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# The Deep Roots of the Depreciation of the Syrian Pound

*Joseph Daher*

**Wartime and Post-Conflict in  
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# The Deep Roots of the Depreciation of the Syrian Pound

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## Executive Summary

Since the beginning of the Syrian uprising in mid-March 2011, the value of the Syrian pound (SYP) has nearly constantly fallen, while the difference between its official rate and black market rate has continually increased. In the last months of 2019, the Lebanese financial crisis played a role in a new depreciation of the SYP. However, the roots of this depreciation are much more structural than conjunctural and reflect the destructive situation of the economy. All the factors which allowed for the relative stability of the SYP during the 2000s were badly hit by the war.

The Central Bank of Syria's various policies to limit the drop of the SYP have been failures. After five years of direct intervention in the market and repressive measures, in July 2016 the Central Bank started to adopt a policy of non-intervention in the market because its foreign reserves reached a very low level. In the last months of 2019, businessmen with strong regime connections participated in media campaigns to strengthen the SYP, but without real results.

The depreciation of the Syrian pound has had dire consequences for the country's economy and above all for the population, which saw its purchasing power reduce considerably and its savings depleted. The continual fall in the value of the SYP has led most civil servants, soldiers and other employees in Syria's institutions to seek additional jobs as they have being unable to live on their salaries.

## Introduction

Throughout the 2000s, the value of the Syrian pound remained relatively stable, with an average exchange rate of 52 SYP to the US dollar. In mid-March 2011, it was officially trading at 47 to the dollar. Since then, its value has nearly constantly decreased, while the difference between its official rate and black market rate has continually increased.<sup>1</sup> The year 2019 has witnessed a nearly constant fall of the SYP on the black market, passing from SYP 535 to the US dollar on 1 January to SYP 750 by 8 December, representing a drop of nearly 30 percent.

The depreciation of the Syrian pound has been the subject of many articles, which focus on conjunctural or specific reasons.<sup>2</sup> It often gives rise to controversy. On repeated occasions the Syrian government and officials have accused speculators and unnamed “foreign hands and conspiracies” of manipulating the currency markets, and sanctions have also been blamed. More recently, some of the Syrian national press has also attacked the Turkish military operation in the north east of Syria and the unrest and political situations in Lebanon and Iraq, which all negatively affected the supply of foreign exchange.<sup>3</sup> Following wide fluctuations in the value of the SYP in early December 2019, Mohammed al-Hallaq, a member of the Damascus Chamber of Commerce, declared that, along with the situation in Lebanon, one of the main causes of the variations in the value of the national currency was the absence of legislative stability, especially relating to imports and their impact on it, which constituted a major problem.<sup>4</sup>

The harsh depreciation and wide fluctuation of the currency create economic uncertainty and instability. The level of a currency has notable direct impacts on imports and exports, productive sectors of the economy, capital flows and foreign investment, inflation and interest rates. At the same time, the depreciation of the SYP is also influenced by these elements of the economy.

In an attempt to understand the fluctuations in the value of the SYP, this article first provides an overview of the structural economic roots of the depreciation of the currency since 2011. It then analyses Syrian government and Central Bank of Syria (CBS) policies – and recent initiatives by private sector associations – regarding the national currency. Finally, the paper examines the socio-economic consequences of this situation for the Syrian population. The study makes extensive use of media reports and newspaper articles published in Syria on the issue.

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<sup>1</sup> Almost since the independence of the country, multiple exchange rate mechanisms have existed for reasons of taxation and public accountability. A black market for the national currency appeared in 1981 and was mostly controlled by state officials and businessmen affiliated to the regime. In the 1990s, there was a large difference between the official exchange rate of the SYP and that on the black market, which were respectively 11 SYP to the USD and 50 SYP. During the 2000s the difference between the two rates nearly disappeared, to only reappear after the beginning of the uprising in March 2011. Mulham al-Jazmaty and Rami Sharrack, “The Black Hole, Private Money Transfer Networks in Syria,” *Syrian Economic Forum*, February 2017, 21, <https://bit.ly/34600V6>; Samir Aita, “The Political Economy of the Banking Sector in Syria,” *Economistes Arabes*, 10-12 April 2018, <https://bit.ly/2CRGGPd>

<sup>2</sup> Zachy Mechy, “The Syrian Pound Signals Economic Deterioration,” *Chatham House*, 26 September 2019, <https://bit.ly/2NyLxuT>

<sup>3</sup> Economy2Day, “The Reasons for the Decline of The Exchange Rate of the Syrian Pound Against the Dollar” (in Arabic), 5 November 2019, <https://bit.ly/33zvvXt>

<sup>4</sup> Russia Today, “Trader: The Instability of Legislation was the Cause of Exchange Rate Fluctuations,” *Business 2 Business*, 5 December 2019, <https://bit.ly/367Evnw>

# 1. The Structural Roots of the Depreciation

The relative stability of the SYP prior to 2011 was somewhat dependent on the performance of the economy and the Central Bank of Syria (CBS), which sought to use revenue from exports of oil and raw materials, tourism, private sector exports and remittances from expatriates to pay for imports – whether purchased by the public or private sector.<sup>5</sup> In 2006, private exchange bureaus were allowed to be established for the first time in the history of the country, and transferring money into and out of Syria became legal. These measures were taken within a framework of promoting neoliberal policies in the country and in order to attract foreign direct investment (FDI).

The economy suffered tremendously during the war in Syria and all the factors allowing for the relative stability of the SYP were badly hit. In general, Syrian government revenue has shrunk considerably in the past few years. First, the oil industry and tourism, which were major sources of foreign currency prior to the 2011 uprising, both suffered massive destruction. In 2010, oil production contributed 9.5 percent of Syria's GDP according to official accounts and oil exports remained the most important source of foreign currency earnings, totalling USD5.5 billion.<sup>6</sup> Daily oil production fell from nearly 380,000 barrels before the uprising in 2011 to almost none at one point during the first years of the crisis.<sup>7</sup> As for Syria's tourism industry, revenue in 2010 was estimated at USD 8.21 billion (or SYP 386 billion at the exchange rate prevailing at the time), representing around 13.7 percent of the country's GDP. In 2017, visitors only brought SYP 7 billion, which was equivalent to a mere USD 14 million.<sup>8</sup>

Second, FDI, which between 2005 and 2011 had been more than USD 8 billion,<sup>9</sup> also stopped being a source of hard currency after 2011 and its quasi absence reinforced the fall of the Syrian national currency.

Finally, the massive destruction in the manufacturing<sup>10</sup> and agriculture sectors,<sup>11</sup> the recovery of which is affected by sanctions, led to a shattering of local production capacity and a decrease in the volume of exports. Syria lost this source of revenue and had to increase imports to cope with local demand. In addition, foreign market openings for Syrian products remain limited today, despite the reopening of the Nassib border crossing with Jordan in mid-October 2018 and of the al-Boukamal crossing with Iraq on 1 October 2019. From 2011 to 2017, the overall value of exports decreased to about USD700 million, whereas before the war their value was around USD12.2 billion.<sup>12</sup> At the same time, smuggled products continue to flood the market.

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<sup>5</sup> Ibrahim Miro, "US Dollar Slowly Replacing Syrian Pound," *Al-Monitor*, 17 February 2015, <https://bit.ly/331Bjrl>

<sup>6</sup> David Butter, "Syria's Economy: Picking up the Pieces," *Chatham House*, June 2015, <https://bit.ly/2LCIzW2>

<sup>7</sup> Oil output fell from 164,000 b/d in 2012 to about 30,000 b/d in 2013 and only 10,000 b/d in 2014. In 2019, the country needed 136,000 barrels a day, while the Ministry for Oil can only secure 24 percent of the actual need. Mohamed Mohamed, "The Fuel Crisis: SDF Pursuing the Smugglers ... After the Regime Stopped its 'Cooperation'" (in Arabic), *al-Modon*, 25 April 2019, <https://bit.ly/2V1mO86>.

<sup>8</sup> The Syria Report, "Transport, Tourism Data Confirm 2017 GDP Growth Trend," 16 January 2018, <https://bit.ly/2N25Osp>

<sup>9</sup> CEIC, "Syria Foreign Direct Investment," 4 July 2019, <https://bit.ly/2K9zMZI>

<sup>10</sup> Joseph Daher, "Syria's Manufacturing Sector: The Model of Economic Recovery in Question," Research Project Report (Florence: European University Institute, May 2019), <https://bit.ly/32AwVQ1>

<sup>11</sup> In absolute terms the agricultural sector contracted by more than 40 percent. Nazie Madi, "Cultivating a Crisis: The Political Decline of Agriculture in Syria," Research Project Report (Florence: European University Institute, 9 December 2019), <https://bit.ly/34oJhLP>

<sup>12</sup> Fathi Abu Suheil, "Syrian Exports are Rising Slowly Compared to What they have been Since 2011" (in Arabic), *al-Hal*, 28 November 2018, <https://bit.ly/2Unl0AU>

The balance of trade has therefore continued to be profoundly negative, increasing from USD 5.3 billion in 2017 to USD 5.6 billion in 2018 with imports and exports respectively valued at USD 6.3 billion and USD 702 million. In 2016, the deficit reached USD 4 billion.<sup>13</sup> This was translated into constant high pressure to purchase foreign currency, especially on the black market, which increased the depreciation pressure on the Syrian pound. The Prime Minister Imad Khamis partially recognised that the depreciation of the SYP was a result of increasing purchases of essential products, particularly wheat and oil.<sup>14</sup> According to him, the import bill for oil and its derivatives was about USD200 million a month in April 2019.<sup>15</sup> This increased government expenses considerably.

With the contraction of the economy, tax revenue (direct and indirect) also considerably decreased, from SYP 325 billion in 2011, which was equivalent to USD 7 billion, to around SYP 409 billion in 2018, which represented less than USD 942 million and only 13 percent of its 2011 value.<sup>16</sup> With the increasing lack of revenue, fiscal income dropped from 23 percent of GDP in 2010 to less than 3 percent in 2015. Fiscal deficits, which in 2010 prior to the uprising were manageable with gross public debt standing at 31 percent of GDP, reached 150 percent of GDP in 2015, which was mostly covered domestically by the Central Bank of Syria.<sup>17 18</sup>

The Syrian regime's losses in terms of global revenue were initially partially limited by the economic assistance provided by Iran in the form of four important loans between 2013 and 2017 totalling around USD 7.6 billion. This credit line allowed Damascus to prop up Syrian official reserves and fund imported commodities and goods, including oil supplies and agricultural and industrial inputs.<sup>19</sup> Increasing remittances, which reached about USD 1.62 billion in 2016,<sup>20</sup> and international humanitarian aid, estimated at billions of dollars each year,<sup>21</sup> have also been sources of foreign currency. However, this economic assistance has not been enough to counterbalance the lack of revenue, especially in foreign currency, and the constant outflow of capital.

Throughout the war, Syria witnessed a significant flight of capital out of the country, most probably exceeding billions of dollars. This is, however, difficult to quantify in exact numbers as Syrian capital outside the formal banking system had already existed before the war.<sup>22</sup> In this regard, since October 2019 the Lebanese crisis has played a role in a new depreciation of the SYP, notably after Lebanese banks imposed severe restrictions on obtaining and withdrawing US dollars. The SYP lost more than 30 percent between the beginning of the protest movement on 17 October and 1 December 2019. Some sources estimate that 20 percent of the deposits in Lebanon belong to resident or non-resident

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<sup>13</sup> The Syria Report, "Syria's Trade Deficit Widens," 23 October 2019, <https://bit.ly/2WqRhtE>

<sup>14</sup> Al-Watan, "Prime Minister: For these Reasons the Dollar Rose against the Lira!" (in Arabic), 17 September 2019, <https://bit.ly/2N44Ega>

<sup>15</sup> Al-Watan, "Unprecedented Oil Revelations: No Tanker for 6 Months" (in Arabic), 4 April 2019, <https://bit.ly/345OEQc>

<sup>16</sup> The Syria Report, "Syrian Tax Revenues Double but Remain a Fraction of Pre-Uprising Levels," 12 June 2018, <https://bit.ly/2P90XqJ>

<sup>17</sup> Jeanne Gobat and Kristina Kostial, "Syria's Conflict Economy," *IMF Working Paper*, 17 June 2016, <https://bit.ly/36nHXu3>

<sup>18</sup> For example, the CBS loaned the Public Debt Fund of the Ministry of Finance SYP 418 billion in 2014, equivalent to 27 percent of the total budget of SYP 1,554 billion.

<sup>19</sup> The Syria Report, "Iran Grants USD 1 Billion to Damascus," 24 January 2017, <https://bit.ly/2PjL9QF>

<sup>20</sup> World Bank, "Personal Remittances, Received (current USD) – Syrian Arab Republic," 2018, <https://bit.ly/2qGtAl0>

<sup>21</sup> Annie Sparrow, "How UN Humanitarian Aid Has Propped Up Assad: Syria Shows the Need for Reform," *Foreign Affairs*, 20 September 2018, <https://fam.ag/2sc9DU6>

<sup>22</sup> Samer Abboud, "The Economics of War and Peace in Syria, Stratification and Factionalization in the Business Community," *The Century Foundation*, 31 January 2019, <https://bit.ly/2KBo6iz>



Syrian citizens<sup>23</sup> and amount to about 30 billion US dollars.<sup>24</sup> With Western sanctions imposed on Syria, Syrian businessmen and traders had relied on neighbouring Lebanon and its banking system to continue their economic activities, especially trade and smuggling.

## 2. The Role of State Institutions in the Depreciation of the SYP

The Central Bank of Syria, which was established in 1953,<sup>25</sup> had been inoperative for decades and its role in monetary policy was only truly reactivated in 2002. The same year, with the introduction of a new Basic Money law the Credit and Monetary Council (CMC) also recovered its role as monetary regulator.<sup>26</sup> The CBS cannot be considered an independent institution. Its current governor and his two predecessors are all personalities with connections to the centres of power. Like all high officials in the state administration, they strictly follow the instructions of their immediate superiors. In practice, this is the Presidency itself. The CBS's policies changed during the conflict, from interventionism in the first stage to a policy of non-direct intervention from 2016. These policies had some direct impact on the depreciation of the national currency and on the more global economic dynamics in the country.

### 2.1. From Intervention to Repressive Measures (2011-2016)

Following the eruption of the protest movement in March 2011, the governor of the CBS, Adib Mayaleh,<sup>27</sup> adopted a policy of intervention, initially injecting US dollars into the market to maintain the value of the SYP and then curb and manage its decline. At the end of August 2011, he announced that the Central Bank had spent USD 2 billion since mid-March on defending the SYP. In a move to propel the national currency, at the end of October 2011 the CBS organised its first auction to sell USD 25 million. Only foreign exchange companies and bureaus were allowed to participate.<sup>28</sup>

By January 2012, the SYP had lost 40 percent of its value, reaching 73 SYP to the US dollar on the black market, while its official rate was 55 SYP (Figure 1). However, the CBS announced it would continue to finance imports of basic goods at the official exchange rate, while the supply of foreign currency for personal use would remain tightly controlled.<sup>29</sup> The CBS also increased interest rates (by

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<sup>23</sup> Kenza Ouazzini, "How the Liquidity Crisis in Lebanon Affects the Syrian Economy" (in French), *Orient le Jour*, 25 Novembre 2019, <https://bit.ly/2DktbaZ>

<sup>24</sup> Hashtag Syria, "Syrian Assets in Lebanon in Danger," *The Syrian Observer*, 24 October 2019, <https://bit.ly/34jBGz8>

<sup>25</sup> The CBS started its operations in August 1956, with its headquarters in Damascus and 11 branches located in the Syrian governorates. Initially, its objectives were to develop the banking sector and financing schemes and techniques, along with managing the money supply and the exchange rate. However, it did not play any role for decades, especially following the arrival in power of the Baath party in 1963. Despite the variation in inflation, interest rates remained unchanged during the 1980s and 1990s. They changed for the first time in 2003, dropping from 8 to 4 percent, despite a rising tendency of inflation. Ghassan Farouk Ghandour, "Central Bank of Syria and its Role in the Syrian Economy," *International Journal of Advanced Engineering Research and Science (IJAERS)*, Vol. 4, Issue 5, May 2017, <https://bit.ly/2NCDEF3>; Aita, "The Political Economy of the Banking Sector."

<sup>26</sup> The government created the CMC to oversee and direct monetary policy. Its role is to set and implement the country's financial policy. In practice, it acted as the Board of Directors of the CBS.

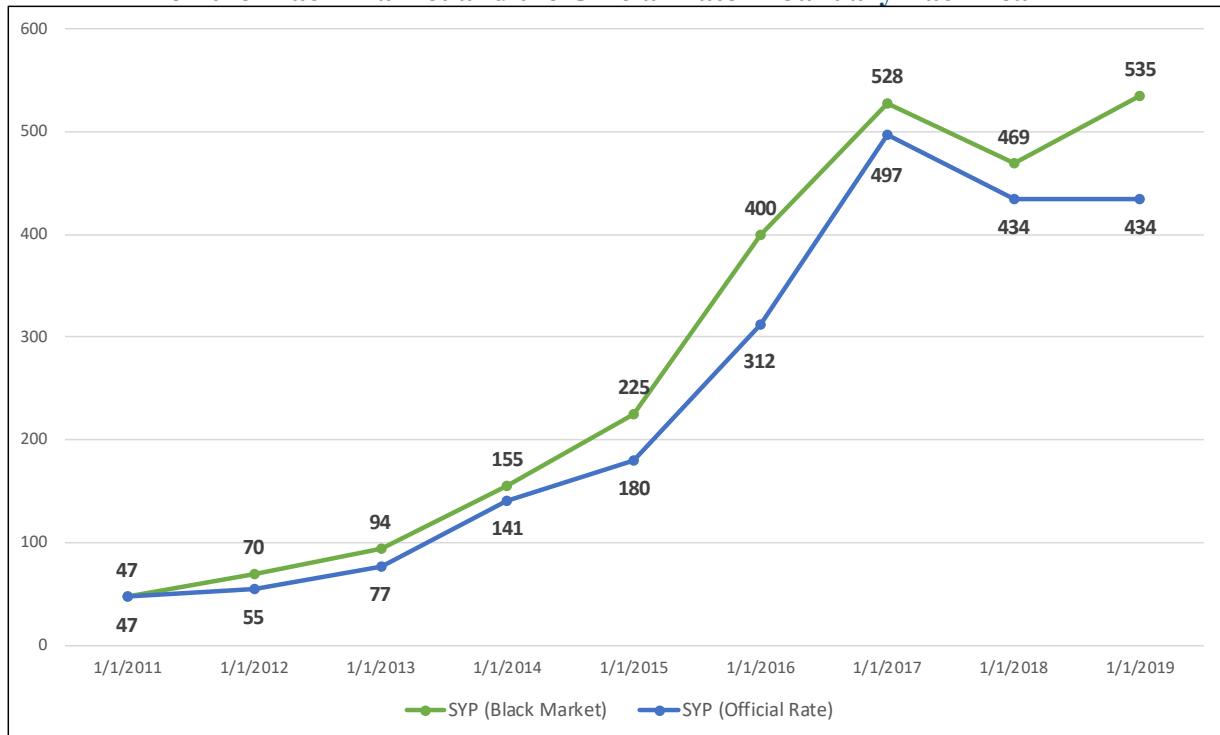
<sup>27</sup> Adib Mayaleh served 11 years as governor of the Central Bank of Syria until 2016. He was then appointed Minister of the Economy from July 2016 until April 2017. He was believed to have strong connections with some key regime personalities such as Rami Makhlouf and Mohammad Khouli. Prior to his appointment at the CBS, he had worked as a financial advisor to Khouli's group of companies.

<sup>28</sup> The Syria Report, "Central Bank Holds Auction as Foreign Reserves Position Remains Unclear," 31 October 2011, <https://bit.ly/2DTvulK>

<sup>29</sup> Roula Slakh, "The Syrian Pound Floats Towards a Dollarisation of The Economy" (in Arabic), *al-Akhbar*, 21 January 2012, <https://bit.ly/2pPz657>

2 percentage points) to support the new exchange rate. But this measure did not bring about a boost in demand for the SYP and therefore did not stop the decrease in its value.<sup>30</sup> In summer 2013, the depreciation of the national currency on the black market accelerated, reaching 100 SYP to the US dollar as tighter Western-led sanctions encouraged consumers and companies to hoard dollars in a market at the time increasingly worried about a possible military intervention.

**Figure 1. The Rate of the US Dollar Relative to the Syrian Pound on the Black Market and the Official Rate in January Each Year<sup>31</sup>**



Source: Central Bank of Syria and The Syria Report<sup>32</sup>

The depreciation of the SYP has encouraged a trend toward a dollarisation of the economy, as constantly diminishing confidence in the SYP has pushed holders of capital to seek US dollars.<sup>33</sup> At the same time, it has permitted the Syrian government to finance its treasury and pay the salaries of army soldiers and state employees by exploiting the large difference in value between the SYP and the US dollar. In 2019, total civil servant salaries stood at SYP 676 billion, representing 17.4 percent of the official budget, which was announced to be SYP 3,882 billion.<sup>34</sup> The supply of SYP into the Syrian market by the CBS also increased by more than 280 percent from 2010 to 2016, helping fund the budget deficit but also

<sup>30</sup> Rabie Nasser, Zachy Mechy and Khalid Abu Ismail, “Socioeconomic Roots and Impact of the Syrian Crisis,” *The Syrian Center for Policy Research*, January 2013, 46, <https://bit.ly/2qebbnw>

<sup>31</sup> All these rates are taken from the same month of the year because fluctuation can be very large between the beginning and the end of the year.

<sup>32</sup> Central Bank of Syria, “Series of Official Exchange Rates of the Syrian Pound against Foreign Currencies” (in Arabic), October 2019, <https://bit.ly/2QucSAw>; The Syria Report, “Rate of the U.S. Dollar in the Syrian Forex Market 2011-19,” 13 November 2017, <https://bit.ly/32SlhQx>

<sup>33</sup> Samir Aita notes that the trend towards a dollarisation of the economy existed prior to the uprising but exploded after 2011. He estimated that the amount of money in circulation in hard currencies was similar to that in Syrian pounds and reached between 70 and 80 percent in 2013. Lara Setrakian and Karen Leigh, “The Interview: Samir Aita on the Regime’s Financial Standing,” *Syria Deeply*, 8 February 2013, <https://bit.ly/2XALG4n>

<sup>34</sup> According to the Syria Report, the announcement of a budget of SYP 3,882 was misleading and the actual budget was SYP 1,605 billion. The salaries of civil servants therefore represented 42 percent of this budget. The Syria Report, “Government Expenditure Much Below Budget Numbers,” 20 March 2019, <https://bit.ly/38kV6WL>. In 2016, 2017 and 2018, total civil servant salaries were respectively equivalent to 20, 18.8 and 16.3 percent of the budget.

helping the rise in inflation and the decline in the value of the SYP.<sup>35</sup> In comparison, the average annual growth rate of the money supply was 16.1 percent between 2006 and 2011.<sup>36</sup>

The Syrian authorities have also tightened their control over remittances, as they constitute a major source of funding for the regime's treasury.<sup>37</sup> For example, in 2016 an estimated average of 4 million dollars a day was sent by Syrian expatriates. In May 2013, the CBS issued a law that constrained exchange companies operating in Syria to deliver all cash orders coming from outside Syria in SYP even if they were transferred from abroad in foreign currency. Private networks handling money transfers on the black market expanded following this decision, allowing individuals seeking to transfer funds to and from Syria to do so in foreign currency, or at least exchange their foreign currency (for example, dollars or euros) into SYP at the black market rate, which is much higher than the official one.<sup>38</sup>

The CBS governor's policy of using almost exclusively foreign exchange companies rather than commercial banks to intervene in the foreign currency market was widely seen as arising from his personal connections with money traders and from him refraining from introducing more rigid regulations on the banking sector. Much of the speculation on the SYP between 2011 and 2016 was believed to be conducted by regime business cronies sheltered by the CBS.<sup>39</sup> The commission taken by these foreign exchange companies was estimated at between 15 and 20 percent for each operation.<sup>40</sup> In addition, dealings with foreign exchange companies could much more easily hide all sorts of illegal transactions, as stricter control and monitoring regulations were imposed on banks.

With the continual depreciation of the SYP on the black market, the CBS started to apply more restrictive and repressive measures to try to stop the decline. In August 2013, it forbade the use of foreign currency in commercial transactions within Syria. According to Syrian legislation, trade has to be in the national currency, and the CBS's decision specified penalties and slowed down the dollarisation process.<sup>41</sup> A few months later in October, the Syrian authorities closed the country's foreign exchange companies, including al-Alamiah Exchange, whose main shareholder was Zouheir Sahloul,<sup>42</sup> as part of a clampdown on black market dealers. The aim was to curtail trade on the black market and prompt people to change their currency at the state-owned Commercial Bank of Syria at the official currency rates.<sup>43</sup> In November 2013, the Syrian Parliament approved an amendment to the law regulating the operations of money dealers, raising the penalty for conducting foreign exchange transactions without a proper licence from the CBS from one year to three years' imprisonment. Later, in 2014, the CBS compelled exporters to concede 50 percent of their foreign currency gains and then

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<sup>35</sup> Qassiun Syria, "The Amount of Money in Syria has Tripled in Six Years" (in Arabic), *Business 2 Business*, 9 July 2017, <https://bit.ly/2Q0K0zw>

<sup>36</sup> Ghandour, "Central Bank of Syria," 20.

<sup>37</sup> Iyad Jaafari, "Is it a Decision to 'Free Float' The Syrian Pound?" (in Arabic), *Eqtsad*, 7 September 2019, <https://bit.ly/2NRGBA8>

<sup>38</sup> Al-Jazmaty and Sharrack, "The Black Hole," 28-29.

<sup>39</sup> The Syria Report, "Assad Sacks Mayaleh, Long-time Regime Servant," 4 April 2017, <https://bit.ly/35pOowa>

<sup>40</sup> Interview with an Aleppo industrialist, 21 November 2019.

<sup>41</sup> Traders found guilty of violating the CBS's decision could face up to three years in jail and a fine equivalent to double the value of the payment. For transactions over USD 5,000, the punishment could be up to 10 years with hard labour. Nandagopal J. Nair, "The Cost of a Dollar in Syria: Three Years in Jail," *Quartz*, 5 August 2013, <https://bit.ly/2QAcGj5>

<sup>42</sup> Zouheir Sahloul was considered the major actor in the foreign currency market and he played a key role in supporting the SYP at various moments in the past, including following the withdrawal of Syrian troops from Lebanon in 2005. Wikileaks, "SARG Stabilizes its Currency," 18 December 2005, <https://bit.ly/2DOPqpU>

<sup>43</sup> The Syria Report, "Central Bank Clamps Down on Money Changers, Targets Sahloul," 7 October 2013, <https://bit.ly/2YnvWSN>

in April 2015 it increased the surrender rate to 100 percent.<sup>44</sup> In November 2015, the CBS limited imports to essential goods such as agricultural inputs and finished agricultural products.<sup>45</sup> However, the depreciation of the SYP continued, marking the failure of the CBS's governor, Adib Mayaleh, who was harshly criticised for his policies and was replaced by Dureid Dergham in July 2016.<sup>46</sup>

## 2.2. The Non-Intervention Policy (since 2016)

The first measures introduced by the new Governor of the CBS included a decision to again entrust the commercial banks with supplying the market with foreign currency, in particular to fund imports.<sup>47</sup> During his mandate he also tried to reduce the role of foreign exchange companies, which were believed to have been involved in speculation.

More importantly, since July 2016 the CBS has pursued a policy of no longer intervening directly in the market to defend the value of the SYP. The main reason was an aim to help preserve what was left of depleted national foreign reserves and stop speculation on the pound. According to World Bank estimates, national foreign reserves dwindled from USD 18-20 billion in late 2010 to USD 0.7 billion by the end of 2015.<sup>48</sup> The situation led to ever narrowing margins for the CBS to act against the depreciation of the SYP.<sup>49</sup>

Between May 2017 and July 2018, the SYP was stabilised and even witnessed a temporary improvement, passing from SYP 524 to SYP 444 to the US dollar on the black market, while the official rate was reduced from SYP 494 to SYP 434 to the US dollar in November 2017. This was not only linked to CBS policy and new measures but to some developments in the economy, such as an improvement in the business environment for some Syrian companies in certain sectors in 2017 and a new loan (valuing USD 1 billion) from Iran in January 2017. At the same time, the military reconquest of territories by regime forces (from Aleppo in December 2016 to Eastern Ghouta and Daraa in April and July 2018) were perceived to have a promising positive impact on the country's economy. Nevertheless, these positive conjunctural events were not sufficient for the Damascus regime to be able to tackle the deep problems of the Syrian economy or the continual depreciation of the Syrian pound since then.

Hazem Qarfoul,<sup>50</sup> who was appointed CBS governor in September 2018, maintained the non-intervention policy of his predecessor. On numerous occasions he reiterated that he would not sell US dollars on the market to curtail the pressure on the SYP and that interest rates would continue to

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<sup>44</sup> In July 2016, the Ministry of Economy lowered the deposit rate to 25 percent and importers of key commodities, such as staple food products, were allowed to use their deposits to buy foreign currency rather than freezing the amount.

<sup>45</sup> Jeanne Gobat and Kristina Kostial, "Syria's Conflict Economy," 16.

<sup>46</sup> Between 2004 and 2012, Dergham was the general manager of the Commercial Bank of Syria, a state-owned entity and the country's largest commercial bank, which acts as the bank for the large public sector companies. He is also the son of a former member of the regional command of the Baath Party, Ahmad Dergham. He acted as the CBS's governor until 2018.

<sup>47</sup> The Syria Report, "Dollar Gains 10pc in Syrian Forex Market and Rises to Above 530 Pounds," 16 August 2016, <https://bit.ly/2LrZPfi>

<sup>48</sup> There have been no published data on monetary aggregates since 2011, including on money supply or foreign reserves, and no data on inflation since May 2017 but only estimates. World Bank, "Syria's Economic Outlook – Spring 2016," 2016, <https://bit.ly/2OvwfGx>

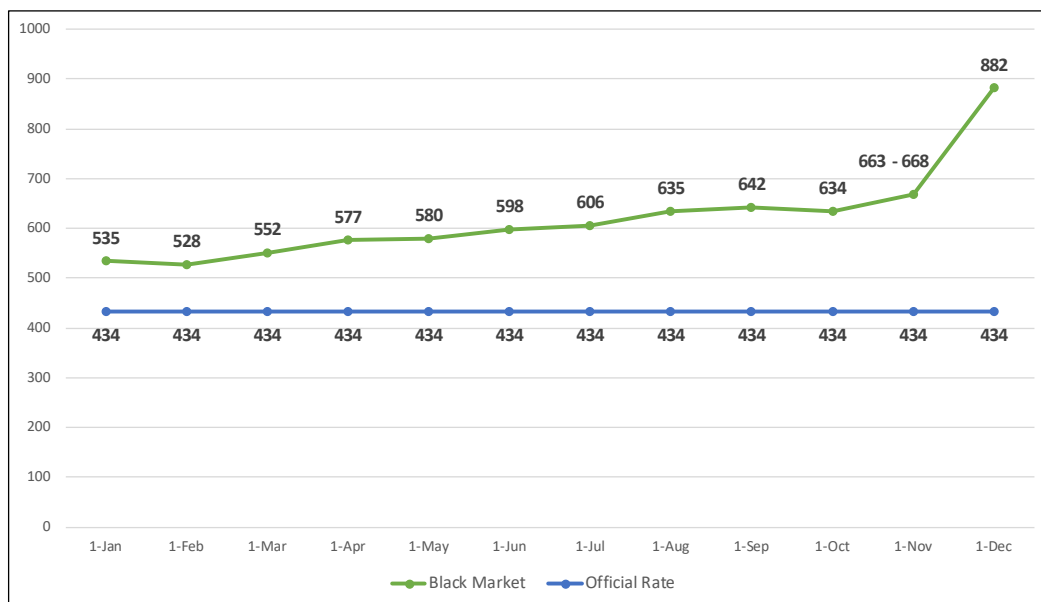
<sup>49</sup> Al-Modon, "Financing the Syrian "State" ... With the Reserve!" (in Arabic), 16 September 2019, <https://bit.ly/36NhY0d>

<sup>50</sup> He was appointed at the Directorate of Economic Research and General Statistics of the CBS in June 2010. He later became head of the Department of Office Control and assistant director of the Directorate of the Government Commission in the absence of the director in February 2011. In November 2013, he worked with the Anti-Money Laundering and Terrorism Financing Authority and took the position of Secretary of the Authority the same month. In 2014, Qarfoul was assigned the position of First Deputy Governor of the Central Bank of Syria.

be low in order not to increase the cost of lending.<sup>51</sup> He justified this strategy by stating that he would preserve the CBS’s foreign currency reserves to finance imports of key products and commodities, such as wheat, sugar, medicine, oil and rice, rather than selling dollars in order to maintain the value of the currency, which benefited speculators and a number of traders who used US dollars to move their capital abroad rather than for imports. The governor also stated that in the exceptional circumstances after nine years of war, controlling the Syrian pound and protecting it from speculation was a collective responsibility, and should be undertaken using monetary policy instruments in cooperation with the Credit and Monetary Council and in coordination with financial and trade policy.<sup>52</sup>

During 2019, the depreciation of the SYP on the black market has continued while its official rate remained stable (Figure 2).<sup>53</sup> The Central Bank unsuccessfully enacted several measures to try to stop this new loss in the value of the national currency. In order to attract foreign funds and investment and help fund trade operations, in February 2019 the CBS issued deposit certificates in SYP with a nominal value of SYP 100 million at an interest rate of 4.5 percent and one-year maturity.<sup>54</sup> With the lack of a secure and stable investment climate, the prospects of such measures partially alleviating the pressure on the SYP were, however, relatively small.

**Figure 2. The Rate of the US Dollar Relative to the Syrian Pound on the Black Market and the Official Rate in 2019**



Source: Central Bank of Syria<sup>55</sup>

At the end of September 2019, another decision demonstrated the significant scarcity of US dollars in the country. The CBS regulated the list of imported products that it permitted banks to finance, reducing them from 40 in April to 13<sup>56</sup> (mostly food items and medicine). These products considered

<sup>51</sup> Al-Modon, “Central Bank of Syria: We Will not Intervene in The Market ... Even One Dollar!” (in Arabic), 18 September 2019, <https://bit.ly/2CuNKkX>

<sup>52</sup> Ibid.

<sup>53</sup> In December 2019, the CBS introduced a second exchange rate for international organisations operating in Syria, allowing them to change dollars at a rate of SYP 700, instead of the official rate of 434 pounds.

<sup>54</sup> SANA, “CBS Issues Certificates of Deposit with Nominal Value of SYP 100 Million,” 4 February 2019, <https://bit.ly/2K8ZGwI>

<sup>55</sup> Central Bank of Syria, “Series of Official Exchange Rates of the Syrian Pound against Foreign Currencies” (in Arabic), October 2019, <https://bit.ly/2QucSAw>; SP Today, “US Dollar/Syrian Pound,” 6 December 2019, <https://bit.ly/2YpsxD1>

<sup>56</sup> The goods that can be funded in dollars are: rice; sugar; vegetable oils and margarine; tea; sardines and tuna (canned); infant baby milk; mate; agricultural pesticides; veterinary vaccines; agricultural seeds; hatching eggs and chicks; soybean seeds, soybeans and yellow corn for fodder; human medicines and raw materials for them.



priorities are the only ones that can be paid for using the hard currency held by the banks. Traders could use dollars they already held in Syria or in bank accounts abroad, or they could buy them on the black market. However, the new regulation removed from the list many production inputs, such as yarns, iron sheets and fertilizer, and appeared to contradict the government's announcements that it was promoting local production. Similarly, in August the CBS ordered local banks to cease offering credit facilities in SYP, preventing investors from receiving credit in the national currency from their banks to purchase dollars in the market, which also diminished their capacity to import.<sup>57</sup>

However, all these measures did not prevent a new significant depreciation of the SYP on the black market, on 2 December 2019 reaching 950 SYP to the US dollar before falling in the following days to around 800 SYP, while the official rate remained at 434 SYP. Meanwhile, the CBS ceased funding almost all import transactions, once again notably demonstrating its very low reserves of foreign currency and therefore its capacity to make up for the shortage of US dollars on the market.<sup>58</sup>

### **3. The Role of Businessmen and the Depreciation of the Syrian Pound**

Along with the actions of the state and the CBS in these past few months to fight against the depreciation of the national currency, business personalities and the various Chambers of Commerce and of Industry have also participated in initiatives to strengthen the value of the SYP since September 2019. The majority of these businessmen accumulated their wealth directly or indirectly through their connections with and loyalty to the Damascus regime. They are therefore dependent on its survival and their actions should be seen as efforts to support the stability of the regime amid the deepening of the economic crisis, in which they might not find any significant economic interests.

On 20 September 2019, in coordination with the CBS the Damascus Chamber of Commerce officially launched a campaign called the 'Private Sector Initiative to Support the Syrian Pound,'<sup>59</sup> with the objective of making dollars available on the market and selling them at an exchange rate lower than the current market price. The campaign planned to establish a fund in dollars that would be credited through deposits made by local investors, while a new exchange rate for the dollar between the official and the black market one would be set and revised on a daily basis. The US dollars stored in this fund would then be put on sale at this new rate, including to importers in need of hard currency to purchase products in foreign markets. The imported products would be sold on the market at prices fixed using this exchange rate in order to prevent there being inflated prices based on the market rate for the dollar.<sup>60</sup> The role of the CBS in this plan would be to oversee managing the fund and selling the dollars to importers.

The campaign was promoted by state authorities and private actors throughout the country with publicity and billboards in the streets, commercial events and using social media under the main slogan 'My currency is my power.' The Federation of Chambers of Commerce and Industry opened a special account for the initiative in the branches of the Commercial Bank in nine governorates.<sup>61</sup> Industrialists and businessmen agreed to deposit 10 percent of the value of import licenses in dollars

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<sup>57</sup> The Syria Report, "Central Bank Further Reduces List of Imports that Banks Can Fund," 2 October 2019, <https://bit.ly/2NrTrVJ>

<sup>58</sup> Interview with an Aleppo industrialist, 21 November 2019.

<sup>59</sup> On 24 September, the Damascus Countryside Chamber of Commerce, the Federation of Syrian Chambers of Industry and the Damascus and Damascus Countryside Chamber of Industry officially adhered to the initiative.

<sup>60</sup> Al-Watan, "Businessmen and Traders Mobilize to Support the Dollar Exchange Rate" (in Arabic), 22 September 2019, <https://bit.ly/32YHZaC>

<sup>61</sup> Emmar Syria, "Al-Debs: Agreement to Support the Initiative Fund with 10% of the Value of Import Licences" (in Arabic), 17 October 2019, <https://bit.ly/2NnTlHs>

in one of the Syrian banks as a contribution to the fund. Significant businessmen known for their proximity to the regime also participated in this campaign. For example, Samer Foz has been reported to have pledged 10 million dollars to support the SYP.<sup>62</sup> By 15 October, the total value of the deposits in the special account for this initiative was nearly one billion dollars according to a member of the Damascus Chamber of Commerce, Hassan Azqoul.<sup>63</sup> However, this amount might be very much inflated and no detailed information has been reported to confirm it.

At the end of October, a board member of the Damascus Chamber of Commerce who wishes to remain anonymous stated in the *al-Watan* newspaper that most traders were actually still securing their dollars through intermediaries in the black market, since the Central Bank was not selling them enough dollars to pay for their imports, in addition to the impossibility of foreign banks dealing with banks in Syria because of the sanctions.<sup>64</sup> Moreover, the Private Sector Initiative has been criticised by economists in the national press. One Syrian analyst described it as serving media purposes rather than any economic one. He argued that the best way to tackle the depreciation of the SYP was by increasing production in agriculture and manufacturing and reviving certain important sectors of the economy, especially the national pharmaceuticals industry.<sup>65</sup> The Secretary General of the Homs Chamber of Commerce, Anton Daoud, also criticised the campaign and considered it one of the reasons for the loss in the value of the pound, as traders attempted to compensate for the amount they deposited by increasing the prices of consumer goods.<sup>66</sup> According to the President of the Federation of Syrian Chambers of Industry, Fares al-Shihabi, manufacturers were waiting for decisive economic and monetary measures to tackle the depreciation of the SYP.<sup>67</sup>

Finally, on 12 November, Hassan Azqoul declared that the Private Sector Initiative had been temporarily suspended because the CBS was working on new executive instructions to grant funding through the initiative's fund.<sup>68</sup> The decision to put an end to the initiative was confirmed by the Ministry of the Economy at the beginning of December. As the crisis of the SYP continued, the Ministry of the Economy issued a new bill raising the proportion of the value of import licences to be deposited in Syrian banks in SYP to 15 percent (and even 40 percent on a temporary basis)<sup>69 70</sup> instead of the initial 10 percent. Traders harshly criticised this bill, saying that 80 percent of them would be unable to secure these amounts and it would therefore only benefit large importers.<sup>71</sup> It remains an open question whether this project will be implemented. At the end of 2015, the Ministry had already imposed very similar conditions by constraining importers to deposit in SYP between 50 percent

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<sup>62</sup> Asharq al-Awsat, "Syrian Regime Launches Campaign Against Businessmen to Back the Lira," 1 October 2019, <https://bit.ly/2pYzH4k>

<sup>63</sup> Emmar Syria, "Azqoul: Business Initiative Fund Deposits to Support the Lira are Close to \$ 1 billion and Will Continue until the Price is Fixed" (in Arabic), 15 October 2019, <https://bit.ly/36oG9Sr>

<sup>64</sup> *Al-Watan*, "Traders: Most of Us Seek Self-Financing Through Intermediaries for a Commission", (in Arabic), 30 October 2019, <https://bit.ly/2pjzLvl>

<sup>65</sup> Economy2Day, "Economic Researcher: Increasing Salaries Will Reduce the Dollar by 100 Pounds Directly" (in Arabic), 22 October 2019, <https://bit.ly/2BZUo2e>

<sup>66</sup> Najud Youssef, "Trader: Our Obligation to Deposit 10% of the Value of Imports Contributed to Raise the Dollar" (in Arabic), *al-Iqtisadi*, 13 November 2019, <https://bit.ly/2Ox6tBQ>

<sup>67</sup> Hana Ghanem, "A Big Glitch Hit the Syrian Economy" (in Arabic), *al-Watan*, 19 November 2019, <https://bit.ly/2rXUPbu>

<sup>68</sup> Mourad Abdul Jalil, Mohamed Homs and Mais Hamad, "The Unknown Future of the Syrian Pound Between Inflation and Depreciation," *Enab Baladi*, 29 November 2019, <https://bit.ly/34MTHpS>

<sup>69</sup> Enab Baladi, "Syrian Trade Raises the Value of the Import License Deposit to 15%" (in Arabic), 22 November 2019, <https://bit.ly/2KSMCvO>

<sup>70</sup> This new bill also added another deposit of 25 percent of the value of import license to this 15-percent deposit, which will be frozen for a month and then released whether or not the import has taken place. Interview with an Aleppo industrialist, 21 November 2019.

<sup>71</sup> Economy2Day, "The Economy Confirms That the 10 percent Decision of the Lira Support Fund Has Been Suspended" (in Arabic), 2 December 2019, <https://bit.ly/2DIIiwf>

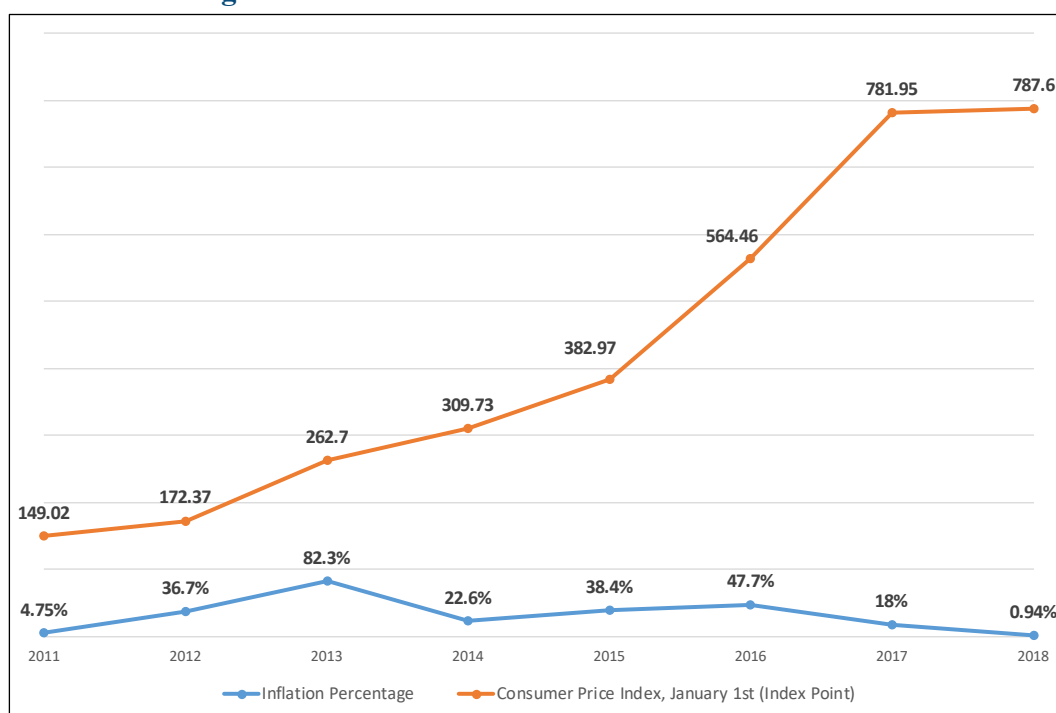
and 100 percent of the value of imports for which they required a licence. It ultimately revoked the decision in September 2016 under strong pressure from traders.<sup>72 73</sup>

#### 4. Socio-Economic Consequences of the SYP’s Depreciation

The decisions and policies of the Syrian government and the CBS demonstrate their failure to stabilise the SYP and to contain the socio-economic consequences. Criticisms and a lack of confidence in monetary and economic policymakers have been expressed by various actors in the country, including MPs and businessmen.<sup>74</sup>

The continual fall of the SYP has had continuing far reaching socio-economic consequences, notably regarding increasing the inflation rate. This has affected the purchasing power of the population, diminishing it even more and leading people to limit their consumption to mostly basic necessity goods. The CPI rose from 149.02 in January 2011 to 811.2 in December 2018 (Figure 3), demonstrating the harsh increase in prices. The depreciation of the SYP over the nearly nine years worsened the situation.

**Figure 3. Inflation and the Consumer Price Index<sup>75</sup>**



Source: Central Bank of Syria<sup>76</sup>

On November 21, the new loss in the value of the SYP on the black market, with it reaching nearly 750 to the US dollar, was accompanied by a new rise in prices of more than 20 percent for some consumer staples and 30 percent for other goods. The prices of imported and smuggled medicines

<sup>72</sup> The Syria Report, “Government Sets New Restrictions on Import Finance,” 4 December 2019, <https://bit.ly/367nrOe>

<sup>73</sup> In October 2011, after an outcry from traders and businessmen the Syrian government also cancelled a decision it had made a few weeks before banning the import of all the products that carried a customs tariff of 5 percent or more and from countries with which it had signed free trade agreements, including Turkey and Arab countries grouped under the Greater Arab Free Trade Area.

<sup>74</sup> Al-Watan, “MPs Express Dissatisfaction with Government Performance,” *The Syrian Observer*, 17 September 2019, <https://bit.ly/36QaCsX>

<sup>75</sup> The Consumer Price Index measures changes in the prices paid by consumers for a basket of goods and services. In Syria the year 2000 is the baseline with the index set at 100.

<sup>76</sup> Central Bank of Syria, “Inflation reports” (in Arabic), 5 December 2019, <https://bit.ly/38hEf7d>



in Damascus pharmacies, in addition to foodstuffs<sup>77</sup> and cosmetics, for example, increased at rates between 15 and 20 percent.<sup>78</sup> In different cities, when the exchange rate for a US dollar exceeded 900 SYP on the black market, public institutions linked to the Ministry of Internal Trade and Consumer Protection, which provides allocations, food rations and goods at prices supported by the state, were completely overwhelmed. Some institutions had to close their doors as they could not fulfil all the public's demands for basic necessity goods.

The cost of living (for basic needs) in Damascus reached new records, with an amount estimated at 400,000 SYP a month for a family of 5, while at the beginning of 2016 175,000 SYP was needed. Estimates for 2020 are even worse, reaching 480,000 SYP, meaning that the average monthly wage of 60,000 SYP would only cover 12.5 percent of the cost of living.<sup>79</sup> Outside the capital, the situation worsened even more. In the north east, individuals who could not afford to buy dollars – especially poorer farmers and the unemployed – were very badly affected by this situation, with the price of a sack of flour increasing threefold while many were unable to purchase staples such as sugar and wheat.<sup>80</sup> In Lattakia and its countryside, robberies by armed gangs have increased in these past few weeks as prices soared, mostly as a result of the depreciation, targeting petrol stations or products such as cars and electric transformers.<sup>81</sup>

At the same time, the severe depreciation of the SYP runs against the direct interests of large sectors of the economy and especially small and medium enterprises (SME). As it increases the price of imported and smuggled foreign products and decreases the purchasing power of Syrians, the depreciation contributes to a contraction of the national market while opportunities to export national products to foreign markets are very limited. With the latest depreciation of the SYP in December, several small businessmen in Damascus had to cease production, most probably laying off workers in the process.<sup>82</sup>

In a gesture to calm mounting frustration among large sectors of the population, on 21 November 2019 Bashar al-Assad issued two legislative decrees to increase the salaries of civilian and military employees by SYP 20,000 and the pensions of retired civilian and military employees by 16,000 SYP (at 750 SYP to the US dollar equivalent respectively to 26.7 US dollars and 21.3 US dollars).<sup>83</sup> The decrees also raised the minimum wage for private-sector employees to SYP 47,675 a month, while it had previously stood at SYP 16,000 since 2004. More than 2 million individuals, including around 1.5 million state employees and 500,000 pensioners, benefited from the implementation of these decrees on 1 December 2019, while around 700,000 private-sector employees registered for social security saw their salaries improve because of the increase in the minimum wage. However, a very large number of private-sector employees are not registered for social security, meaning that in practice a significant portion of wage-earners will see no direct benefit from the increase.<sup>84</sup>

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<sup>77</sup> The price of a litre of vegetable oil, for example, rose from 650 SYP to 850 SYP between October and November.

<sup>78</sup> Sawt al-Asima, "New Crash for the Syrian Pound," *The Syrian Observer*, 18 September 2019, <https://bit.ly/2NXB8In>

<sup>79</sup> Kassioum "Expectations to Increase the Cost of Living for a Family of 5 people to 480 Thousand Pounds a Month" (in Arabic), 16 November 2019, <https://bit.ly/362pjrt>

<sup>80</sup> Paul McLoughlin, "Syria Weekly: Banking on Lebanon not Paying Off for Damascus," *The New Arab*, 30 November 2019, <https://bit.ly/2RuDiCL>

<sup>81</sup> Al-Modon, "Lattakia: The Security is Spreading ... and People Buy. Today it's Cheaper than Tomorrow" (in Arabic), 4 December 2019, <https://bit.ly/38d1gll>

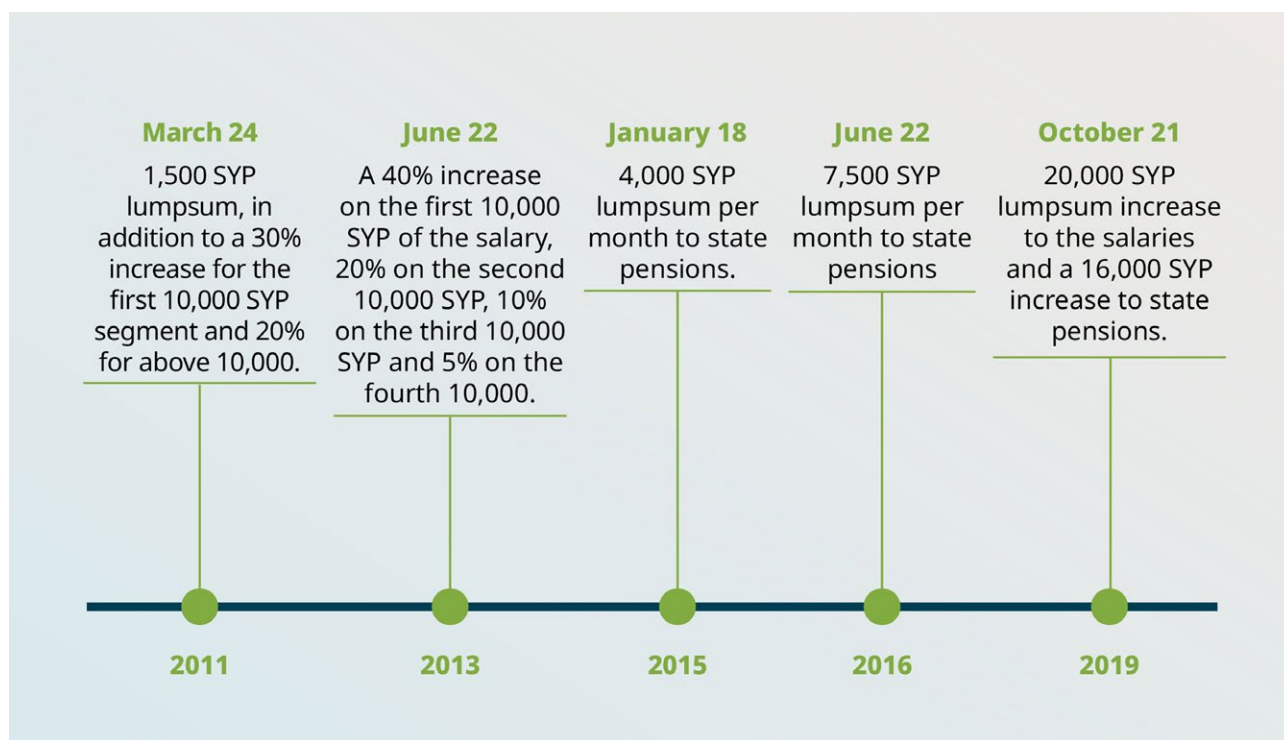
<sup>82</sup> Mohammad Abdulsattar Ibrahim, "Residents of Damascus Suffer Under Rising Prices and Economic Slowdown," *Syria Direct*, 8 December 2019, <https://bit.ly/2Lzkiuu>

<sup>83</sup> SANA, "President al-Assad Issues Decree on Increasing Pensions by SYP 16 Thousand," 21 November 2019, <https://bit.ly/2D4uHhr>; SANA "President al-Assad Issues Decree on Increasing Civilian and Military Employees' Salaries by SYP 20 Thousand," 21 November 2019, <https://bit.ly/2O7eH4J>

<sup>84</sup> Mahmoud Ashtar, "Amount of Actual Wage Increase Only 162 billion Pounds!" (in Arabic), *Kassioum*, 25 November 2019, <https://bit.ly/2sCg8zF>

Moreover, increasing wages does not significantly improve living conditions and purchasing power. Since mid-March 2011, four presidential decrees have been issued increasing wages and salaries (Figure 4),<sup>85</sup> but the total rise does not exceed 30 percent.<sup>86</sup> In addition, inflation and the depreciation of the SYP have diminished the real value of wages.<sup>87</sup> As a result, most civil servants and soldiers became unable to live on their salaries, while they saw their savings depleted. Many of them seek other jobs in addition to their official one, practise various forms of corruption or survive on remittances from family members abroad. Overall poverty rates reached as high as 93.7 percent at the end of 2017, while abject poverty levels reached 59.1 percent in the same year.<sup>88</sup>

**Figure 4. Pay rises in Syria since 2011**



Source: Enab Baladi<sup>89</sup>

Facing a new surge in consumer prices in December 2019, the Ministry for Internal Trade and Consumer Protection notably ordered control over the market to be tightened and prices to be regulated, while announcements were made of shops being closed by the authorities in different cities because they raised their prices to levels considered too high.<sup>90</sup> Similarly, police forces and security services raided hundreds of shops in the main cities of the country, sanctioning them with high fines or closing them in much publicised campaigns to demonstrate that the state was fighting against merchants and traders accused of practising prices considered too high. In the city of Lattakia, for example, the security services broke an attempt to strike by merchants and shop owners protesting against the rise in the exchange rate and police violence in these campaigns ordered by the Ministry

<sup>85</sup> In 2018, President al-Assad also issued a decree to increase the salaries of the military.

<sup>86</sup> Asharq al-Awsat, “Damascus: Poverty Rising Prompts Calls for Salary Increase,” 31 July 2019, <https://bit.ly/2DSygrl>

<sup>87</sup> An average public sector employee, for example, had a salary of 12,500 SYP a month, or around USD 250, prior to the uprising, while in December 2019 the average monthly public wage of 60,000 SYP (at a rate of 750 SYP) was equivalent to USD 80.

<sup>88</sup> Syrian Center for Policy Research, “Food Security in Syria and Conflict in Syria,” 14 May 2019, <https://bit.ly/2YyB4Up>

<sup>89</sup> Mourad Abdul Jalil, Mohamed Homs and Mais Hamad, “The Unknown Future of the Syrian Pound Between Inflation and Depreciation,” *Enab Baladi*, 29 November 2019, <https://bit.ly/34MTHpS>

<sup>90</sup> Oussama Younes, “Red Wax for Consumer Protection in Syria is no Longer Feasible” (in Arabic), *Russia Today*, 24 November 2019, <https://bit.ly/2QMgAFw>

for Internal Trade and Consumer Protection.<sup>91</sup> It is also a regime strategy to direct the socio-economic frustrations of the population away from itself and towards traders considered responsible for the high prices of products.

In addition, a new and revigorated team within the ‘committee for tax inquiry’ officially affiliated to the Ministry of Finance and charged with collecting taxes, has been very active in Damascus, imposing high taxes on small and medium-sized traders and shop owners, regardless of the economic difficulties they face. The members of the committee are said to have been completely changed a few months ago and are now directly under the control of the Presidential Palace. The Minister of Finance’s treasury levied one billion SYP in October and November 2019 after the new members of the committee started to be active.<sup>92</sup>

Popular frustrations have nevertheless continually grown in the country with the collapse of the Syrian pound, blaming the government and businessmen who accumulated huge amounts of capital during the war and profited from various activities. State employees also expressed their anger when they received their first increased salary in December 2019 and discovered that the rise did not actually exceed 12,000 SYP -the rest of the increase was in the form of taxes and insurance.<sup>93</sup> At the same time, as the state lacks any national reserves, the CBS will have to print money to pay for these increases in wages, which will fuel inflation and increase the budget deficit. This will most probably strengthen even more the dynamics of the depreciation of the SYP and therefore limit the effect of the rise in salaries while increasing costs for local production.

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<sup>91</sup> Al-Modon, “Lattakia: The Security is Spreading.”

<sup>92</sup> Al-Modon, “Damascus: The Republican Palace Imposes Taxes on Merchants and Collects them” (in Arabic), 5 December 2019, <https://bit.ly/353NAXi>

<sup>93</sup> Wajih Haddad, “The Regime is Comfortable with the Collapse of the Syrian Pound: to ‘Dollarisation’” (in Arabic), *al-Modon*, 2 December 2019, <https://bit.ly/2Lm92FX>

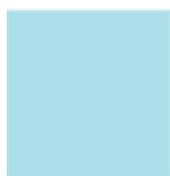
## Conclusion

A certain number of factors can explain the severe deterioration of the SYP in the past few months of 2019, particularly the ongoing economic downturn, speculation, the US government's decision to maintain troops in some of Syria's oilfields and the worsening political situations in Lebanon and Iraq. These all are partly responsible for the increasing pressure on the Syrian currency.

However, the lack of stability and the continual depreciation of the SYP reflect the more general and structural destruction of the Syrian economy. Its productive sectors have been destroyed massively and its main sources of revenue have been reduced significantly, such as the oil and tourist industries, which brought significant amounts of foreign currency to the country before 2011. The prolonged war and the sanctions also prevent any potential large-scale FDI in the country. This is why the measures taken by the Syrian government and the CBS, along with the initiative by the major business associations, to support the SYP cannot tackle or limit at a deep level the depreciation of the national currency. This could only happen with major policy changes in terms of political economic orientation and redevelopment of the economy.

The crisis and depreciation of the SYP demonstrate once again the significant political and economic influence of business networks close to the highest echelons of the state, which are mostly active in trade, real estate and service sectors. They have been able to repeal some decisions aiming to impose limits on their business activities and have not hesitated to influence government policies. Their interests most often run in contradiction to the willingness expressed by officials to re-boost the productive sectors of the economy and limit imports, which could alleviate the depreciation of the national currency. In this framework, the domination of these business networks over wide sectors of the economy and their connections with the highest echelons of the state limit the capacity of government institutions to tackle socio-economic and political economic issues, including sustaining the stability of the SYP.

The worsening of the socio-economic situation, and particularly the constant fall in the purchasing power of a majority of Syrians may undermine the ability of the Syrian regime to maintain control and obtain passive support (or in other words to prevent any active opposition) among large sectors of the population under its domination. Socio-economic frustrations could turn in the medium or long term into a more political opposition to the government, despite its attempts to blame foreign actors and its important repressive tools.



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