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The Syrian Economy: In Ruins, with Few Prospects of Recovery

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After a decade of civil war, Assad still rules in Syria, but the country's economy is in ruins, with no recovery on the horizon. Any effort toward reconstruction is contingent on internal stability, removal of the sanctions, and multi-level foreign aid – developments that appear highly unlikely. Syria's economy is currently functioning on a minimal level, with a small state budget designed to maintain the regime and its mechanisms. Even though the state budget is smaller in real terms than in previous years, Syria is hard-pressed to pay for it without printing money, but currently there is no ability to do so. This situation, along with the shortage of basic goods caused by the destroyed economy and the difficulty in financing imports, has led to steep price rises in the country, and aggravated the economic instability.

A decade after the outbreak of civil war, Bashar al-Assad still holds the reins of government, but Syria is a torn country. Hundreds of thousands of Syrians have been killed, millions have been displaced within the country, and millions more have become refugees outside Syria – mainly in Turkey, Jordan, Lebanon, and Germany. A third of Syria's original territory, which is currently not under Assad's control, is home to close to a third of the population in the country. The deep economic crisis caused by the war was aggravated this past year by the COVID-19 pandemic, stepped-up sanctions against the regime by the West (including the Caesar Syria Civilian Protection Act, which was adopted by the US administration and came into force in June 2020, and is designed to inflict economic damage on anyone cooperating with the Assad regime in the economic sphere), and the deteriorating economy of Lebanon, which serves as Syria's financial base.

Macroeconomic Estimates for Syria

There are no reliable data for Syria's GDP. As a result of the destruction of the economy, unemployment (estimated at 50 percent), and mass emigration, it is likely that in real terms, GDP in 2020 was about 40 percent of Syria's estimated \$60 billion GDP in 2010, the year before the war began (in 2010 prices), when growth was 3 percent. The World Bank estimated that Syria lost \$300 billion in GDP in 2011-2018, under a theoretical assumption that barring the war, annual growth would have been 5.3 percent. The

Economist Intelligence Unit (EIU) predicts that Syrian GDP will also shrink in 2021 in real terms as a result of a drop in real private consumption.

The damage to industry and agriculture during the civil war exacerbated Syria's dependence on imports. A shortage of foreign currency and the weakness of the Syrian currency, however, detracted from the regime's ability to finance imports, including of food products. With the COVID-19 crisis rampant, remittances by Syrians living abroad were also affected by the resulting economic crises in the countries employing them. It is estimated that before the pandemic, Syrian workers in Saudi Arabia sent \$500 million a year to their families, and Syrian workers in Lebanon sent an additional \$250 million a year.

Since June 2020, the official exchange rate has been 1,256 Syrian pounds (SYP) to the US dollar, compared with 513 SYP to the dollar on May 1, 2020, 214 SYP to the dollar on August 1, 2016, and 47 SYP to the dollar on January 1, 2011 (Investing.com, March 2021). On the black market, the exchange rate reached 4,000 SYP to the dollar in March 2021, compared with 700 SYP to the dollar a year ago. A new 5,000-pound bill went into circulation in January 2021, following the introduction of a 2,000-pound bill in 2017. The UN World Food Program (WFP) estimates that prices of basic foodstuffs are currently 29 times what they were before the war (in nominal terms). These figures clearly reflect a drop in the value of the Syrian currency and the deterioration of the Syrian economy.

Effects on the Population

Dire poverty is currently prevalent among the Syrian population, marked by a shortage of basic goods and medicine. Under the Assad regime, Syrians must wait in long lines to buy subsidized bread and fuel. According to a report by the WFP, which provides food aid in Syria, 12.4 million Syrians are now food insecure: 4.5 million were added to the list in the past year (during the pandemic), and the situation is worse than ever before. The main donors to WFP in Syria are Germany, Canada, Japan, Norway, and Ireland.

Prices continue to surge, which further erodes Syrians' already minimal purchasing power. The price of a kilo of sugar has more than tripled this year from 700 to 2,400 SYP. The price of non-subsidized fuel rose by more than 50 percent in March 2021 from 1,300 to 2,000 SYP per liter, the price of subsidized fuel jumped by almost 60 percent to 750 SYP per liter, and the price of home cooking gas rose by 37 percent.

Corruption and nepotism are also common in Syria, with those close to the regime enjoying much better conditions. The public sector, on which the regime depends, receives compensation for inflation, probably to a partial extent. In mid-2021, one day after the government raised fuel prices, Assad issued an order granting hundreds of

thousands of public sector workers and Syrian soldiers an amount equal to the average monthly wage in Syria – the third such grant since October 2020.

In the northern districts of Syria, which are controlled by the opposition and the Kurds, the economic situation is less desperate, because it is easier for the international aid organizations to operate there, and food and fuel are available in reasonable quantities. Oil is produced and sold in these districts, inter alia to the Syrian government.

2021 State Budget

The Syrian budget for 2021 amounted to 8.5 trillion SYP (\$6.77 billion according to the official exchange rate), while state revenues are projected to reach approximately 6 trillion SYP, making the projected budget deficit 2.5 trillion SYP (nearly 30 percent of planned spending). The Syrian budget is divided into a regular budget and an investment budget. Investments account for 18 percent of spending – the lowest figure since 2010.

The 2021 budget is the smallest Syrian state budget in real values since the Syrian civil war began in 2011. According to an estimate (Atlantic Council, December 2020), per capita budget spending is at least 70 percent lower in real terms than in the 2010 budget, even though the current number of people in areas controlled by Assad is substantially lower than it was in 2010. Projected revenues in the 2021 budget are 83 percent lower in real terms than in the 2010 budget. According to a report by the Syrian Center for Policy Research, non-tax revenues accounted for only a third of annual public revenues in 2019, compared with two thirds in 2010, largely as a result of plunging state oil revenues. The regime's losses in the oil and gas sector in the past decade are estimated at \$91.5 billion. In recent months, with the rise in oil prices and the lull in fighting in Syria, Syria has begun to hope for an increase in its oil revenues.

Reconstruction in Syria

In 2018 the UN estimated that full reconstruction in Syria would cost \$250 billion, meaning an international aid package would be needed for this purpose. Internal stability is an essential condition for recovery. Assad's position as head of Syria is an obstacle to reconstruction, because the West and the Arab world no longer regard him as a legitimate ruler in Syria, due to his responsibility for the mass murder of Syrians, his use of chemical weapons in Syria, and the corruption and nepotism prevailing in the country. This attitude obstructs efforts to obtain economic aid and investments.

It is difficult to find candidates for leading reconstruction and recovery in the Syrian economy among the countries close to the regime. Iran and Russia, Assad's allies, who are determined to use military force to defend him, are offering no solution to Syria's grave economic problems, and certainly not for its reconstruction. Both of these countries

also face their own severe economic challenges. Furthermore, it cannot be ruled out that keeping a weakened Assad regime in power is in their interest, because it will enable them to continue acting in Syria without interference. Some believe that during the war Iran lent Syria tens of billions of dollars in money, lines of credit, and oil. In recent years, however, there has been internal criticism in Iran of sending money out of the country at a time when the Iranians themselves are suffering from an economic crisis and sanctions. It appears that the money that Iran is now spending in Syria is used mostly to establish, arm, and operate local militias directly affiliated with Iran.

Relations between the United Arab Emirates and Syria have been fairly good in recent years, and the UAE gave Syria an unknown sum of money in November 2020. This wealthy country could help and invest in Syria, should it wish to do so, but will probably be in no hurry to make large investments in Syria as long as the latter remains unstable and subject to Western sanctions, which are also aimed at foreign companies cooperating with the Syrian regime.

China, which supports the Assad regime, has highly developed capabilities that could be useful in Syrian reconstruction. During a 2019 visit to Russia, Chinese President Xi Jinping said that his country "stands ready to participate in Syria's reconstruction according to its ability." At the same time, it is doubtful whether China will make large investments in the near future in Syria, where the regime does not control the entire country, is subject to dictates by Tehran and Moscow, and has few strategic and economic assets that can be useful to China. It is therefore likely that China will make significant investments in Syria if and when the conditions there enable it to profit from such investments.

Summary and Consequences

The economy in Syria is minimal and failing. All of its parameters are at a very low level, while most of the population suffers from food insecurity and is in need of humanitarian aid. The decline in the local currency reflects the continued collapse of confidence in the Syrian economy. The small state budget is designed mainly to prop up the Syrian regime, its mechanisms, and its associates. Although the real value of the state budget has decreased, Syria is printing money with no backing in order to finance it, which further accelerates the country's already high inflation. Consequently, the Syrian public is paying for the budget deficit through an inflation tax, while the public sector, which the regime depends on, receives at least partial compensation for inflation in the form of grants. In this situation, as long as Syria's internal and political state is unstable, no recovery from the civil war is visible on the horizon.

For Israel, Assad is a bitter enemy and an illegitimate ruler, but the economic decline of the Syrian population is not in Israel's interest. The population's distress is liable to expand the stream of Syrian refugees to Jordan and Lebanon, and to aggravate instability there. If and when the economic situation in Syria improves, Assad can be counted on to increase the resources devoted to the Syrian army, which receives priority over the population and reconstruction in the country. Furthermore, military aid is easier for Russia and Iran to provide than other types of aid. Israel should therefore strive, including in conjunction with the UAE, to ensure that any aid provided to Syria is used directly for the population, rather than diverted to the country's military.