



## Conflict Research Programme

### Policy Briefing

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# New Consumer Price Index estimates for Syria reveal further economic deterioration and alarming levels of humanitarian need

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## Highlights

- According to our new estimate, food and beverage prices in Syria rose by a factor of 20 since 2010. Half of that increase took place during 2019.
- Taking 2010 as the base year, our analysis puts the Consumer Price Index (CPI) in Syria in January 2020 at 1676 points. This means that the prices of general goods and services increased almost 17 times.
- Our analysis demonstrates a strong correlation between CPI and the Syrian pound exchange rate against the USD. The recent banking crisis in Lebanon, which is a main source of Syria's hard currency, had a strong impact on the Syrian pound exchange rate and subsequently on the prices of most goods, particularly food.
- Food prices increased 60% since September 2019 when the FAO estimated that 6.5 million Syrians are food insecure and cited the high food prices as main reason, meaning that a higher number of people are now severely food insecure and that the number will continue to surge with the increased exchange rate bringing a considerable part of the population to the brink of famine due to 'failure of exchange entitlement'.
- The general CPI has increased 215% since the end of 2017 when 90% of the population in Syria was estimated to be living under the poverty line.
- Mitigation measures by the government to control the exchange rate had a short-term impact but are not expected to sustain currency appreciation.
- Syria response policies, humanitarian and non-humanitarian need to urgently factor in these changes and the increased risks. Continued humanitarian support without addressing the state of the economy is not sustainable. There is a need for a comprehensive economic rescue package that is tightly linked to the political process.
- The impact of devaluation and increased CPI also impacts the northeast and west of Syria in areas outside of government control where the Syrian pound is still the main currency in use.

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The Syrian pound, already struggling, suffered dramatic deterioration since the beginning of the Lebanese banking crisis in October 2019. One of the reasons behind this devaluation is the economic destruction. The total accumulated economic loss reached almost half trillion USD by the end of 2019, which equals 8 times Syria's GDP in 2010<sup>2</sup>. Dependency on imports has increased to cover internal market demand. The coverage ratio of exports to imports deteriorated from 62% in 2010 to 16% in 2017<sup>3</sup>. Damaging monetary policies applied by the Central Bank of Syria during the conflict also contributed to the devaluation. For example, the bank agreed to sell hard currencies to local foreign exchange companies, which proved to be counterproductive in halting the devaluation. As a result, Syria's hard currency reserves, estimated at USD18 billion in 2010, have been completely depleted.

Economic sanctions also hit the Syrian banking sector, and the country became increasingly dependent on the Lebanese banking sector for its foreign trade. Many Syrians also opted for the near-by Lebanese banks for their capitals, and savings, because they believed it to be safer than Syrian banks. This led to a direct impact of the Lebanese banking crisis on the Syrian economy and the livelihood of ordinary people.

The currency devalued from a monthly average of 640 SYP against the US dollar in October 2019 to an average of 1050 SYP in January 2020, reaching a peak of 1230 in mid-January despite all the mitigation measures taken by the government. This dramatic devaluation had a strong and direct impact on the CPI in Syria and particularly on food prices. Because of the economic destruction throughout the conflict, the shrinking of the productive economy, and the government's loss of its main breadbasket, the Northeast, the Syrian government became dependent on imports to cover local needs. This made the economy very exposed to variations in exchange rates. The prices of imported goods have increased mainly because of the Syrian pound devaluation.

The last time the Syrian government published CPI figures was in January 2019<sup>4</sup>. Already back then it stood at 826 points taking the year 2010 as the base year. Since then prices have continued to rise, and with it a rise in public complaints. The rage was widely expressed on social media and even included pro-government media. In some areas like Sweida, they led to new wave of protests under the slogan 'We want to live'.<sup>5</sup> Recent reports from government-controlled areas expose how the critical suffering by most Syrians is now reaching worrying levels that could potentially lead to unrest and mayhem.<sup>6</sup>

## CPI estimates

We applied a simple regression analysis to understand the correlation between the market exchange rate of the Syrian pound against 1 USD, and the general CPI. We use the former as the independent variable, and the latter as the dependent variable. The analysis covered monthly data of the two variables between January 2012 and December 2018. The result of the analysis shows a strong linear correlation between these two variables<sup>7</sup> with a correlation coefficient of 1.45. This means that devaluation by one Syrian pound in the exchange rate increases the CPI by almost 1.45 points<sup>8</sup>.

Applying the same regression analysis specifically for the food & beverage CPI yields a higher correlation coefficient of 1.72. This means that the prices of food and beverages are affected by the devaluation of the Syrian pound more than the average impact on the prices of all goods and services.

*“The average price of items in Syria are now 17 times higher than their value in 2010, and food and beverage prices are 20 times higher than their value in 2010.”*

<sup>2</sup> Authors' calculations based on ESCWA, The World Bank and Syrian Center for Policy Research reports and estimations

<sup>3</sup> Source: The Observatory for Economic Complexity, available at: <https://oec.world/en/profile/country/syr/>

<sup>4</sup> Available at the website of the Central Bureau of Statistics <http://cbssyr.sy/CPI/2019/cpi-month-2019.htm>

<sup>5</sup> See for example "We Want to Live" Protest Ongoing Despite Security Threats, the Syrian Observer, 28-01-2010. Available at <https://bit.ly/2Gy7ztn>

<sup>6</sup> See for example: Syria; Let there be mayhem, LSE CRP blogs, available at: <https://blogs.lse.ac.uk/crp/2020/01/16/syria-let-there-be-mayhem/>

<sup>7</sup> The analysis covered monthly data of the two variables between January 2012 and December 2018. CPI data source is the Central Bureau of Statistics, Syria, whereas the unofficial exchange rate sources are: <https://7al.net/> and [https://sp-today.com/en/currency/us\\_dollar](https://sp-today.com/en/currency/us_dollar)

<sup>8</sup> CPI data source of our calculations is the Central Bureau of Statistics, Syria, whereas the unofficial exchange rate sources are: <https://7al.net/> and [https://sp-today.com/en/currency/us\\_dollar](https://sp-today.com/en/currency/us_dollar)

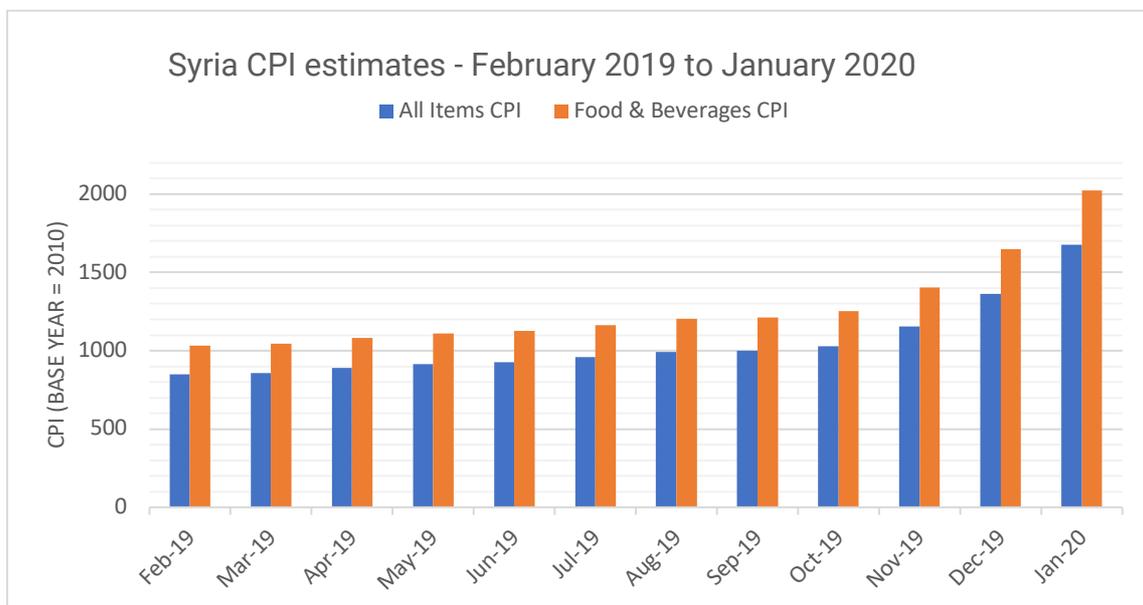
Based on this regression result, we can forecast the mean value of the CPI in Syria for any given value of Syrian pound market exchange rate. Using this method, we estimated the monthly values of both the general CPI, as well as the food & beverages CPI from February 2019 to January 2020 using the available monthly exchange rate during these periods.

The results, presented in the graph below, show that:

- In January 2020, general CPI stands at 1676 points, and the food & beverages CPI at 2025 points.
- Both general CPI and the food & beverages CPI increased by almost 100% between February 2019 and January 2020, with the highest monthly increase between December 2019 and January 2020, estimated at around 23%.

This means that the average prices of items in Syria are now 17 times higher than their value in 2010, and that food and beverage prices are 20 times higher than their value in 2010, and that half of that increase took place in the last year alone.

To bring this into perspective, we apply the same Syrian increase in food and beverages CPI since 2010 to the costs of three food items in the UK. The results are that people in the UK would have to pay £24.00 for a bread loaf, £18.00 for two pints of milk, £31.40 for a packet of butter,<sup>9</sup> bearing in mind that Syrian incomes lower than UK ones by a factor of approximately 20.



## Economic and Humanitarian Impact

Our analysis exposes the strong correlation of the prices of all items and specifically food prices in Syria on the exchange rate. The humanitarian consequences could be far reaching, and with no quick fixes on the horizon for neither the Syrian, nor the Lebanese economies, the likelihood of more devaluation of the Syrian pound and the subsequent increase in inflation remains high. Since 2016, the Central Bureau of Statistics excluded the Idleb, Al-Raqqa and Deir ez-Zor governorates while estimating CPI figures. But the impact of the devaluation travels beyond the government-controlled areas and affects these governorates, and casts its impact on the northeast and west of Syria where the Syrian pound is still the main currency in use. The recent deterioration of the security situation in Idleb together with the mass IDPs movement, deepen the humanitarian disaster in these areas even further. Three of the main interlinked humanitarian consequences of the CPI dramatic increase are:

<sup>9</sup> We calculated these prices based on the prices of a loaf of white bread, two pints of milk, and 250 g packet of butter in the UK at the end of 2010 which were £1.20, £0.90 and £1.57 GBP respectively as published by The Office of National Statistics, <https://www.ons.gov.uk/>.

- **Harsh increase of food insecurity:** In September 2019 the FAO estimated that 6.5 million Syrians are food insecure and an additional 2.5 million people are at risk of food insecurity.<sup>10</sup> One of the main reasons for this is the fact that 'Syrians are unable to bear the burden of rising prices and lack of income.'<sup>11</sup> Since that report, food prices in Syria increased by 60% which means a higher number of people are now severely food insecure. Many famines occur not primarily through a collapse in food availability but rather through a collapse in effective demand ('failure of exchange entitlements').<sup>12</sup>

During the conflict, the agriculture sector in Syria has suffered from poor productivity and low profitability because of insecurity in many areas, destroyed or dysfunctional agriculture infrastructure, the relatively high cost of inputs including seeds, fertilizers, pesticides, and fuel. All of this makes the prices of the most basic food items well beyond the reach of most people. This could bring a considerable part of the population to the edge of famine, not because of the collapse in availability of food, but because of the lack of access to it by most.<sup>13</sup> Note also that this 'failure of exchange entitlement' is likely to hit those in the salaried sector harder than people in rural areas who may still have access to some locally-produced food.

“ £24 for a loaf of bread, £18 for two pints of milk and £31.40 for a packet of butter. This is how much consumers in the UK would have to pay today for these items if we apply the same increase in Syrian food and beverages CPI since 2010.

- **Increased poverty:** More than 90% of the population in Syria are already under the poverty line since the end of 2017.<sup>14</sup> The general CPI increased about 215% since then, which means that more people are now living under the poverty line and the intensity of poverty (the poverty gap) surged. This means that the majority of Syrian people cannot cover their basic needs of goods and services, such as medicines, which also have seen their prices significantly impacted by the currency devaluation. Even the medicines produced in Syria depend on imported raw materials, and thus, their prices increased with Syrian pound depreciation. It is worth mentioning that salaries in the public sector, which creates over 60% of the current job opportunities in Syria, have only increased by an average of 2.7 times between 2010 and 2019<sup>15</sup>, compared against the general prices increase of about 17 times during the same period.
- **Deterioration of living conditions:** With the lack of job opportunities and the economic destruction, the above estimated surge in prices will definitely lead to a catastrophic deterioration in the living conditions for the majority of the Syrian population. The Living Conditions Index (LCI) deteriorated about 42% at the national level between 2010 and 2019.<sup>16</sup> The deterioration in areas with the highest level of violence is most severe with LCI increase for the same period reaching 67% for Idleb and 64% for Raqqa.<sup>17</sup>

10 Syria Crisis - Situation report September 2019, FAO. Available at: <http://www.fao.org/emergencies/resources/documents/resources-detail/en/c/1207750/>

11 ibid

12 Amartya Sen, Poverty and Famines: An essay on entitlement and deprivation, Oxford, Clarendon Press, 1981.

13 Several items such as bread, rice, sugar and tea are subsidised in Syria, but this still falls short from covering all needs.

14 Syrian Center for Policy Research (2019): "Food Security and Conflict in Syria" <https://www.scp-syria.org/launch-of-food-security-conflict-in-syria-report/>

15 The estimate is based on wages and salaries (Pub\_Sal) in the public budget and public employment (Pub\_Emp) in 2010 and 2019. The changes = (Pub\_Sal19 / Pub\_Emp19) / (Pub\_Sal10 / Pub\_Emp10).

16 Source: Population Status Survey 2014, SCP; and Humanitarian Needs Overview 2015-19, OCHA.

17 ibid.

# Mitigation measures by the government

With the productive economy destroyed, diminished exports and the continuous deterioration of the Lebanese banking crisis, any step the government of Syria takes to mitigate the Syrian pound devaluation crisis is bound to have a limited impact.

The government took several measures to mitigate the impact of the Lebanese banking crisis in devaluating the Syrian pound since October 2019. These measures were mainly a combination of punitive decrees accompanied with security-based solutions. In October 2019, the government announced a crackdown on domestic transfer companies and currency exchange offices. The official exchange rate of the Syrian pound against one USD is 436, whereas the market price reached a monthly average of 1050 in January 2020.<sup>18</sup> The huge difference in the official and non-official exchange rate made these outlets the main source people rely on for hard currency exchange, and put them in powerful positions to determine the exchange rate.

The government issued two decrees (Legislative Decrees No. 3 and No. 4 for 2020) that sets severe penalties on those who deal with hard currencies, and this was not limited to dealers. Decree 3 forbids *'the use of anything other than the Syrian pound as a payment means for any type of commercial transaction'*.<sup>19</sup> It also increased the punishment of dealing with hard currency to seven years of hard labour in addition to being fined. Decree 4 sets punitive measures on anyone who publishes or disseminates information and news that could affect the exchange rate.<sup>20</sup> Several people were arrested and accused of dealing in hard currency.<sup>21</sup>

Another measure was a crackdown on using cash for selling and buying real estate in Syria, which usually takes place without going through banks.<sup>22</sup> All of these measures led to a limited short-term appreciation in the Syrian pound, and is unlikely to have medium or long-term positive impact. These measures were able to decrease the exchange rate from a peak of 1230 SYP against each USD to around 1025 SYP by the end of January 2020.

These measures are mainly security driven which makes them unsustainable for many reasons, among which are the lack of government control over all Syrian territories, the endemic corruption inside and outside the security agencies, the fact that many warlords and crony capitalists actually benefit from speculation against the Syrian Pound, and finally that the security agencies have no capacity to control and monitor all markets. On top of all of that there is a lack of trust in the government's financial institutes and a high economic uncertainty accompanied with the absence of any political solutions.

Although sanctions play a role in adding depreciation pressures on the Syrian Pound (because they affect the hard currency inflows to Syria including remittances estimated at 4 million US dollars per day from Syrians abroad to their families inside the country), the recent deterioration is not related to the Caesar Act - the new package of sanctions signed by President Trump in December 2019,<sup>23</sup> since the act has yet to be implemented.

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18 In January 2020, the Central Bank of Syria began to buy US dollars at a rate of SYP 700.

19 See the announcement of the decree on the website of the Syrian Arab News Agency on 18 January 2020. <https://www.sana.sy/en/?p=182908>

20 See the announcement of the decree on the website of the Syrian Arab News Agency on 18 January 2020.: <https://www.sana.sy/?p=1090740>

21 See for example 'Money Collector Zaher Zunbarakji Arrested', The Syrian Observer, 17-01-2020. Available at: <https://bit.ly/3aLofeS>

22 See for example 'Buying and Selling Real Estate Through the Banks—How Will It Affect the Market and the Pound?' The Syrian Observer. 24 January 2020. Available at: <https://syrianobserver.com/EN/news/55618/buying-and-selling-real-estate-through-the-banks-how-will-it-affect-the-market-and-the-pound.html>

23 For more information see: <https://syrianobserver.com/EN/commentary/55067/caesar-act-a-new-blow-to-those-who-believed-they-won-the-syrian-war.html>

# Policy Implications

Our analysis reveals how highly exposed the Syrian economy is to external factors and the impact of this on the humanitarian conditions of the Syrian people. Increasing the budget of humanitarian response without addressing the economic deterioration could not be sustainable. National and international response policies need to factor this in on two levels.

**First** is an immediate and short-term strategy. There is a need to design and implement a new humanitarian response plan which local and international actors should be involved in. Syria's destroyed resources will not be sufficient to cover all humanitarian needs; thus the international community should play a crucial role in supporting such plan.

A straightforward vast supply of basic foods to the market could be part of this plan. Although the problem is more demand-driven than a supply problem, a large food aid programme could break the food price inflation spiral and make food affordable. Such programme should **prioritise buying from small farmers and agro-food manufacturers in Syria in order to create job opportunities and generate income** especially for those farmers who have been enduring enormous challenges including poor markets and the recent wildfires. It is equally essential that humanitarian responses should avoid feeding the endemic corruption and selective targeting. This requires **higher access and implementation under a very strong monitoring and evaluation system**. The process could be more efficient by adopting a participatory approach in which local communities contribute in planning, implementation, and monitoring phases. But recovering the impact of CPI surge cannot be achieved through a humanitarian response alone.

On the **second level**, there is a need for a new strategy that includes a comprehensive economic rescue package funded mainly by the international community, and it needs to be an integral part of the political solution. The package should aim to overcome the impact of the conflict and build the foundations for an inclusive and productive economy governed by fair institutions, and should be guided by Syrians' needs and aspirations. Having such a strategy would sustain the positive impact of the humanitarian response plan. Considering the complexity of the Syrian conflict, such a strategy should be implemented incrementally and include Syrians from all backgrounds. To ensure the sustainability and efficiency of this strategy and to make it part of viable peace, it should be led by actors guided by Syrian public interests.

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