel War Implications for Syria October 2023

On 7 October, the Palestinian-Israeli conflict took a turn for the worse after Hamas launched a surprise attack on Israel, leading to a formal declaration of war by the Israeli government. In the following days, media outlets reported sporadic attacks originating from southern Syria and southern Lebanon targeting areas in northern Israel that were also met with Israeli retaliation; though limited in scope, this included targeted artillery fire into the Syrian government-controlled Quneitra and Dar'a governorates. Reactions from Palestinian groups in Syria suggest that should hostilities continue to escalate, Syria alongside Iran, Lebanon, northern Yemen and Iraq who are all part of the so-called 'Axis of Resistance' are expected to fall in line and retaliate against Israel, opening the door for a broader regional conflict. However, certain dynamics, particularly those related to both the Damascus-Hamas relations and the likely central calculus by Damascus as it attempts to reemerge from a decade of civil conflict, suggest the possibility of a relatively measured outcome as compared to broader regional confrontation. That said, number of threats – largely speculable in nature and difficult to accurately ascertain – could create further Syrian-Israeli escalation.

[Go to report](#)

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The Crisis Analysis – Syria (CA–SYR) was established in Beirut in March 2015 in response to the collective challenges facing the remote humanitarian response in Syria. CA–SYR’s most important function is to collect and analyze data and information. Since 2015, our analysis has provided a forward-looking template for international interventions in Syria, and facilitated an increasingly adaptive, integrated, and ultimately impactful international response to the conflict. CA–SYR is a team within Mercy Corps, and is part of the Mercy Corps response to the Syrian crisis.



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