

Impact of the conflict on Syrian economy and livelihoods

Syria Needs Analysis Project - July 2013

This thematic report outlines the impact of the crisis on the economy and livelihoods in Syria. It covers the impact from a macroeconomic perspective, including the impact on GDP and Government budget as well as the consequences for international and national trade. In addition, it provides an overview of the livelihoods of Syrians and explains how they have changed as a result of the deteriorating economic and security situation. The Syria Needs Analysis Project welcomes all information that could complement this report. For additional information, comments or questions please email SNAP@ACAPS.org

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Overview

- **Pre-crisis:** Syria is a middle-income country with an economy based on agriculture, industry, oil, trade and tourism. The state has historically provided substantial subsidies in several areas and heavily supported the agricultural sector. Economic liberalisation began in 1991, and over time the Syrian state veered away from its socialist past towards crony capitalism. Although Syria's macroeconomic situation appeared relatively healthy prior to the crisis with low debt and reasonable foreign reserves, the economy has faced considerable challenges over recent years as the population grew rapidly; the large public sector became increasingly inefficient; fiscal deficits widened; oil production began to decrease; and corruption was rife. Anger and frustration at the economic situation are considered to have been key drivers behind the initial uprisings against the Government.
- **Crisis impact:** The impact of the extended crisis on the economy has been severe. Heavy fighting has damaged or destroyed economic infrastructure, military activity and insecurity have significantly impeded access to sources of income; internal distribution and supply networks have been disrupted if not destroyed; currency depreciation has devastated purchasing power; and the US, EU and Arab League have imposed heavy sanctions on the Syrian state, hampering imports and exports. Even the import of items not subject to the sanctions has been restricted by the sanctions on financial transactions. Tourism revenue has all but disappeared.

State revenue has plummeted with the decrease of oil exports and the disruption of trade. The economy has so far avoided collapse thanks to assistance from the Government's allies, heavy spending cuts, and the partial functioning of its surviving industries. The Government is seeking new trade partners, though at present imports and exports are far below pre-crisis values.

- **Livelihoods:** All areas of the country have been affected by the crisis, though to varying degrees. Agricultural activities continue at a reduced level; increasing the reliance on imported foodstuffs, particularly grain. Many businesses now rely on expensive foreign imports for their stock. These sectors are likely to struggle to sustain their current production rates in the long-term. Meanwhile, the Government has increased wages to public sector staff (30% of the workforce) though this has not been enough to keep pace with the severe inflation.

Over the course of the conflict, the economy has evolved to produce alternative income sources. Many families rely heavily on remittances sent from abroad; those engaged in fighting on both sides receive wages; smuggling and informal trade have burgeoned; and in some areas groups are refining oil in makeshift open-air refineries. Casual labour is prevalent, with the crisis having created new jobs: for example some people employ others queue for them. This 'war economy' does not benefit only a few, thus poverty and the numbers of those in dire need are increasing daily.

- **Agriculture:** The farming system has had to cope with increased costs of fuel, inputs and transportation, which have resulted in higher production costs, whereas the market price of the cereal has remained more or less the same. As a result, farmers are reportedly leaving their land unattended and in some areas not even harvesting.
- **Currency:** The continuously depreciating currency has meant that US dollars are highly sought after, with some traders and businesses refusing to accept Syrian pounds. In its latest attempt to bolster the Syrian currency, the Government passed a law at the start of July criminalising unlicensed black-market currency exchange businesses and individuals who transfer local or foreign money out of the country.
- **Information gaps:** Evaluating the real state of the economy has proved to be extremely problematic. Tight Government control and lack of international integration resulted in a general lack of transparency regarding many aspects of the Syrian economy prior to the crisis. This has been exacerbated during the conflict as the Government tries to present a picture of normalcy and according to analysts, is very reluctant to publish anything negative about the conditions of the economy. Regular publishing and verification by third parties of key economic data has been unable to take place leading to a reliance on estimates and projections. No records exist on the large and increasingly significant informal economy.

Impact of the crisis on the Syrian economy



Decrease in production

- Widespread insecurity
- Damage to industries and infrastructure
- Decrease in agricultural production
- High transportation costs
- Reduced marketing options



Imports and exports

- Devaluation of the Syrian pound compared to the US dollar
- Sanctions hampering financial transaction and thereby trade
- Loss of major trade partners due to sanctions
- Reduced income as export industries are decimated
- Some imports increased as local production declined.



Support from allied Governments



Impact on Government budget

- Decrease in Government revenues while expenditures, such as the subsidies provided, become more expensive.
- Breakdown of Government support systems in opposition controlled areas
- Increasingly difficult for the Government to provide salaries and maintain subsidies
- Increased fiscal deficit and public debt



Impact on households

- Increase in unemployment
 - Inflation
 - Decrease in purchasing power
- ↓
- Increase in poverty
 - Rise in negative coping mechanisms
 - Decreased access to basic needs, such as food, medicines and medical supplies, essential non-food items, etc.

Information sources and limitations

Main data sources used and their limitations

Macroeconomics and trade

- Danish Institute for International Studies report on *Sanctioning Assad's Syria, Mapping the Economic, Socioeconomic and Political Repercussions of the International Sanctions Imposed on Syria since March 2011*, [2012](#). The reports studies Syria's economic history and looks at the impacts of the sanctions; nothing more recent has been published.
- Carnegie Middle East Center report, *The Syrian Economy Hanging by A Thread*, [June 2012](#). The report concentrates on the effects of the sanctions; nothing more recent has been compiled.
- Syrian Center for Policy and Research (SCPR), *Socio-economic roots and impact of the Syrian crisis*, [January 2013](#). SCPR published the most comprehensive report currently available on the impact of the crisis on the macro economy. However, it is unclear which methodology was used during the research and it is therefore difficult to judge how to interpret their findings. In addition, the significant effect of the on-going currency depreciation was not taken into account in their estimates.

Livelihoods

- FAO/WFP, *Crop and food security assessment mission*, [July 2013](#): The mission, which was conducted on the request of the Government of Syria, assessed the situation with regards to food security, crop and livestock production and trade. Due to the security situation, only a small number of sites were visited during the mission and exclusively within Government-held areas. As a result, some of the findings are based on secondary data such as vegetation-related satellite imagery and assessment reports.
- Joint Rapid Food Security Needs Assessment, Ministry of Agriculture and Agrarian Reform (MAAR) /FAO/WFP, [June 2012](#). A mission in June 2012 was undertaken to assess the impact of the on-going crisis and rising food prices. 5 governorates were visited: Dar'a, Rural Damascus, Homs and Al-Hasakeh. The situation in Deir-ez-Zor was not included in the report, due to a lack of secondary data and the insecurity hampering field visits.
- In December 2012, a MAAR, FAO and WFP Joint Rapid Food Security Assessment was conducted. Although some preliminary results of the assessment were made available, the full report has not been published.

Information gaps

Pre-crisis

- Although labour force surveys have been undertaken, the latest one in 2011, there are different factors that render results of these surveys incomplete: For instance, a large part of the economy is informal and is not covered by the surveys. Some groups, such as the large number of Iraqi refugees are not consistently included and neither is migration within Syria and abroad.
- The Central Bureau of Statistics of Syria website is no longer online. This has lead to difficulties in accessing the official figures of the baseline data. The structure of the Government-oriented economy, which does not disclose all the information to the public especially during shocks, is a major obstacle to analysis and forecasts.
- The latest poverty survey is from 2007 and there is a lack of updated statistical data on poverty levels per governorate

Post-crisis

- The informal economy has reportedly increased during the conflict. This sector is not monitored and there is hence a significant gap in information on the current sources of income for those not employed in the formal sector.
- Post-crisis data is primarily based on estimations or numbers relying on assessments and/or economic models. There are large variations between the post-crisis estimations in some cases; for example estimates of fall in GDP in 2012 range between 6 and 37%.
- There are also conflicting opinions concerning the trends of major indicators. Public expenditure, for example, increased according to some sources and decreased according to others.
- WFP publishes regularly updated information on the prices of staple goods per governorate ([WFP VAM](#)). Apart from that, there is little information available on market related issues such as the pre-crisis and current market supply chain.
- The black-market value of the Syrian Pound differs between regions and fluctuates hourly so it is nearly impossible to determine the real value of the pound on any given day.

Impact of the crisis

key sectors

Industry

Industrial hubs of Aleppo, Homs, Deir-ez-Zor and Rural Damascus correspond to areas of some of the most intense fighting. Direct damage to facilities, constant power outages and lack of raw materials are disrupting production. A key area outside of Aleppo is reporting production to be at ~20% of pre-crisis levels.

Informal economy

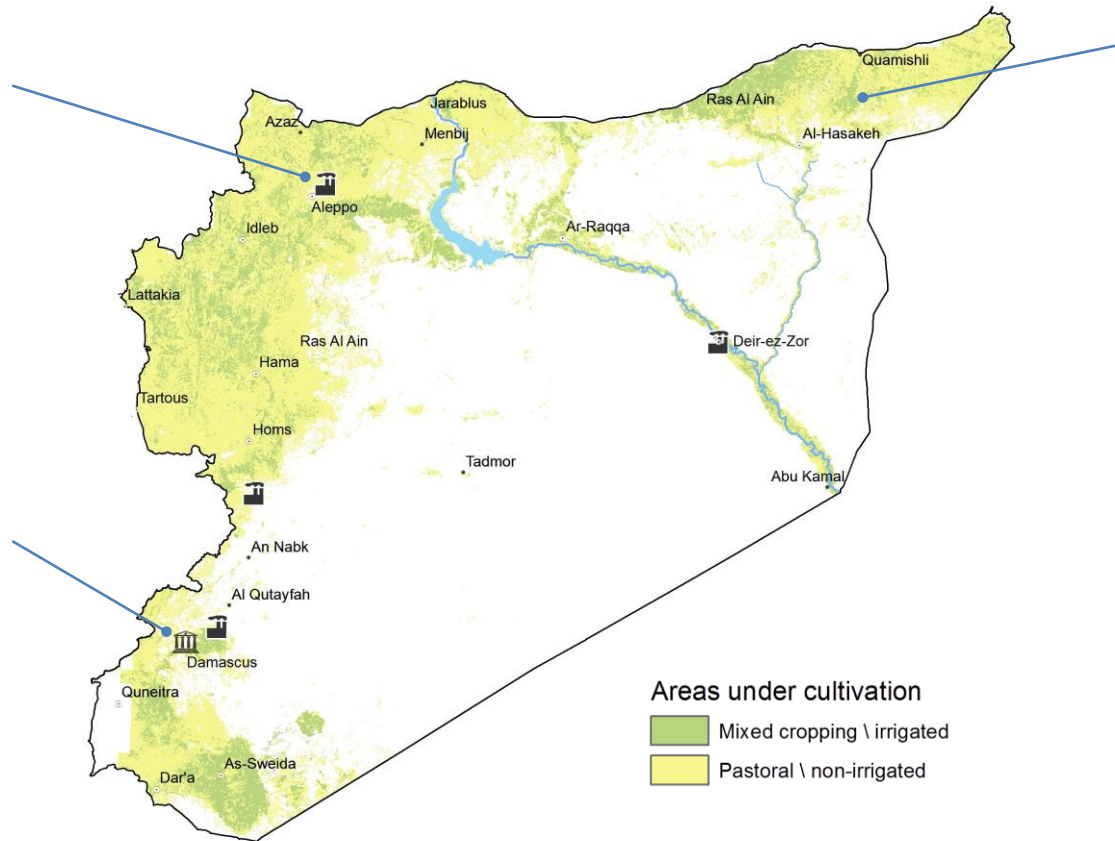
Informal economic activity, significant before the crisis, is widely increasing in response to unregulated and chaotic conditions within the country.

Public sector

The Public sector accounts for around 30% of the country's workforce and continues to be an important source of income for many households.

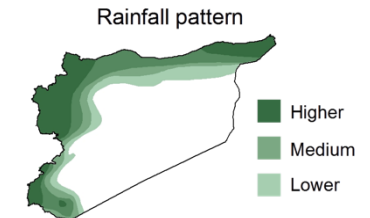
Tourism

Previously accounting for ~5% of GDP, the tourism industry has collapsed as a result of the conflict. Key historical areas important to the industry have been damaged or destroyed.



Agriculture

Pre-crisis: Syria has 5 agricultural zones with varying major crops dependent on rainfall. The northern governorates Aleppo, Ar-Raqqqa and Al-Hasakeh account for 60% of the total agriculture land. Al-Hasakeh is the so-called breadbasket, with 75% of total national wheat production.



Post-crisis: Assessments show that agriculture has been severely affected by the current crisis. The 2013 wheat production is estimated to be 40% below pre-crisis levels. Despite favourable climatic conditions in 2013, yields are predicted to be well down. Lack of fertiliser, machinery, labour and reduced planting area has resulted in reduced harvest for all crops since the crisis began.

Impact of the crisis on sources of income

The following chapter gives an overview of the main income sources of Syrian households before the crisis and how these income sources have been impacted. In addition, it outlines some of the coping mechanisms reported as well as the groups that are expected to be most vulnerable to the current disruption of livelihood opportunities.

Key points

- With the deterioration of the economy, illustrated by an estimated 40-60% decrease in GDP since the start of the crisis, an estimated 50% of the population have lost their employment. Agriculture, industry and services are the main employment sectors in Syria and all, less for the public services sector, have been significantly affected by the current crisis. The public sector, employing an estimated 30% of the formal work force, appears to be less affected and continues to form an important source of income for many Syrian households.

Labour force per occupation pre-crisis (in % of total) – 2008



- As a result of the breakdown of the traditional economy, new income sources have emerged while others have expanded. Aid, local support networks and an increase in remittances make up for part of the income losses. Although figures are hard to define, casual work and informal trade appear to have become more important sources of income. It is estimated that 80% of the workforce were engaged in informal activities by the end of 2012. Illicit economic activities, such as extraction of oil and smuggling of goods, have been widely reported.
- Although alternative livelihood opportunities have emerged, they are not sufficient to counter the loss in assets and price increases. Extreme poverty has increased from 2.2 million in 2010 to 3.7 million in 2012. (SCPR 2013/01)

Services

- Prior to the crisis, the majority of the Syrian workforce was employed in the services sector, including the public sector, tourism, financial services and transport. Apart from the public sector, all services in Syria face major disruptions in productivity due to the on-going conflict.
- **Public sector:** The public sector, covering all Government services including civil administration, public health services and the military, is the largest single employer in Syria, accounting for around 30% of the country's workforce. The sector offers the highest average salaries. (ILO 2009, ODI 2011, MEPC 2013)
- Although little information is available on the subject, it seems that public sector employees continue to receive salaries, even in areas controlled by

opposition forces. The exception is in Ar-Raqqa, where Government salaries have reportedly not been paid since the city fell to opposition groups. In parts of the country it is increasingly difficult to receive Government salaries, normally distributed via bank accounts, as the banking system has been severely disrupted and insecurity is hampering access to the limited number of functioning ATMs. (Tishreen 2013/07/02, Assafir 2013/07/02)

- On 22 June, President Bashar al-Assad issued a decree to raise the salaries of all Government employees in the civil and military sectors. The decree covers an increase to the monthly salary of 40% for the first 10,000 Syrian pounds (SYP); 20% for the second SYP 10,000; and 10% for the third SYP 10,000. Within the decree, increases in the minimum wage of the private, cooperative and joint sector to SYP 13,670 (USD 70) per month are planned. Some analysts fear that the salary increase will compound inflation. (Al-Monitor 2013/06/23, SANA 2013/06/22)
- **Private sector:** The formal private sector is poorly developed and represents only a limited source of employment. It is rare for entrepreneurs to succeed in the formal economy if they lack connections with powerful members of the regime. Accessing credit to start a business is also difficult. The informal private sector, however, forms an important part of the economy – estimated at 30-40% of GDP before the crisis. (ODI 2011, Clingendael 2012)
- **Tourism:** 6.6 million people visited Syria in 2010 and tourism accounted for an estimated 5% of GDP but by April 2013, the tourism sector, both national and international, had completely collapsed. A number of important tourist attractions, such as the old city of Aleppo, have been severely damaged. Restaurants and hotels face a consequent decrease in revenue. In some areas, such as the city of Damascus, IDPs rent hotel rooms although usually at reduced rates. (Al Arabya 2013/04/01, SHARP 2012/12/19, Tishreen 2013/06/05)
- **Financial services:** Syria is home to 6 state owned banks and 14 private banks. Before the crisis, the banking system was one of the smallest in the Middle East. The impact of the crisis differs from one bank to another: some have lost more than one quarter of their activities while others have been shut down. 7 of the 20 banks, including all state owned banks, are subject to sanctions, restricting their operations. Displacement of staff, a lack of electricity, lack of access to the Internet, insecurity and destruction of bank branches has affected the banking system. Arab Bank Syria, for instance, stated that by mid-June 8 of its 19 branches were closed.
- **Transport:** The transport sector has also been negatively affected; by attacks on convoys, the spread of checkpoints and limited access to areas of the country. The reduction in international trade has led to a decreased demand for commodity transport. (Al-Watan 2013/06/18, SCPR 2013/01)

Agriculture and livestock

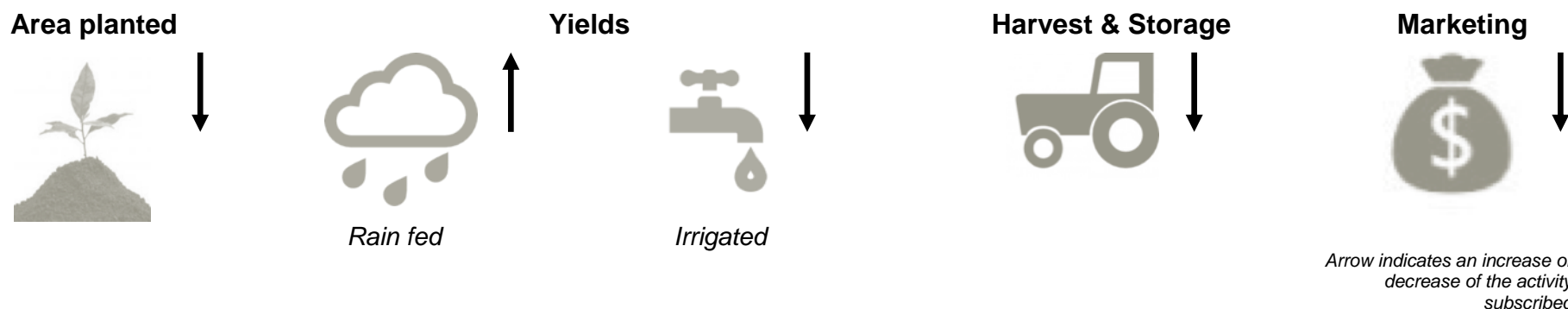
Pre-crisis

- The agriculture sector is of major importance for Syria, in terms of trade, the provision of food, materials for manufacturing and employment generated. Agriculture contributes an estimated 22-24% of the GDP of Syria and agrarian products constituted 16-22% of total exports in 2010.
- Syria has 5 agricultural zones with varying major crops dependent on rainfall. The northern governorates Aleppo, Ar-Raqqa and Al-Hasakeh account for 60% of the total agriculture land. Al-Hasakeh is the so-called breadbasket, with 75% of total national wheat production. ([CAP 2009-2010](#), [WFP 2011](#), [WB 2010](#), [FAO 2011](#), [JRFSNA 2012/06](#), [Bank Audi 2010/12/03](#))
- The 5 major crops are grains (e.g. wheat), industrial crops (e.g. cotton), vegetables (e.g. tomatoes, sugar beet), permanent crops (e.g. olives, fruit trees) and fodder crops (e.g. barley). Syria has been essentially self-sufficient in wheat production for the past 20 years, excluding the 5 years of drought (2006-2010). The crop is typically planted in the autumn (October-December) and harvested in early summer (June-July). Before the crisis, 65% of all cereals produced relied on irrigation systems. ([CAP 2009-2010](#), [WFP 2011](#), [WB 2010](#), [FAO 2011](#), [JRFSNA 2012/06](#))
- About 80% of the rural population in Syria practised farming for their livelihoods, either on their own farms or as casual labourers. Crops such as cotton and vegetables are the largest providers of agricultural casual employment. Although a major source of income, cereal production is almost fully mechanised and therefore its cultivation requires a smaller labour force. Kitchen gardening for personal household consumption is popular among small farmers. ([JRFSNA 2012/06](#))
- The agriculture sector relies heavily on Government subsidies for fuel; fertilizer; certified seeds and seedlings etc. In addition, there are financial incentives to stimulate investment, such as an exemption of taxes and fees for all projects in the eastern area. ([Bank Audi 2010/12/03](#), [JRFSNA 2012/06](#))
- **Drought:** Between 2006 and 2010, the agricultural sector was severely damaged by prolonged drought conditions. 5 successive years of drought affected the north-eastern part of Syria, with the drought in 2007-2008 being particularly severe. Around 1.3 million people were affected and the livelihoods of an estimated 800,000 farmers and herders were almost entirely destroyed, primarily in Al-Hasakeh, Ar-Raqqa and Deir-ez-Zor. Between 5 and 7 million animals are believed to have died. An estimated 300,000 families moved to urban settlements as a result of the drought, leaving large parts of the agricultural land unattended. ([UN 2010](#), [ODI 2011](#), [IRIN 2010/02/17](#))

Crisis impact – Agriculture

- Several assessments have indicated that agriculture has been severely affected by the current crisis. The 2013 wheat production is estimated to be 40% below the 2000-2010 average of 4 million. A December 2012 assessment indicated that vegetables, fruit and olive production declined significantly, including a 60 % drop in vegetable production in Homs and a 40% drop in olive oil production in Dar'a. ([FAO/WFP 2013/07/05](#), [JRFSNA 2012/06](#), [IRIN 2012/12/13](#))
- In addition to insecurity, the lack of inputs is one of the main issues hampering agricultural production:
 - **Lack of fertilisers:** The only fertilizer factory in Syria, located in Homs, is now operating at about 25% of its capacity. Transport of fertilizer to different governorates is difficult. The price of fertilizers had increased by an estimated 200-300% between January 2011 and June 2012. Near complete disruption of fertilizer provision to farmers was reported throughout the country in March 2012, with particular problems experienced in Deir-ez-Zor, Ar-Raqqa, Dar'a and Rural Damascus. ([FAO/WFP 2013/07/05](#), [SHARP 2012/12/19](#))
 - **Lack of labour force:** Casual labour has not been available because of the conflict and displacement. In Dar'a, for instance, an estimated 70% of the 200,000 agricultural workers have moved from their places of origin. ([JRFSNA 2012/06](#), [HPG 2012/08/31](#)). As a result, labour wages have gone up, between 30% (in Damascus) and more than 300%. The steepest increases were reported in Quneitra: from SYP 500 in 2012 to SYP 1,500 in mid-2013. Farmers are not able to hire sufficient labours and have been forced to either leave the standing crops unattended or abandon farming altogether. ([FAO/WFP 2013/07/05](#), [JRFSNA 2012/06](#))
 - **Lack of other inputs:** Farming methods, particularly those applied in the production of cereals, are highly mechanised. Much machinery is now unavailable as individuals are reluctant to rent their equipment and machineries, due to fear of theft or destruction. The lack of transport and increase in prices has also hampered access to herbicides and pesticides. As a result, pest and insect attacks are not properly addressed. Until now, there have been no reports of significant outbreaks of cereal pests or diseases, although some local instances of diseases were reported. Government supplied seeds normally constitute 70% of total number of seeds used. Availability of seed has not yet been severely affected, and seeds were widely available for the last planting season, albeit at higher prices. Sanctions on imports have further exacerbated the shortages of agricultural inputs, crop-protection materials, diesel, and spare parts for machinery. ([FAO/WFP 2013/07/05](#), [JRFSNA 2012/06](#), [FAO 2013/10/15](#))

Impact of the crisis on production and marketing of wheat



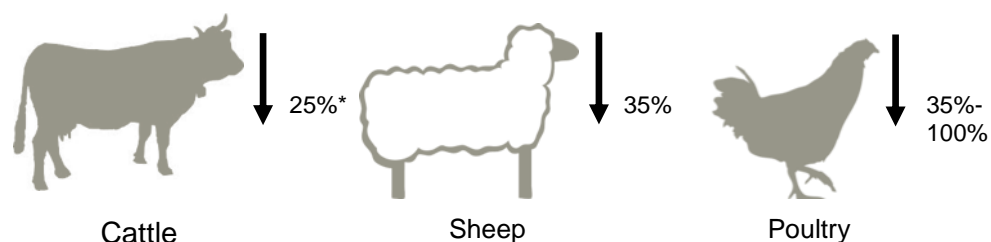
	Area planted	Yields	Harvest & Storage	Marketing	
ISSUES	There has been a decrease in the area planted because of the lack of inputs such as fertilisers. Less skilled labour is available and wages have steeply increased. Due to displacement and insecurity, lands have been abandoned. Damage to machinery is widespread and spare parts are largely unavailable.	Yields in rain fed areas in the north are higher than 2011/12 due to above average rainfall. In the south, where rains were similar to last year, yields are expected to be below average. Yields have been affected by a lack of inputs such as fertilisers and pesticides.	Lack of electricity/diesel to fuel pumps, widespread damage to irrigation infrastructure (up to 30% of irrigation canals in Deir-ez-Zor have been damaged), lack of essential spare parts and maintenance has severely impacted irrigation. As a result of the breakdown of irrigation systems, most farmers produced their wheat as a rain fed crop rather than an irrigated crop, resulting in less yields, or grew another, more drought-tolerant crop.	The reduced availability of labour and machinery and the limited ability of farmers to fuel existing machinery will prolong the harvesting of cereals. As a result, greater losses in the field are likely, as crops are vulnerable for a longer period. Damage to storage structures leads to outdoor stacking of bags resulting in greater losses.	Before the crisis, the Government purchased 80% of wheat produced by Syrian farmers. Currently, only one-third of the Government's wheat collection centres are operational and it is estimated the amount of wheat purchased by the Government has decreased to an estimated 60%. Farmers themselves sell the remainder. However, road transport is expensive and insecure, there is a lack of traders, monopoly of prices held by remaining traders and the capacity of flour mills and bakeries has been reduced.
RESULT	An estimated 15% decrease in wheat planted compared to 2001/2011 average.	Overall average wheat yields (rain fed and irrigated) are expected to be 30% below the average for the period 2002-2011. Barley yields, on the other hand, have benefitted from the relatively good rains and are expected to be above the average annual production of 773,000 MT.	The capacity to harvest and store the crops has decreased.	Farmers have decreased access to Government distribution systems and to local markets.	

Sources: [FAO/WFP 2013/07/05](#), [JRFNSA 2012/06](#)

Crisis impact – Livestock

Livestock is an integral part of the rural economy and formed 35 - 40% of the country's total agricultural production before the start of the crisis. Animals are important in the provision of milk and meat for domestic use and sales of leather, meat, milk and wool, contribute to supporting livelihoods. In 2010, the country's livestock population was estimated at around 15.5 million sheep, 2 million goats, 1 million cattle, and about 7,000 buffalo. The poultry sector employed, directly and indirectly, more than 1 million workers. ([JRFSNA 2012/06](#), [FAO 2011](#), [IRIN 2012/10/18](#), [WFP2012/06](#), [USA 2012/06/12](#))

Impact of the crisis on livestock



*Arrow indicates decrease in production compared to 2011

CAUSES

- Insecurity and fighting obliged many people to leave their villages and sell flocks. Some livestock were reportedly killed or stolen.
- Veterinary service is significantly eroded, with insecurity hindering the movement of animal health workers.
- Vaccines are no longer produced in the country, existing stocks are almost exhausted and imports are banned under the sanctions.
- There is a lack of livestock feed, due to limited production of feed and a decrease in imports.
- Some livestock have been reportedly killed or stolen.
- Traditional movement of herders to Idleb, Hama and Homs has not been possible due to insecurity.
- A significant number of (estimates range from 35 to 100%) poultry factories have ceased functioning and major chicken producing farms in Homs, Hama and Idleb have been closed. Import of mother hens from abroad for the production of one-day chicks in the country is hampered due to import restrictions.

Sources: [FAO/WFP 2013/07/05](#), [JRFSNA 2012/06](#), [IRIN 2013/06/13](#)

SNAP: Impact of the conflict on Syrian economy and livelihoods

Industry

- The industrial sector in Syria includes mining, manufacturing, construction, and petroleum. The main industrial activities are the manufacturing of petroleum, textiles, beverages, tobacco and cement, and food processing, phosphate rock mining, oil seed crushing, and car assembly. Syria's manufacturing sector was largely state dominated until the 1990s and although economic reforms have led to an increase in private participation, the private sector remains constrained. This is primarily due to the lack of investment funds, input/output pricing limits, bureaucratic custom procedures and poor marketing. ([FSCI 2007](#))
- Activity in many industrial areas has been disrupted. The industrial city Sheikh Najjar in Aleppo reportedly works at about only 20% capacity. Direct damage to industrial establishments in Homs, Hama, Rural Damascus and Aleppo has been reported. There is a lack of electricity and raw materials. Cotton manufacturing, for instance, relies on the national cotton harvest, which has seen significant losses and, as a result, inputs are no longer available. Some factories have been taken over by armed groups and others damaged. Approximately 90% of the silk industry looms, an important source of employment in the industry sector, have moved to neighbouring countries. ([Al Arabiya 2013/04/01](#), [Der Spiegel 2013/03/08](#), [SHARP 2012/12/19](#), [AFP 2013/01/15](#))
- The Government has issued a resolution allowing for industrial installations to move to safe areas, including Tartous. ([Tishreen 2013/05/30](#))

Pensions

- Syria's pension scheme covers employees in the public and private sectors. It is unclear how many people currently receive these benefits. The pension scheme is financed through contributions of employees (7% of earning) and employers (14% of earning). Pensionable age is 60 for men and 55 for women. ([GESS n.d.](#))
- The recent announcement of public salary increase also included a promise that pensions would increase up to 25%. Problems with obtaining the pensions have been reported, including elderly from rural areas not being able to travel to governorate capitals to withdraw their retirement benefits. ([SANA 2013/06/22](#), [P.I. 2013/05/22](#))

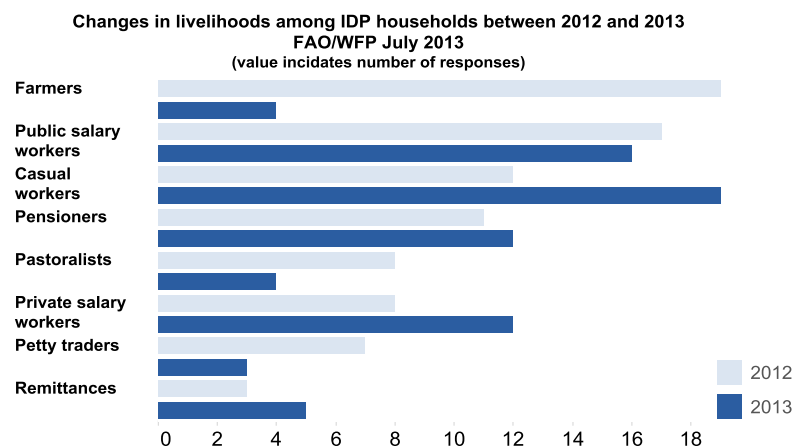
Unemployment

- There is no unemployment scheme in Syria and unemployment registration does not take place. As a result, accurate statistics on the number of unemployed unavailable. Between 2003 and 2010, Government statistics reported an unemployment rate of 8% however this data does not provide the complete picture, as it excludes the large informal sector and does not include non-Syrians such as Iraqi refugees. ([IRIN 2012/09/11](#), [FAD 2011](#))

- The deterioration of the economy, breakdown of industries and decrease in production has led to workers being laid off on a large scale. The Syrian Centre for Policy Research estimates that the unemployment rate increased to 50% by March 2013. However, this estimate does not take into account informal activities such as petty trade and casual labour, which has become a source of income for many households after productivity in the formal economy ceased. ([Al Arabya 2013/04/01](#), [Executive 2012/11/01](#), [AlertNet 2013/03/06](#), [JRFNSA 2012/06](#))

Alternative livelihoods

- The breakdown of the formal economy and increase in prices has forced people to look for new income sources. During a FAO/WFP exercise a small number of IDP families were assessed on their previous and current livelihoods. As can be seen in below graph, a large percentage of farmers, pastoralists and petty traders were forced to search for a new source of income, while the number of casual workers, private salary workers and those receiving remittances has increased. It is unclear if these IDP households were already displaced in 2012. The decrease in agriculture as a livelihood was also reported among non-displaced. In Al-Hasakeh governorate, approximately 20% fewer farmers engaged in wheat production during 2012/2013 than pre-crisis. ([FAO/WFP 2013/07/05](#))



Informal activities

- Much of the Syrian economy is informal and is estimated to contribute about 30-40% of GDP. The informal economy includes activities that are not taxed, and not monitored by the Government. Informal activities contribute to all sectors in Syria – from agricultural labours that do not pay taxes to unregistered shops in the city of Aleppo. The erosion of the Syrian state and

the emergence of ‘liberated’ areas during the crisis control have brought a rapid spread of informal work. Estimates suggest that, by the end of 2012, 80% of the workforce engaged in informal activities. ([Clingendael 2012](#), [ODI 2011](#), [ILO 2009](#), [SHARP 2012/12/19](#))

- The sale of assets is a widely reported coping mechanism and new markets have been created, including the sale of furniture from vacant houses. Traditional professions have re-emerged, such as the reparation of kerosene ovens and wood heaters. ([Al-Akhbar 2013/06/13](#), [Tishreen 2013/06/13](#), [Al-Akhbar 2013/06/13](#), [Tishreen 2013/06/13](#))
- In Rural Damascus, some of the households assessed by WFP in March reported selling humanitarian assistance to cover other living expenses. ([WFP 2013/03/30](#))

Illicit economic activities

- In the province of Deir-ez-Zor in eastern Syria, networks of tribes and smugglers took advantage of the chaos to engage in illegal oil trade, and are smuggling thousands of barrels of crude oil to Turkey. As well as production facilities, tribal fighters have seized control of pipelines, often drilling into them to extract oil. Crude oil is often sold to local entrepreneurs, who use homemade refineries to produce low-grade petrol and other fuels for Syrians facing acute shortages. ([Al-Akhbar 2013/05/11](#), [Jordan Times 2013/05/14](#), [Telegraph 2013/05/18](#))
- Other items smuggled include Turkish mobile phones, vegetables, tea, sugar cannabis and cigarettes. ([Al-Akhbar 2013/06/03](#))

Payment by armed groups

- In April 2012, the Syrian National Council announced that opposition fighters would start to receive salaries. It is unclear how many fighters currently receive salaries from the SNC or other sources, but it can be assumed that this is an important source of income, especially for those in the opposition controlled areas in northern Syria. ([BBC 2012](#), [FAO/WFP 2013/07/05](#))

Migration

- Seasonal labour migration is common in Syria, to other areas of the country or cross-border. No consistent data is available, but this migration is estimated to involve around 14% of the Syrian work force. ([UN 2010](#), [ACSAD 2010](#), [ODI 2011](#), [Executive 2012/11/01](#))
- Due to the insecurity and collapse of part of the economy, the traditional migration routes have been disrupted. Migrants are forced to return to their place of origin. These ‘returnees’ have no or very few job opportunities, and most of them are staying with extended families. ([WFP 2012/06](#))
- At the same time, a number of people have left Syria in search of income. Illustratively, Syrian refugees in Iraq cited the lack of economic opportunities

as one of the main reasons for fleeing to Iraq. The flight of educated and skilled Syrians is depleting the country's workforce, impacting bureaucracy, medical services, education institutes and factories. (NRC 2013/04/18)

Remittances

- Syria is a country with a large diaspora population and it is common practice for people to receive remittances from relatives abroad. In 2010, workers remittances amounted to almost USD 1 billion. It is estimated that Syrian diaspora send large amounts of money to their families to support them during this crisis, although the breakdown of the banking system and money transfer agents (including *hawala*, a widely used informal money transfer system) has made it more difficult for remittances to enter into the country. According to a WFP monitoring exercise between January and March, remittances are a considerable form of income for many families. (SCPR 2013/01, WFP 2013/03/31)

Poverty

- According to a 2007 UNDP report on Syrian poverty, extreme poverty (defined as when individuals are unable to secure their basic essentials) was affecting around 12% of the population (around 2.4 million people). The north-eastern region has traditionally been the poorest area, with an extreme poverty rate of 15.4%. Poverty levels in the central and coastal regions are lower, with around 8% of its population in this category. Poverty and food insecurity is most prevalent among agriculturalists, and nomads, in arid and semi-arid areas. (UNDP 2005, GoS/UNDP 2007, WB 2008, STCC 2011)
- Due to the conflict, extreme poverty has increased from 2.2 million in 2010 to 3.7 million in 2012. These estimates are modelled on the impact of the crisis on GDP and are not the results of a poverty survey. The number of people living in poverty is continuously increasing due the impact of the conflict on livelihoods, assets and prices for staple foods. (SCPR 2013/01, Assafir 2013/03/25)

Vulnerable groups

- **Female headed households:** Female participation in the labour market is historically low. According to the 2008 labour force survey, 75% of women were not employed or following education. Barriers to employment for women include illiteracy, social norms, inadequate access to financial resources and limited land rights. Over 40% of respondents to a 2008 survey were generally unfavourable to women's employment. As a result, female-headed households are particularly vulnerable, as they have limited income opportunities. (IFAD 2011, WFP 2012/06)
- **Children:** Children often work to support their families. In 2009, an estimated 7% of children between 12 and 15 years of age were working, and 4% of those 5-15. It is likely that child labour has spread during the crisis. In Deir-ez-Zor, children have been reportedly working in hazardous occupations and filtering crude oil. (ILO 2009, UN 2010, INGO 2013/02, J-RANS II 2013/05)
- **Refugees:** Before the crisis, Syria hosted a large number of refugees, including an estimated 500,000 Palestinian refugees and 480,000 Iraqi refugees. Many of these refugees were already highly vulnerable by the extended duration of their displacement and the erosion of their means of subsistence.
- **Returnee migrant labourers:** The livelihoods of the 'returnee' migrant workers in their places of origin are seriously threatened due to lack of employment opportunities, and fast depletion of resources. (WFP 2012/06)
- **Small farmers and herders:** Those with a small number of livestock are more vulnerable to the current shocks. (WFP 2012/06)

Macroeconomic impact of the crisis

The following chapter analyses the impact of the crisis on the economy in Syria, with a focus on the reduction in production and consumption, Government deficit and debt, and currency depreciation and inflation.

Key points

- EU, US and Arab League sanctions; damage to infrastructure; and the disruption of agriculture, trade, and oil production have severely affected all aspects of the Syrian economy. The deterioration of the situation has been partly offset by support from allied Governments (including Iran and Russia), private savings, remittances and foreign donations, and continued production of some goods in the formal and informal economies.
- In the years leading up to the crisis, GDP growth was relatively high (over 4%) and Syria had low fiscal and public debt and relatively low inflation levels. The currency traded at low levels against the US. However this economic growth did not reach the majority of the population and the economy failed to generate jobs commensurate with population growth. While macroeconomic indicators pointed to a relatively stable economic situation pre-crisis (in terms of the impact on inflation, public debt, Government budget deficit, trade balances and growth), the Syrian economy faced deep structural challenges that led to poor institutional performance, low productivity, low job creation, rising poverty and regional disparities.
- The self-sufficient structure of the Syrian economy made it somewhat resilient to the initial shock of the crisis although recently the Government has started to suffer from a considerable decline in overall production affecting major sectors such as manufacturing, transportation, financial sectors and agriculture and therefore affecting livelihoods.
- The Government of Syria has continued to pay the salaries of its employees and to subsidise basic commodities. However, the Government's budget has been strongly affected by the sanctions and the decline in revenues. As a result of the loss in revenues and continuing expenditure, the fiscal deficit has significantly increased. Public debt has also increased significantly and the share of external debt is increasing compared to internal debt.
- Despite Government interventions, the Syrian pound has depreciated significantly in 2013, which, in addition to the impact of the sanctions, has caused high inflation. As a result, Syrian households have increasing difficulties purchasing basic items as their purchasing power has significantly declined.
- Although public expenditure by the Government has increased since the beginning of the crisis, it has declined in real terms (taking into account

currency depreciation). Private consumption, which was one of the main boosters of economic growth, has borne the brunt of the crisis.

- The declining GDP, alongside decreased private consumption, investment, public revenues and net exports, combined with high fiscal deficit, public debt and currency depreciation is likely to cause long-term macroeconomic instability inside Syria.

Sanctions

- The financial sanctions – intended to target sources of Government revenue by prohibiting transactions with individuals, companies, and state-owned enterprises tied to the regime – have had far-reaching effects, as international financial institutions and traders have been reluctant to service any Syrian individuals and private businesses, including facilitating transfers of remittances and external trade heavily hindering business transactions. Thus the sanctions, although not applicable to food and pharmaceutical products, have restricted imports of both food and the raw materials for drug production. ([FAOWFP 2013/07/05](#), [CFR 2013/05/08](#), [DIIS 2012](#))
- The sanctions that have had the greatest impact on Syria's economy are those imposed by the League of Arab States and the European Union. Since November 2012, the Arab League has maintained an economic boycott, which includes the freezing of Government of Syria assets in Arab countries, the cessation of transactions with the central bank, a travel ban on a number of Syrian officials, and the termination of all investments supported by Arab Governments. The EU sanctions mirror those of the League, but include banning imports of Syrian oil. The US sanctions are equally restrictive but have had a much less negative impact because of the already-limited economic relations between the two countries. ([Carnegie 2012/06/20](#))
- Some of Syria's allies have stepped in to assist the economy:
 - Russia and China have blocked attempts to impose sanctions through the United Nations.
 - Iraqi leaders have publically dismissed the Arab League sanctions, and trade and gas pipeline deals between the two countries have been signed.
 - Iran has provided incentives for their importers to purchase Syrian products.
 - Russia has provided Syria materials and supplies for the production cycle, including steady shipments of diesel fuel that is used for everything from farm tractors to civilian transport trucks. ([Carnegie 2012/06/20](#))

Damage to infrastructure

- Infrastructure has been damaged as a result of the conflict and direct targeting by armed groups, with widespread damage to electricity and water infrastructure, oil refineries, education facilities and agricultural infrastructure. This destruction of the infrastructure impacts production levels and revenues. (Daily Star 2013/03/28, UNICEF 2013/02)
- The estimated capital losses, according to the Syrian Center for Policy Research, have reached USD 42.1 billion. 10% of houses have been completely damaged and 25% partially and completely damaged. Some 9,000 state buildings incurred losses of USD 15 billion worth of assets. Urban infrastructure faced losses of around USD 8-25 billion. (PI 2013/07/04, Al-Akhbar 2013/07/03, Daily Star 2013/06/30, Syrian Center for Policy Research 2013/01)
- By the end of 2012, the cost of repairing the conflict damage was estimated at between USD 60-200 billion. (Al Arabiya 2013/04/02, Al Arabiya 2013/03/15)

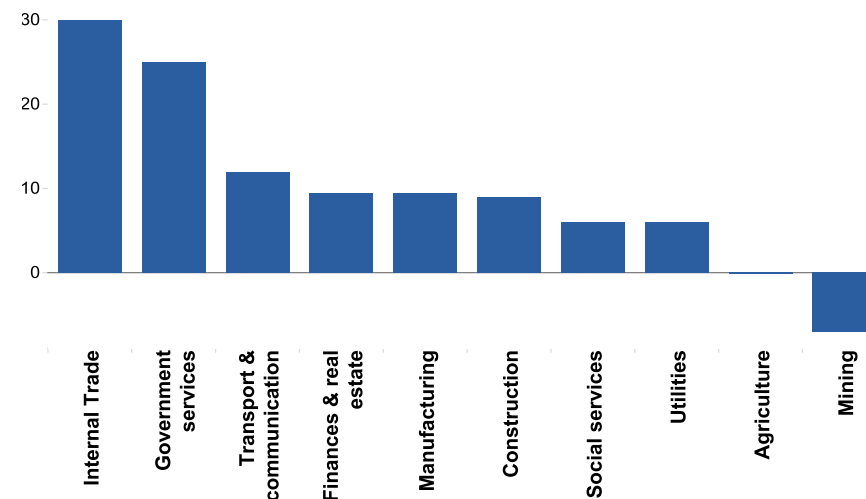
GDP

The Gross Domestic Product (GDP) is the value added of all produced goods and services within a country. GDP is commonly used as an indicator of the economic health of a country as it serves as a measure of a nation's productivity. GDP is a sum of Consumption (C), Investment (I), Government Spending (G) and Net Exports (X – M).

- **Pre-Crisis:** The country's economy was worth USD 59 billion in 2010 with a modest economic growth estimated at 4-5%. (Syrian Center for Policy Research 2013/01, Al Arabiya 2013/03/15)
- Syria enjoyed some degree of macroeconomic stability with a \$1 billion balance of payments surplus, a government budget deficit of around 2% of GDP, public debt at less than 30% of GDP and a stock of foreign reserve assets that could cover around 18 months of imports. (Aspen Institute 2013/04/11)
- The major economic sectors include agriculture (22-24% of GDP); industry and mining (25%); trade (23%); and tourism (12%) according to 2009 figures quoted by the Syrian Central Bank.¹ Syria's energy and mining sector has been a key asset, especially phosphates, natural gas and, most importantly, crude oil: oil production in 2010 accounted for at least 10% of GDP. The mining sector contribution to growth was assessed to be decreasing in the years before the crisis while internal trade and Government services were the main contributing sectors to growth. Meanwhile Syria's large informal sector was estimated to constitute around 34% of total employment (in 2009) and contribute 30-40% of GDP. (Al Arabiya 2013/04/02, Aspen Institute 2013/04/11, Danish Institute for International Studies 2012, Al-akhbar 2013/06/28, Trading Economics 2013/06, Clingendael 2012)

¹ Another source estimates the decline of share of agriculture of GDP from 26% in 2002 to about 14% in 2011 because of the effects of economic liberalization.

Contribution to growth by Sector (2001-2010)



Source: Syrian Center for Policy Research, 2013/01

- **Post-Crisis:** Serious losses have been incurred in Syria's major economic sectors including agriculture, wholesale and retail trade, transportation, manufacturing and mining. During the crisis, the economy has moved from productive sectors to informal sectors (hashish, smuggling, trading of weapons, etc.). (Syrian Center for Policy Research 2013/04)
- Although accurate figures are mostly unavailable, economic activity is estimated to have significantly reduced since the start of the crisis. In June, a Government minister stated that GDP had fallen by almost 40% while other estimates put the fall at 60-65% over the past 2 years. The contraction of GDP is largely due to damage to factories and other physical capital; loss of human capital; and the effects of sanctions imposed by the US, EU and Arab League. (Daily Star 2013/06/30, Dayan Center 2013/06, Al Arabiya 2013/04/02, Al Arabiya 2013/03/15, Trading Economics 2013/06, Syrian Center for Policy Research 2013/01, Emirates 2013/02/06, Daily Star 2013/06/30)

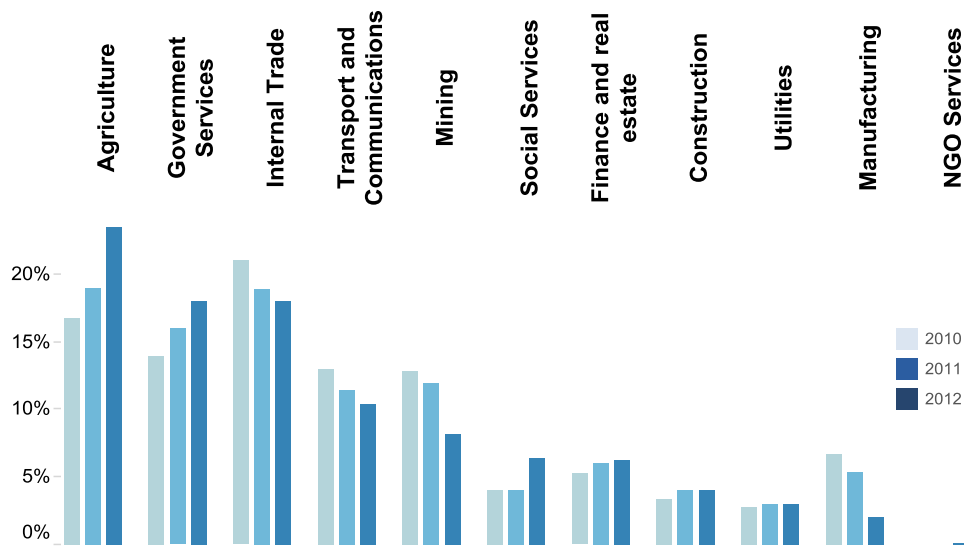
Estimated GDP

2010	USD 58 - 60 billion
June 2013	USD 21 – 35 billion

- **Impact of economic sanctions on GDP:** Apart from devastating destruction of infrastructure negatively affecting economic production, some sources report

that around 28% (about USD 6.8 billion) of the total GDP loss in 2011 and 2012 was due to economic sanctions. The majority of this loss (about USD 3.9 billion) was a result of the sanctions on the oil sector. The transportation, manufacturing, and financial sectors were also negatively affected.

Sectors' share of GDP between 2010 and 2012



Source: [Syrian Center for Policy Research, 2013/03](#)

Components of GDP: All the components of GDP, consumption (private and public), investment, government expenditure and trade (exports minus imports), have been severely impacted by the crisis:

Private Domestic Consumption

- **Pre-crisis:** Private consumption was one of the main boosters of economic growth. ([Syrian Center for Policy Research 2013/01](#))
- **Post-crisis:** The large increase in prices of basic goods, inflation and decreased household income has severely affected consumption. According to EIU estimates, private domestic consumption dropped 3% in 2011 and was expected to drop an additional 5% in 2012. However, according to the Syrian Center for Policy Research, private consumption bore the major burden of the crisis with a 42% estimated total loss for 2011 and 2012, as compared to 2012

expected pre-crisis consumption. There has also been a steep decline in demand for high-end products. ([EIU, March 2012 cited by DIIS, Syrian Center for Policy Research 2013/01](#))

Investment

- **Pre-Crisis:** investment in the private sector, averaging 22% of GDP and which was mainly concentrated in the real estate and financial sectors, grew at low levels before the crisis. ([Syrian Center for Policy Research 2013/01](#))
- **Post- Crisis:** Investors exited Syria due to drop in confidence and macroeconomic instability. Decrease in investment was also affected by extreme power outages and heavy fighting in and around Damascus and Aleppo, which housed the majority of factories. ([Al Arabiya 2013/04/02](#))

Public Budget

The fiscal deficit is the annual difference between the revenue of the Government and its total expenditure.

- The Government of Syria, while still paying the salaries of its employees and subsidising basic commodities, has seen revenues fall due to sanctions resulting in a significant increase of its fiscal deficit.

Fiscal deficit (Government expenditures – revenue)

Year	Estimated fiscal deficit
2009	SYP 122 billion
2012	SYP 216 billion
2013	SYP 745 billion

Source: [Syrian Center for Policy Research 2013/01](#), [Aspen Institute 2013/04/11](#), [DIIS 2012](#)

Pre-Crisis:

- **Public Revenue:** In 2009, the revenue of the Government of Syria amounted to SYP 600 billion (USD 12 billion at USD 1 = SYP 50), with tax revenues (mainly on oil exports) making up 80% of the budget. The remainder of the budget was derived from oil revenues, which amounted to SYP 150 billion in 2010. Although oil production has significantly decreased (from 431,000 barrels in 2006 to 382,000 barrels in 2009) the rise in the price of oil compensated. Although Syria had started diversifying away from oil production, it was an important source of fiscal revenue for the Government. ([IMF 2010](#), [Al Arabiya 2013/04/02](#), [Danish Institute for International Studies 2012](#), [Trading Economics 2013/06](#))
- **Public Expenditure:** The Government had reinforced the role of the public sector to preserve the self-sufficiency of the economy. Government services comprised 25% of GDP growth in the decade before the crisis in Syria. In the past 2 years, the decline in Government services has been minimal compared

to other economic sectors. Government expenses in 2009, about SYP 722 billion (USD 14.4 billion) included SYP 90 billion (USD 1.8 billion) for army salaries and SYP 267 billion (USD 5.3 billion) for development projects. ([Aspen Institute 2013/04/11](#), [Al Arabiya 2013/04/01](#))

- **Fiscal Deficit:** The fiscal budget suffered from a deficit estimated at around SYP 122 billion (USD 2.4 billion) in 2009, according to an IMF report. The Government funded this deficit mostly using internal debt and to a much lesser degree external debt. Also, the Government's main tax revenues are indirect (value added taxes) rather than direct taxes, which are paid directly to the Government. Nevertheless, the budget deficit remained manageable, fluctuating between 2.5% and 3.8% of GDP during 2006–2010. ([Al Arabiya 2013/04/02](#), [Syrian Center for Policy Research 2013/01](#), [Aspen Institute 2013/04/11](#), [DIIS 2012](#))

Post-Crisis: After more than 2 years of conflict, Syria is under massive fiscal pressure.

Public Revenue:

- Public revenue is decreasing rapidly as crucial revenue sources such as oil; tourism and agriculture have been disrupted due to a combination of sanctions and the devastating impact of the conflict on the wider economy. The international sanctions have substantially curbed the Syrian state's ability to obtain export revenue, which have been further reduced by a substantial decline in taxes as a result of the decreased overall formal economic activity. The decrease in fiscal revenue, estimated at 15 percentage points (from 23% of GDP in 2010 to 8.1% in the first quarter of 2013), is mainly due to a decline in oil revenues and oil tax revenues. ([Financial Times 2013/02/12](#), [Daily Star 2013/03/28](#), [Danish Institute for International Studies 2012](#), [Syrian Center for Policy Research 2013/01](#).)
- **Oil:** International sanctions and the damage to energy infrastructure by armed groups resulted in a reduction in the Government's capacity to refine and produce oil. The sanctions have also led to a shortage in diesel and fuel gas for home use, and to a surge in the prices of oil derivatives by about 200%. The sanctions have forced the Syrian oil company (Sytrol) to look for new markets outside their historic trade partnerships. However, transport remains a problem because of the difficulties in securing private or public insurance for shipments from Syria. ([SHARP 2013/06/07](#), [Carnegie 2012/06/20](#).)
- International energy companies withdrew from Syria as a result of the sanctions, causing a shortage of oil in the market. Syrian oil production decreased to 280,000 barrels per day at the start of the conflict, according to a statement by the Syrian oil minister in November 2011. In 2013, Syria's oil production has reduced to some 200,000 barrels a day (a 47% reduction). According to another source oil production has dwindled to an estimated 20,000 barrels per day (95% reduction). ([Daily Star 2013/03/28](#), [Al Arabiya 2013/04/02](#), [Al Arabiya 2013/03/15](#), [Dayan 2013/06](#), [US Energy Information Administration 2013/02/20](#))

- **Other sources of income:** Government income sources include export revenues to allies (Iraq, Iran and Russia), foreign donations and loans (Iran, Russia and China are said to provide up to USD 500 million per month via oil revenue and lines of credit to Syria), expatriates' remittances and the country's remaining functioning industries and informal sector. ([Reuters 2013/04/24](#), [The Voice of Russia 2013/05/28](#), [AlKhabar 28/06/2013](#))
- The Government still receives revenues from the mobile phone industry where, under a pre-crisis operating agreement, the telecommunications regulator receives half the sales generated by the two companies, Syriatel and South Africa's MTN. Syriatel increased its revenues by a 6%, while MTN's rose by 12% in 2012 due to greater international traffic. ([Financial Times 2013/02/12](#))

Public Expenditure:

- **Public sector wages:** Some experts suggest that public expenditure has risen as the Government tries to maintain its support base and payment of its employees, reportedly allocating SYP 497 billion for the salaries of state employees (military and civil) in 2013. The public sector accounted for 30% of the workforce in 2011. Public sector salaries increased from 10.8% of GDP in 2010 to 19.3% in the first quarter of 2013. The 2013 budget revealed a 13% rise in public sector wages. Employees in a large part of the country continue to receive their salary. A presidential decree issued at the end of June offered a raise for the public sector, which could reach up to 40% depending on the salary of the civil servant. ([Syrian Center for Policy Research 2013/01](#), [SANA 2013/06/13](#), [AlMonitor 2013/04/23](#), [Daily Star 2013/06/30](#))
- **Subsidies:** The Government continues to subsidise basic commodities such as bread and fuel. A recent survey found that Government subsidies reached SYP 386 billion (about USD 3.88 billion according to post-crisis exchange rate estimate USD1=SYP180) in 2012 – about 29% of the state budget and 13% of the GDP. This figure, according to the survey, has further increased in 2013 to SYP 499 billion (about USD 5 billion), or 36% of the general budget. After considering the removal of subsidies, the Government decided to raise the prices of some subsidised items, including diesel, petrol and gas. Government subsidised fuel currently stands at around SYP 65 (USD 0.54) per litre, up from around SYP 45 a year ago. The subsidies exert great pressure both on the budget and the GDP. If the cost of the subsidies increases further, it may have drastic impacts and could become unaffordable for the Government. A recent Government decision comprised expanding the list of subsidised goods to include tea, bulgar wheat, ghee and vegetable oil, and providing each family with 400 litres of heating oil for use during winter. ([SANA 2013/07/14](#), [Financial Times 2013/02/12](#), [Daily Star 2013/03/28](#), [Xinhua News Agency 2013/06/10](#))
- **Public Investment:** Government investment (on educational infrastructure for example) was modest before the crisis and is estimated to have decreased from 8.8% of GDP in 2010 to 4.5% in the first quarter of 2013. The losses of

public investment during 2011, 2012 and the first quarter of 2013 were also substantial due to the adjustment in fiscal policy and dramatic increase in risk and uncertainty. [Aspen Institute 2013/04/11](#), [Syrian Center for Policy Research 2013/04](#), [Daily Star 2013/03/28](#))

- The Government has tried to adjust the spending imbalance by reducing public investment, increasing money supply, and relying on direct foreign aid and cash transfers. Nevertheless, the decline in revenue has constrained its ability to expand spending as a counter-cycle approach to mitigating the impact of the crisis. ([Aspen Institute 2013/04/11](#), [Syrian Center for Policy Research 2013/01](#))
- The estimated increase in public expenditure (e.g. in public wages) is refuted by other sources. Some claim public expenditure has declined by 30% taking into consideration the depreciation of the Syrian Pound and inflation along with the deductions in public salaries that took place after the beginning of the conflict (decrease in expenditure in local administrations, health, education, etc). (PI 2013/07/04, [SANA 2013/06/13](#), [AlMonitor 2013/04/23](#), [Daily Star 2013/06/30](#))
- **Fiscal deficit:** International sanctions, alongside reductions in oil and tax revenues and increased public expenditure, led to a big increase of the fiscal deficit. The budget deficit (expenditures > revenues) climbed from 2.2% of GDP in 2010 to 14.5% of GDP in 2012. The deficit is estimated to have reached SYP 216 billion (USD 3 billion) in 2012 and is forecast to reach SYP 745 billion (USD 10 billion) in 2013. The Syrian Center for Policy Research estimates the deficit to have reached 21.4% of GDP in the first quarter of 2013. ([Financial Times 2013/02/12](#), [Al Arabiya 2013/03/15](#), [Danish Institute for International Studies 2012](#), [Syrian Center for Policy Research 2013/01](#))

Public Debt

Public debt refers to the total debt owned by the Government of Syria and is a result of accumulated fiscal deficits.

Public debt

Year	Estimated public debt
2010	USD 28.4 billion
2011	USD 33.2 billion
2012	USD 40 – 48.5 billion
2013 Q1	USD 54 billion

Source: [Al Arabiya 2013/03/15](#), [Emirates 2013/02/06](#), [Syrian Center for Policy Research 2013/01](#)

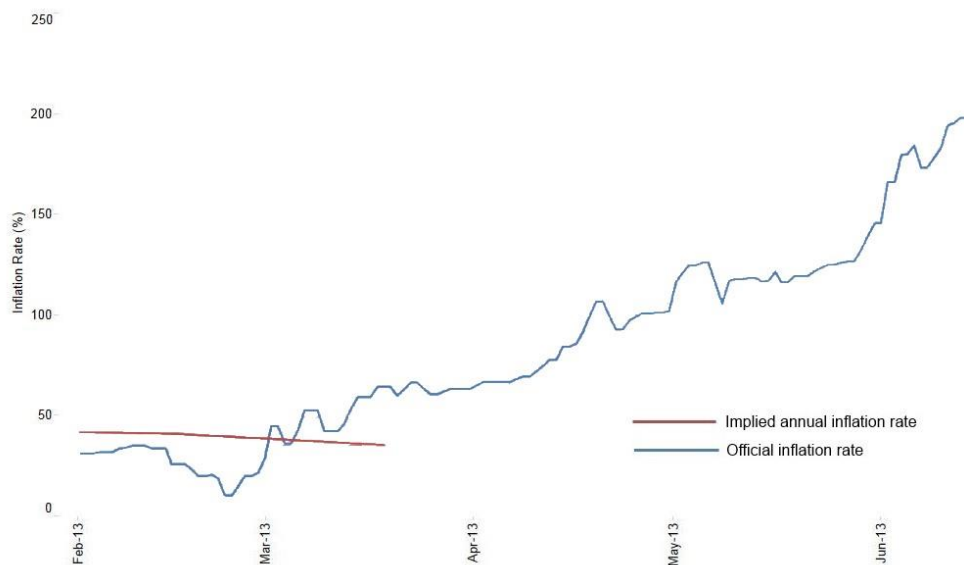
- **Pre-crisis:** Syria recorded a debt estimated between 19% and 23% of GDP in 2010, low compared to world averages. The Government's debt was around USD 28.4 billion according to the IIF at the end of 2010 (around 47% of GDP). ([Trading Economics 2013/06](#), [Emirates 2013/02/06](#), [Aspen Institute 2013/04/11](#))
- **Post-crisis:** Public debt was estimated to have reached USD 40-49 billion at the end of 2012 and is expected to continue to climb (one estimate points to USD 56.7 billion at the end of 2013). ([Al Arabiya 2013/03/15](#), [Emirates 2013/02/06](#), [Syrian Center for Policy Research 2013/01](#))
- 75% of the public debt is internal (i.e. national loans) although the share of external debt is expected to increase. ([Syrian Center for Policy Research 2013/04](#))

Inflation rate

The consumer price index (CPI) measures the changes in the price level of a market basket of consumer goods and services purchased by a typical household relative to the price of the same basket in a base year. The table below shows the increase in CPI from 2010 to 2012.

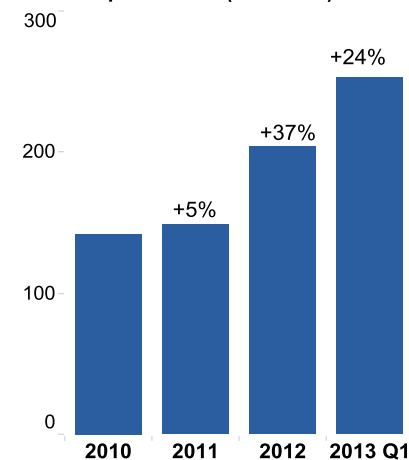
- **Pre-crisis:** The monetary policy of the Government of Syria targeted price stability. The inflation rate (percentage change in CPI) was relatively low during the first year of the crisis, at around 5%. ([IMF, Aspen Institute 2013/04/11](#))
- **Post-crisis:** The depreciation of the Syrian Pound and monopoly by local traders due to lack of Government surveillance in many areas have led to a rise in inflation. For example, the price of a cylinder of butane gas costing SYP 400 (USD 8 at USD 1 = SYP 50) in 2010 reached SYP 6,000 (USD 30 at USD 1 = SYP 200) in some areas in March 2013, if available at all. The main source of the high inflation rate is the increase in food and fuel prices. From January to September 2012, average monthly food inflation was high in all governorates, with the highest rates in Aleppo and Homs (+36%), Ar-Raqqa, Deir-ez-Zor and Al-Hasakeh (+35%), due to the effects of the conflict, economic sanctions and trade restrictions from Turkey. ([Al Arabiya 2013/04/02](#), [WFP 2013/01](#))

- Food inflation is primarily driven by the most consumed food items such as bread, vegetables, vegetable oils and dairy products, while non-food inflation is driven by electricity, gas and fuel. In USD terms, wheat flour price is now almost double its 2011 level, and vegetable oil and rice prices are about 25% higher. The sharp increase in fuel prices and transportation costs is mainly due to reduced availability of fuel and difficulties in transportation. In the first months of 2013, the Government raised prices of essential commodities such as gasoline (by 62%) and oil (by 106%). Other sources reported that the prices of oil derivatives rose by about 200%. ([FAO 2013/07/12](#), [WFP 2013/01](#), [Al Arabiya 2013/04/02](#), [Syrian Center for Policy Research 2013/01](#))
- CPI increased by 70% between 2011 and the first quarter of 2013, which means that Syrian families need to spend 70% more Syrian Pounds to purchase the same amount of goods compared to 2010. There are conflicting estimates on the inflation rate. While the Syrian Center for Policy Research estimates an 84.4% increase of CPI between March 2011 and March 2013, the Government bulletin's last figure for the annual inflation was 50% for November 2012. ([Syrian Center for Policy Research 2013/04](#), [Tishreen 2013/06/04](#))



Source: Cato Institute 2013/07/01

Consumer price index (2005=100)



Source: Authors' Calculations and [International Financial Statistics](#)

Currency Depreciation

The currency depreciation refers to the loss of value of the Syrian Pound in relation to the US Dollar. Due to the devaluation of the Syrian Pound, the dollar has been brought into wider circulation.

- **Pre-Crisis:** The Syrian Pound traded at almost SYP 47 against the US dollar in March 2011. ([Danish Institute for International Studies 2012](#), [Al-Watan 2013/06/12](#))
- **Post-Crisis:** 2012 saw a slow yet steady decline of the Syrian Pound with analysts attributing its resilience to Government intervention in the market and the influx of dollars into the country from opposition groups who received overseas funding in dollars. Nevertheless, the reduction in the overall national production and the decrease in consumer confidence were the main reasons for the depreciation of the currency, which began to fall more sharply in 2013. On 13 June, the Syrian Prime Minister attributed the decrease in the price of the Syrian pound against the foreign currencies to the economic sanctions as well as the oil, banking and insurance 'siege'. In addition, the Government's decision to quadruple the amount of printed notes compared to the end of 2010 was also a contributory factor. In the beginning of July, the Syrian pound soared above SYP 300 to the dollar in the black market, although the official price was still at SYP 104 to the dollar. The Government was allegedly able to restore the currency to a level of SYP 235 after mid-July. ([Financial Times 2013/02/12](#), [SANA 2013/06/13](#), [Daily Star 2013/06/18](#), [Daily Star 2013/06/21](#), [Al-Watan 2013/06/26](#), [Al Arabiya 2013/04/02](#), [Al Arabiya 2013/03/15](#), [Daily Star 2013/03/28](#), [Assafir 2013/07/12](#), [Al-Akhbar 2013/07/17](#))
- On 10 March 2012 the Syrian Central Bank launched a dual system by which it would trade foreign currencies with exchange companies at rates different from the official rate, the so-called 'intervention rate' (SYP 65–70 to the dollar), much closer to and sometimes even higher than the black market prices, resulting in repeated interventions of buys at several million dollars, according to media reports. The Government exchange rate reached recently SYP 119 to the dollar while the exchange rate in the black market reached SYP160. The central bank is unable to prevent black market trading of dollars even in the areas controlled by the Government. ([Syria Report 2012/03/29](#), [Al-Akhbar 2013/06/12](#))
- Estimates vary as to the current rate of inflation, with some sources estimating cumulative falls in the currency of up to 75% since March 2011. However, many products consumed in Syria are produced domestically, which is assumed to reduce the impact of the currency devaluation. ([Cato Institute 2013/07/01](#), [Daily Star 2013/06/11](#), [Daily Star 2013/06/30](#), [Daily Star 2013/06/21](#), [SANA 2013/06/13](#), [Al-Watan 2013/06/26](#))
- By 2010 Syria controlled a large reserve of foreign currency, estimated at between USD 12-20 billion. However, the Government is likely to be experiencing a significant reduction of the country's foreign currency reserves, though the extent of the actual reduction remains unknown. The London-based Economist Intelligence Unit currently estimates the foreign currency

reserves at around USD 4.5 billion while the Syrian Center for Policy Research estimates the remaining net foreign assets at between USD 2-7 billion. Syria's central bank governor indicated that estimates saying that reserves had dropped as low as USD 4 billion were incorrect. The Government stated that it has sufficient reserve of foreign currencies to meet the demands of the basic life. ([Daily Star 2013/06/30](#), [Danish Institute for International Studies 2012](#), [IMF 2013/07](#), [Reuters 2013/04/24](#), [SANA 2013/06/13](#).)



Source: [Cato Institute 2013/07/01](#)

Impact of the crisis on GDP (Expenditure Approach)

Private Consumption
(C)



Private Investment
(I)



Government Expenditure
(G)



Net Exports
(NX)



GDP Components

C is the sum of personal expenditures of goods, and services. Examples include food, rent, jewellery, gasoline, and medical expenses.

I is the sum of business spending on capital including for instance, businesses' investment in equipment or machinery, construction of a building or a factory, and spending by households on new houses.

G is total expenditures by the Government on goods and services including salaries of employees, purchase of weapons for the military, and any investment expenditure.

Exports represent goods and services produced for other nations' consumption. **Imports** are subtracted as they are included in the terms **G**, **I**, or **C**.

Crisis Impact

Large increases in prices of basic goods and decreased incomes severely decreased **private consumption**.

Private investment declined because of intense conflicts and drop in investor confidence, electricity outages and destruction of factories and businesses.

Despite the increase in employment salaries in the public sector and subsidies of some basic goods, actual **Government spending** is unknown.

Exports declined to Turkey, Arab and EU countries. However, Syria increased its exports to Iraq and Iran. The gross effect in exports is a decline. As a result of the sanctions, **imports** declined from EU. Still, grain imports to Syria are increasing, mainly from the EU and Russia. The effect is undetermined.



Arrow indicates an increase or decrease of the activity subscribed

Oil industry overview

July 2013

Summary

Oil production has been decimated since the beginning of the conflict through a combination of Government loss of control over extraction areas, widespread damage to infrastructure and international sanctions. Foreign oil companies who were in joint venture partnerships with State owned entities withdrew in late 2011, coinciding with international oil sanctions. Simultaneously violence spread to the oil producing regions as opposition groups targeted key economic infrastructure. Damage to facilities, loss of specialist staff, ongoing conflict and insecurity and an almost total breakdown of the extraction and production supply chain has resulted in the industry coming to a standstill.



1

Opposition groups are siphoning off small amounts of oil and selling it locally as cooking fuel and other groups are trucking fuel to Turkey after basic attempts at refining it.



2

A series of attacks and sabotage has resulted in damage to the main pipeline transporting oil to the refineries in the west of the country since late 2011.



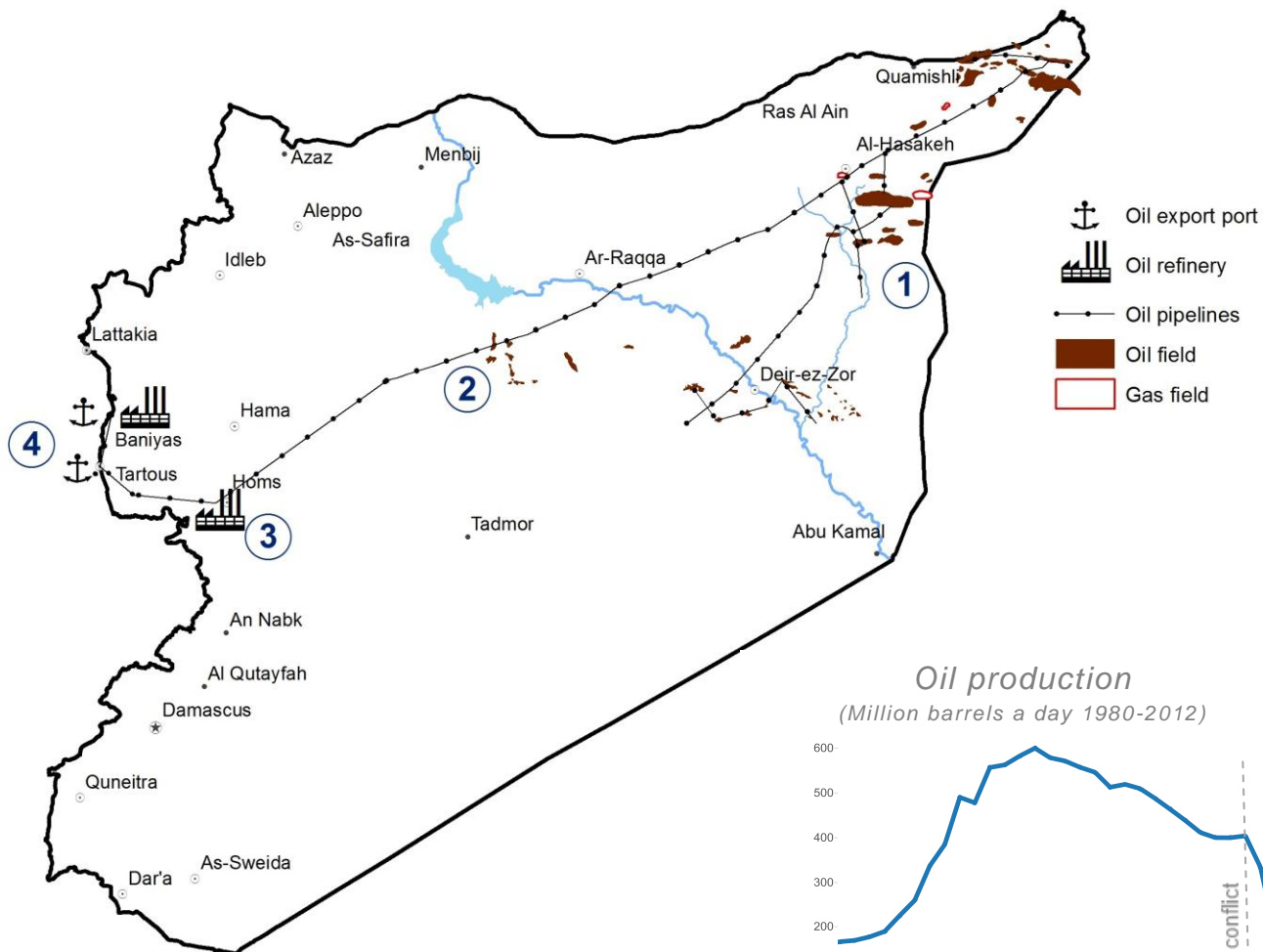
3

Production levels have plummeted (see graph) one estimate has the 2013 level at only 5% of the pre-crisis figure.

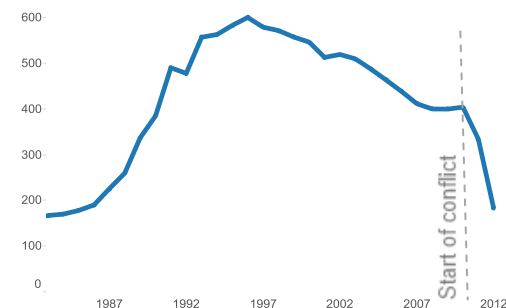


4

Oil exports have nearly ceased and new agreements to import oil from neighbouring countries are being formed. Baniyas and Tartous ports have suitable infrastructure to manage the import and export of oil and gas products.



Oil production
(Million barrels a day 1980-2012)



Trade

This chapter outlines the trade sector in Syria, both foreign and internal, and how it has been affected by the crisis. It also briefly addresses how the use of cash within the economy evolved.

Syria's geographical position has meant it has long been a gateway for international trade in the region and beyond. Since the late 1990s, Syria has been a net exporter for many agricultural products while at the same time it imports significant amounts of staple products, such as sugar, rice, vegetable oil, maize, dairy products and meat. The on-going crisis has drastically affected this sector of the economy, from the effects of the embargos from the EU, the League of Arab States, the US and Turkey, to the deterioration of nationwide distribution and supply networks.

Key points

- International sanctions have severely hampered international trade and also manufacturing and agriculture within Syria, which combined with the suspension of business activity and decrease in production has contributed to a drop in exports. Exports dropped from USD 7.2 billion in 2011 to USD 185 million in 2012.
- The financial sanctions combined with a severe decrease in demand (for raw materials, and non-essential items such as furniture) have led to a drop in total imports, though grain imports have increased considerably as Syrian agricultural production has decreased.
- Internal trade is increasingly difficult given the security situation and fuel shortage.

Baseline data

Trade in 2010 (in million USD)



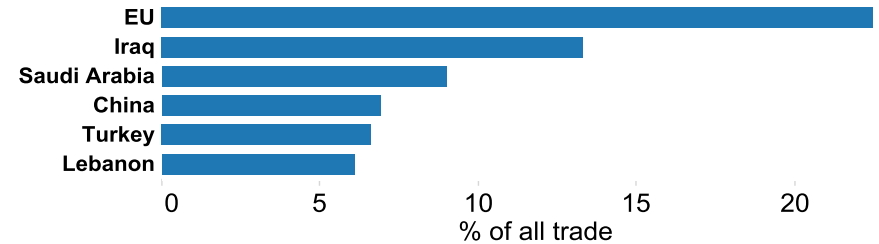
(UN Comtrade)

- Prior to the crisis, Syria's main export commodities were petroleum oils (crude and others), woven synthetic fabrics, waters with added sugar (soda), cotton yarn, insulated wire and cables, live sheep and goats, organic surface-active agents (chemical products), refrigerators, freezers and other refrigerating or freezing equipment. (UN Comtrade)

- Syria's main import commodities were petroleum oils (other than crude), motor cars and other motor vehicles, semi-finished and flat-rolled products of iron or non-alloy steel, cane or beet sugar and pure sucrose, polymers of ethylene, in primary forms, petroleum gases and other gaseous hydrocarbons, maize (corn), copper wire, commodities not specified according to kind. (UN Comtrade)

Trade-related issues

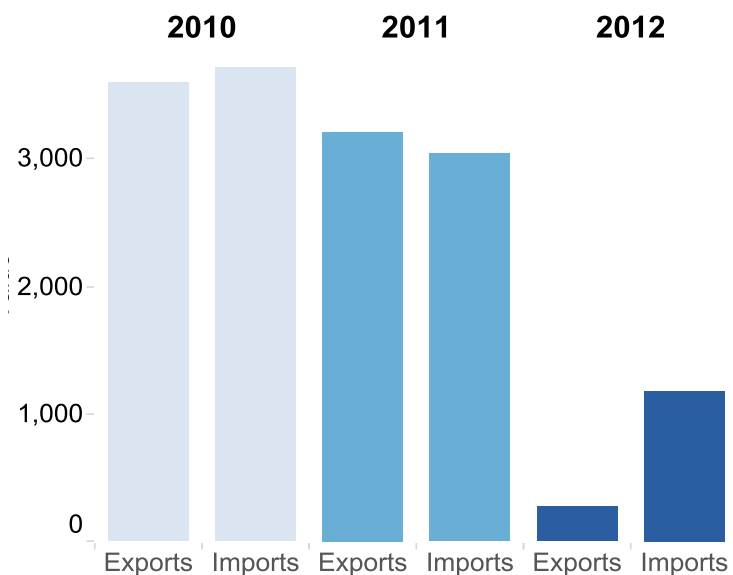
Syria top trade partners pre-crisis



- The trade sector, including food commodity trade, is one of the main employers of low-skilled workers. Trade has been severely disrupted due to a combination of factors, including reduction in demand because of reduced purchasing power, high prices, bottlenecks in supply chains (risks and delays on roads bringing produce to market), and higher energy and import costs driven by the sharp depreciation of the Syrian currency and economic sanctions. (WFP 2013/07/05)
- According to some sources foreign trade, a vital source of Government and private sector income, dropped by 97% during the past year. Exports dropped from USD 7.2 billion in 2011 to USD 185 million in 2012; exports in 2010 were valued at USD 11.35 billion. The reduction in trade can be explained by the deteriorating security environment, reduced economic activity, declining demand and international sanctions; in particular the oil import bans and the broad restrictions on financial transactions and the use of the dollar that make any transactions through the regular financial system very difficult. (EU 2013/03/20, SHARP 2013/06/07)
- **Exports:** Exports to Arab countries declined by 52% (mainly manufacturing goods), to EU countries and Turkey by 93% and 82%, respectively (mainly oil exports). However, between March 2011 and March 2012, exports to Iraq increased by 40%, and to Iran by 100%. (SHARP 2013/06/07, Carnegie 2012/06/20)
- **Imports:** Russia has provided Syria with materials and supplies for the production cycle, including steady shipments of diesel fuel that is used for everything from farm tractors to civilian transport trucks. And despite tensions with neighbours such as Turkey and Jordan, a considerable amount of informal cross-border trade and smuggling continues. (Carnegie 2012/06/20)

- The fiscal impact of the sanctions has reduced public sector financing of imports, thus reducing the number of goods entering the country and increasing the prices of ones that do. The financial sanctions have far-reaching implication. For example, pharmaceutical products are not subject to international sanctions but the banking sanctions make it exceedingly difficult for raw materials to be purchased. ([Daily Star 2013/07/01](#), [Carnegie 2012/06/20](#))
- Syria now has a negative balance of trade with Lebanon, whereas as prior to 2012, Syrian exports to Lebanon were at a higher value than imports from its neighbour. As of the first 5 months of 2013, the balance of trade between the countries was valued at USD 248.2 million. The exports are mostly refined oil products and agricultural goods. ([Al Akhbar 2013/07/02](#))
- On 22 April, the EU lifted its embargo on Syria's oil exports to permit the purchase of crude oil from the opposition, permit the sale of oil-related equipment to the opposition and allow for investment in the oil fields in opposition-held areas. ([The Syria Report 2013/05/15](#))

Exports Syria to EU - Imports EU to Syria
In millions of euro



Agricultural trade and marketing

- Syria has always been a trade crossing point in the Middle East providing access to Eastern Europe, Central Asia, Russia and Turkey for Middle Eastern countries and vice versa. Thus it is a major trading partner for all its neighbours. Before the crisis, Iraq, for example, received one-third of Syria's exports, while Lebanon shipped around 20% of its agricultural exports to Syria. However, the crisis has disrupted agriculture and food trade in the region, and as a result there is:
 - a decline in total agricultural trade;
 - a considerable drop in bilateral agricultural trade with Syria and transit trade through Syria;
 - a significant change in trading routes in the region; and
 - increased informal trade across the borders with Syria. ([FAO 2013/02/09](#))
- Due to higher prices, more Syrian livestock are being sold in Jordan, Lebanon, Turkey and Iraq. With the almost total loss of veterinary services within Syria, livestock diseases are being transmitted to neighbouring countries, thereby posing a potentially serious regional animal-health problem. ([WFP 2013/07/05](#))
- Agricultural imports to Syria from some neighbouring countries declined considerably in the period 2011–2012, by over 50% from Egypt and Turkey, and by more than 25% from Jordan. Similarly, agricultural exports from Syria fell by more than 30% in 2012 compared with the average of 2009–2010 for Jordan, Lebanon and Egypt. Reportedly, formal trade between Syria and Turkey has declined significantly almost completely stopping in late-2012. The imposition of an additional 30% tax by the Syrian Government on goods imported from Turkey is expected to put further pressure on domestic prices. ([FAO 2012/03/14](#), [FAO 2013/02/09](#))

Trade routes

- Agricultural trade in the region is dominated by land transport, mostly by refrigerated trucks. Al-Qa'im border crossing between Syria and Iraq (one of the major supply routes across the Middle East) has been closed to commercial traffic for more than a year. The other 2 crossing points between Syria and Iraq – Al-Waleed and Rabi'a – have been repeatedly closed, making trade with Syria highly unpredictable. Trade with Lebanon through border crossings of Al-Masnaa and Al-Arida has also been disrupted. ([FAO 2013/02/09](#))
- Though previously a net grain exporter, Syria announced in January that it would import wheat from France. It has reduced tariffs on purchases from abroad on basic commodities to prevent severe shortages and boost domestic stockpiles for internal investment. Syria has regularly held wheat tenders in recent months, although trade sources say it is unclear how much had been delivered. ([Daily Star 2013/03/15](#) [Daily Star 2013/03/28](#))

Informal trade in food and agricultural commodities

- Pre-crisis, informal trade is estimated to have accounted for around 20% of GDP. Informal trade and smuggling between Syria and its neighbouring countries increased in 2011 and 2012, particularly for basic food (fruit, vegetables, bread and groceries) and petroleum products. Livestock have been informally traded through the borders with Iraq, Jordan and Lebanon. Although Turkey has officially closed its land border with Syria to all trade (except humanitarian food supplies), traders have found ways of bypassing border controls. ([FAO 2013/02/09](#))

Internal trade

- A WFP report, found markets to be fully operating, in May and June, in areas less affected by the crisis such as Al-Hasakeh, Damascus, Lattakia, Tartous, and As-Sweida. Although food commodities are available in all governorates, most traders reported reduced quantities of food for sale in local markets compared to 2012. ([WFP 2013/07/05](#))
- Security concerns, limited transport facilities, lack of cash and reduced foreign currency are reportedly the main impediments to market functioning. Key informant traders in Homs reported the closure of the central market to have resulted in a number of small retail markets appearing on the city's outskirts which has led to higher transaction costs, higher prices for the consumer and a substantial reduction in the number of wholesalers. Supply chains have changed due to transport disruptions, e.g. vegetables and fruit are now mainly sourced locally; whereas in the past much of the supply came from neighbouring provinces (e.g. Tartous) or countries (e.g. Jordan). ([WFP 2013/07/05](#))
- There is evidence of increased cross-border imports, although, it is not possible to assess how much such trade is taking place. Compared to 2012, traders reported increased cross-border imports from Turkey into neighbouring governorate such as Aleppo or from Northern Iraq to Al-Hasakeh and Qamishli. Some informal imports arrive to Government controlled areas. ([WFP 2013/07/05](#))
- Overall, traders reported a reduction in their ability to supply markets, compared to last year. Most interviewed traders said that food commodity storage is negatively affected by widespread looting and regular attacks on warehouses and storage facilities and by reduced credit facilities to purchase goods. They expect further reduction in sales in the next 6 months due to further reduction in household purchasing power and continued trade disruptions caused by the crisis. In all governorates, respondent traders said that loans have become rare as the main moneylenders have migrated abroad or refrain from extending credit due to increased traders' default risk. ([WFP 2013/07/05](#))

Cash

- The US, European and Arab League sanctions have stopped the transfer of money via banks to the traditional trading and business hub of Lebanon. Given the fragility of the banking system, this means the Syrian economy has become almost entirely cash-based ([Clingendael 2012/11/01](#))
- However, recent political developments and the likelihood that the conflict will be further protracted have led to the Syrian population rushing to buy USD as they try to protect themselves against the Syrian currency's depreciation and inflation. The USD has hence become increasingly used in everyday transactions, putting greater downwards pressure on the Syrian pound and lessening the population's purchasing power. In a bid to stabilise the Syrian pound, the Government passed a law on July 4 to penalise black-market currency exchange businesses and individuals who transfer local or foreign money out of the country. ([Daily Star 2013/06/21](#) [Daily Star 2013/07/09](#))
- **Bank transactions:** Most international banks are now refusing to transfer funds direct to banks located in Syria. It may still be possible to route funding through Dubai or Jordan. Some international banks are rejecting Syrian customers and also closing down some personal accounts held by individuals resident in Syria if the accounts do not have dedicated managers to assess their clients' sources of funds. ([The National 2013/02/08](#))
- Also, it is no longer possible to use internationally issued credit and debit cards to withdraw money from cash machines or to pay for goods and services in Syria. Some card issuers have stated that they will still process transactions in high-end hotels and restaurants, but this is subject to change and some service providers have already refused to accept payment by international credit card. ([Gov. UK n.d.](#))
- On May 31, EU Governments decided to relax some of the financial sanctions and allow European banks to open branches and accounts in Syria for use by the opposition. ([Reuters 2013/05/31](#))
- Banks are depleting existing credit facilities while continuing to fund basic imports such as food and medicine. Banks say that they are able to get dollars as well as local currency to stock their ATMs (in areas under Government control), although money exchangers are playing an increasingly important role in the distribution of cash. ([Gov. UK n.d.](#))

Previous SNAP reports

- RAS (Part I and Part II) January 2013
- RAS (Part I and Part II) February 2013
- RAS (Part I and Part II) March 2013
- RAS (Part I and Part II) – Summary version April 2013
- RAS (Part I and Part II) June 2013
- Baseline data Syria January 2013
- Scenarios February 2013
- Thematic report: Aleppo Governorate Profile April 2013
- Thematic report: Legal Status of Individuals Fleeing Syria June 2013

All reports can be found on: <http://www.acaps.org/en/pages/syria-snap-project>

Forthcoming SNAP reports

- RAS (Part I and Part II) End July 2013
The RAS report will be updated on a monthly basis
- Scenarios September 2013
- Thematic report: Relief actors in Syria TBC

Map data sources

- Administration boundaries: OCHA [Common Operation Datasets](#).
- Oil infrastructure: [Lynx Information Systems](#), [OpenOil](#).
- Agriculture: European Space Agency's [Globcover](#).
- Rainfall: FAO

Disclaimer – Information provided is provisional as it has not been possible to independently verify field reports. As this report covers highly dynamic subject, utility of the information may decrease with time.

References – ACAPS and MapAction would like to thank all organisations who have provided input to this report. Please note that all sources which are available online are hyperlinked (underlined, in brackets). Information sourced as PI refers to personal interviews with key informants.

