



Ziad Ghisn

February 24th, 2021

Future of Government Support in Syria: Three Debated Scenarios

1 comment | 1 shares

Estimated reading time: 10 minutes



This blog is available to [read in Arabic](#).

As the economic and living conditions in Syria continue to deteriorate, many families increasingly depend on government subsidies for basic goods and services. However, this is being threatened by recent government decisions to increase the price of subsidised goods, as well talks about revising these subsidies. This article examines current government subsidies in Syria and presents three scenarios that are currently being debated.



A picture of crowds outside a public bakery in Damascus.

“At least my children will get just enough food to prevent them from going to bed hungry.” This is how a woman queuing for her monthly allowance of sugar and rice – being sold at a reduced price through the state trade corporation – summed it up. Such is the case for many families in light of the economic crisis that has been worsening over the past several months. This regression is due to several reasons, the most important of which are the destruction of the economic structure inflicted by war, the financial crisis in Lebanon, the tightening of Western sanctions, the predominance of warlords and corruption, and the government’s inefficiency.

Today, poor and low-income families fear losing this small source of support should the government choose to revise its approach to subsidised goods and services. This fear stems from events dating back to 2007, when the government adopted a strategy of increasing the price of subsidised goods under the pretext of controlling corruption and waste, redirecting that support to priority sectors. The disastrous economic impacts and repercussions of the crisis have created strong incentives for the government to go down a similar policy path.

In this context, it can be noted that the government’s 2020 budget plan was based on reducing provisions for social spending (the state’s contribution to stabilising the prices of some major goods and services) from 811 billion SYP in 2019 to 373 billion SYP – a 54% decrease. However, preliminary social spending indicators confirm that the government may exceed the limits of these provisions under pressure from the sharp decline of the Syrian Pound exchange rate. This may have also caused the provisions for social spending in next year’s budget to increase at an unprecedented rate of 838% compared to this year’s provisions. This is apparent in the estimated provisions for oil derivative subsidies which, according to the financial statement submitted to Parliament by the government, rose from

11 billion SYP to 1500 billion SYP between 2020 and 2021. Such is also the case with the estimated subsidies for flour and yeast that are essential for making bread (700 billion SYP up from 337 billion SYP); provisions for the Social Aid Fund (50 billion SYP up from 15 billion SYP); and the Agricultural Support Fund (50 billion SYP up from 10 billion SYP).

This is not the first time that subsidy provisions have fluctuated from one year to the next. Similar fluctuations were present during the years of the war, albeit on a smaller scale, noting that subsidy provisions did not appear as a distinct part of the state budget before 2012. However, the estimated annual provisions for social spending combined with changes in the exchange rate show the continuous decline in the actual value of social spending. This coincided with the deteriorating economic and living conditions of the majority of Syrians, evident in the indicators of the three food security surveys that were carried out by the Syrian government in cooperation with the World Food Programme during 2015, 2017 and 2019 respectively. The surveys showed that almost a third of Syrians suffered from food insecurity, while almost half were at risk of being food insecure.

Debated Scenarios

In light of severe fuel and bread shortages in local markets, and the subsequent unprecedented queues across Syrian governorates, in October 2020 the government raised the subsidised price for the two goods by 100%; exceeding what it considered to be a red line with regards to bread. This spurred on fears of other similar decisions, especially since the justifications used by the government's Economic Committee, which recommended increasing the price of certain subsidised goods, are still present. The state's official news agency, Syrian Arab News Agency (SANA), reported that the Ministry of Internal Trade and Consumer Protection had justified increasing the price of fuel because of the "large costs the government bears to secure oil derivatives and the high freight and transportation fees in light of the unjust blockade imposed by the US administration on Syria and its people."

In effect, there are three projected scenarios for the future of government support. They are based on government measures taken since 2008 to face the increasing burdens of social spending, analyses of economists and academics calling for a radical review of social support mechanisms, and the war's contribution to opening up the topic of subsidy revisions to debate, as the price of bread increased four times during the ten years of war. The three scenarios are as follows:

1.

1. A continuation of the policy to control consumption and distribution of subsidised goods and services, such as the use of electronic cards granted to each household in an effort to

restrict the distribution of certain goods. At the same time, raising the price of these goods remains a viable option to reduce the annually increasing subsidy bill, and investing a portion of the resulting savings to support state employees and retired personnel. This was the case recently when the price of fuel increased. Preliminary estimates indicate that the annual revenue generated from this increase amounts to over 360 billion SYP, of which about 226 billion SYP was allocated to financial grants; public sector employees were awarded two lump sums of 50,000 SYP, while retired personnel received a lump sum of 40,000 SYP.

The conditions for this scenario intersect with official statements made recently, the latest of which was a statement made by the Finance Minister in mid-December 2020 addressing Parliament. According to local media outlets, the Finance Minister stated that “the government asserts that removing electricity subsidies is impossible.” On the other hand, he pointed out that “subsidies are being removed from goods where possible, such as bread and oil derivatives, by increasing the price of fuel and industrial diesel.” This will have repercussions on the lives of poor and low-income families, and on productive sectors of the economy. According to Dr Fouad al-Lahham, Secretary of the Economic Sciences Association, “the recent increase in fuel prices add new burdens to the industrial sector, as the price of fuel greatly determines production costs. The problem is made more serious in light of stagnating internal and external markets. This is causing partial or complete shutdowns of more and more industrial plants, and thus the reluctance of industrial investment at the present time.”

1. Replacing the subsidies with a cash allowance provided to each family. This is one of the most popular proposals currently being discussed among Syrians. According to the online magazine Al-Mashhad, Minister of Finance Kinan Yaghi has not ruled out the possibility of partially removing bread and oil derivative subsidies, and distributing the resulting revenues to citizens by increasing their salaries. This is supported by Dr Hassan Hazouri, Professor of Economics at the University of Aleppo, who stresses the need to “continue government support while reforming its current mechanisms and reach, gradually transition from subsidising goods to supporting individuals and families through cash allowances, provide effective social safety nets for lower classes, and put in place effective standards and controls.” This is supported by economic researcher Dr Fadi Ayyash, who argues for “shifting social support from in kind to cash support, be it through salaries and wages, bank accounts or electronic cards, and according to specific criteria that take into consideration development geography, economic activity and demographic indicators.” What is scary about this scenario is the risk that the government may remove cash allowances at any time, and that the value of these cash allowances may not be enough to keep up with rising inflation rates, which may accelerate with the price liberalisation of subsidised goods. This

fear was underscored in a study published by the Labour Observatory for Studies and Research of the General Federation of Trade Unions, titled *Bread in Time of War: Multiple Crises and Scenarios*.

2. Dr Ayyash summarises the third scenario as “the shift of producer subsidies from input to output subsidies, as per quantitative and technical criteria that safeguard against waste and ensure that the aim of the subsidies is realised. For example, subsidising strategic crops as per the required quality and quantity.” This method has been adopted by many countries. In the case of Syria, it can limit corruption and waste whilst encouraging the production of goods that the government wants to expand. However, this method requires a broad and accurate database, which is not currently available due to the presence of important agricultural areas outside of government control, the damaged infrastructure of state institutions in many regions, and defunct institutions due to war.

The Best Case Scenario

As a result of unprecedented high prices and low income, many Syrian families have been forced to change their diets and minimise their spending on food, to the extent that they either settle for one meal a day or resort to consuming bread with sweetened tea. This is why any decision pertaining to the future of government support will affect millions of Syrians who are officially living under the poverty line. According to Dr al-Lahham, “what is required in light of the difficult circumstances that Syrians and the Syrian economy are facing is not to remove or reduce subsidies, but to address the exploitation and abuse of government support, to search for alternative resources, to develop agricultural and industrial production, and to combat smuggling and tax evasion.”

About the author



Ziad Ghisn

Ziad Ghisn is a Syrian journalist specialised in economic reporting. صحفي سوري متخصص

بالشؤون الاقتصادية

Posted In: Syria

1 Comments

