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A large, semi-transparent circular inset in the upper right corner shows a close-up of a person's hands holding and counting several Syrian pound banknotes. The notes are pink and feature a portrait of a man. The background of the entire page is a light gray, with decorative red and white curved lines at the top.

Public Attitudes Toward the Depreciation of the Syrian Pound in Northeast Syria

October 2020



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Operations and Policy Center (OPC, formerly, Orient Policy Center) is an independent think tank and service provider based in Gaziantep, Turkey. Established in 2014, OPC conducts original research and provides consulting services to enhance policymaking, development programs, and humanitarian response projects. Syrian-led and owned, OPC combines local knowledge with technological and scientific expertise, utilizing in-house statisticians and graphic designers to create original and intuitive final products.

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Executive Summary

Background: Since the Syrian conflict began in March 2011, its currency—the Syrian pound (SP)—has experienced a depreciation in value against foreign currency. This has increased sharply since the fall of 2019. As of August 2020, the SP has lost nearly 98% of its value against the US dollar (USD). We will present a timeline showing the value of the SP against the USD in relation to relevant events from March 2011 to August 2020.

Significance: Because of the sharp depreciation, the SP has lost much of its functionality as a store of value, a unit of account, and to a slightly lesser extent as a medium of exchange, giving way to foreign currencies. These terms will be defined and explained for clarity to non-economists.

Methodology: This report is based on phone surveys, conducted by thirteen trained OPC field researchers, with 600 respondents living in the Autonomous Administration of North and East Syria (AA) and Peace Spring areas of northeast Syria, balancing characteristics on gender, education, age, and ethnicity.

Key Findings:

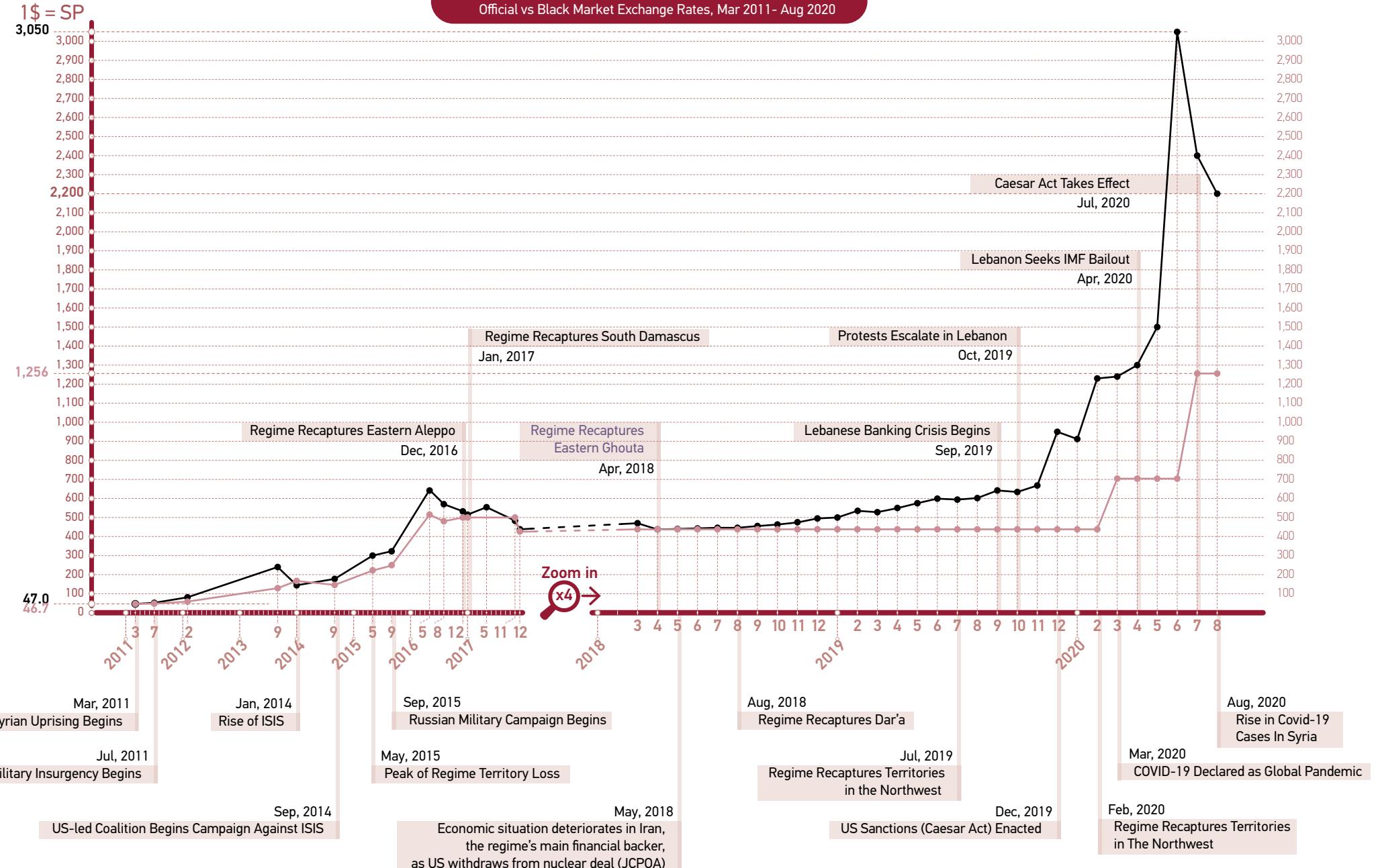
1. The majority of respondents perceived the depreciation of the SP as primarily the result of the years of conflict and the sanctions imposed on the al-Assad regime by the United States via the Caesar Act.
2. The depreciation of the SP has had widespread impact in Northeast Syria (NES), particularly among lower-income people. Despite the best efforts in AA-held areas, the SP has largely lost ground as anything more than a local medium of exchange.
3. When offered a personal preference, most respondents chose to either retain the SP, despite its current depreciation, or to convert to the USD as soon as is feasible. There was little appetite for the unstable Turkish lira (TL), currently being used in the Peace Spring area.

Outlook Summary: We believe that the areas under Turkey's influence in northern Syria are likely to continue transitioning toward the TL despite resistance from local residents. This will result in further fragmentation of Syria and will likely burden lower-income residents who make up the majority of the population. If the SP continues to depreciate, the AA will find itself out of alternatives—as converting to the USD is not feasible due to the lack of small-dollar denominations, and moving to the TL is undesirable as it intertwines the fates of AA areas and Turkey in a manner that neither of the two is likely to be comfortable with. The AA is unlikely to facilitate issuing its own currency as it lacks the necessary institutional infrastructure and international recognition. The AA is likely to continue leveraging oil revenue to alleviate the impact of the SP depreciation.

Background

Over the years of the conflict in Syria, the Syrian Pound (SP) has experienced continued depreciation in its value against foreign currency, a loss which has dramatically worsened since the fall of 2019 and deteriorated even further in 2020, as shown in Figure 1.

Figure 1: Key events in the Syrian conflict and the USD vs SP, Official vs Black Market Exchange Rates, Mar 2011– Aug 2020



Sources: OPC; Syrian Central Bank Facebook page; local Facebook pages; Rohan Advani and Walid al-Nofal, "Economic Crisis Looms as the Syrian Pound Plummets to an All-Time Low," Syria Direct, November 26, 2019, accessed September 8, 2020, <https://bit.ly/32JpcTf>.

The data and conclusions presented in this report are the result of public opinion surveys in Northeast Syria (NES) regarding public perceptions about drivers, implications, responses, and recommendations for the sharp depreciation of the Syrian Pound (SP) since late 2019. The report assesses SP conditions in the country through the lens of the functions of money:

Medium of Exchange: Money as a facilitator in the exchange of goods and services.

Unit of Account: The value of something measured in a specific currency, which allows it to be concisely compared to other things: for example, a loaf of bread compared to a day's work. Clarity of this standard is a prerequisite for commercial agreements involving debt—a clear valuation of collateral, etc.

Store of Value: Money must be reliably saved, stored, and retrieved—and must be predictably usable (stable value over time) as a medium of exchange when it is retrieved.

As a result of the ongoing conflict, the SP began to lose these functions in succession. Currently, in areas where the SP is still in use as a medium of exchange, it has largely lost its functions as a unit of account and a store of value, giving way to more stable currencies instead.

Methodology

For this research study we conducted a phone survey with 600 respondents residing in the NES. The interviews were conducted by 13 OPC field researchers and spanned two NES areas—territory held by the Autonomous Administration of North and East Syria (AA) and the Turkish-held Peace Spring area. The sample size chosen for each area was 500 and 100 respectively, in harmony with the population ratios in the area. The following variables were used to stratify the population: gender, education, age, and ethnicity. The methodology did not aim to meet a certain share of people with each level of self-declared economic level or the type of income currency. The chart below describes the key characteristics of the sample.

Figures 2-8: Summary of Sample Characteristics

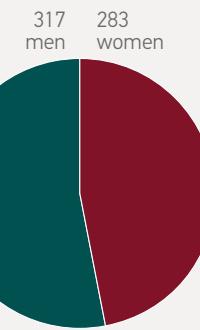


Figure No 2:
Sample Breakdown by Gender

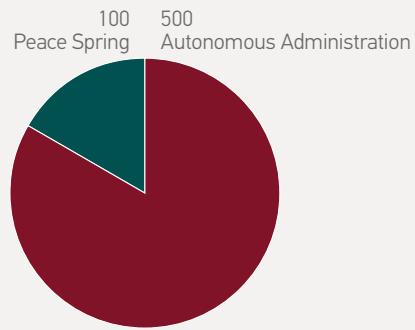


Figure No 3:
Sample Breakdown by Area

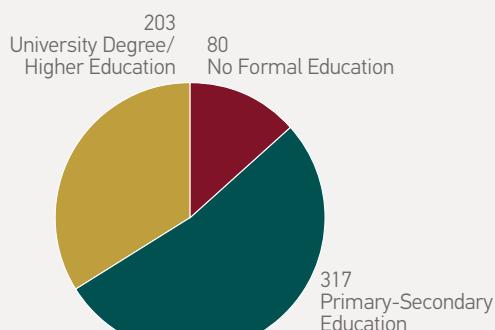


Figure No 4:
Sample Breakdown by Educational Background

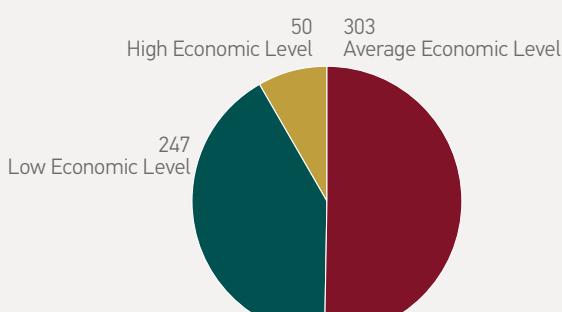


Figure No 5:
Sample Breakdown by Self-Declared Economic Level

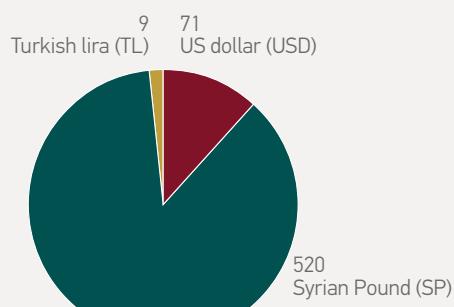


Figure No 6:
Sample Breakdown by Type of Income Currency

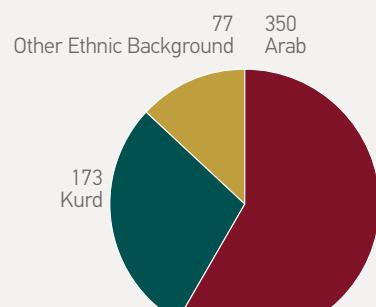


Figure No 7:
Sample Breakdown by Ethnic Background

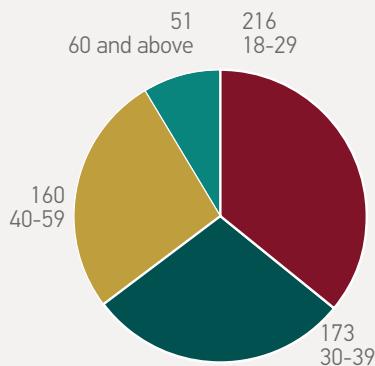


Figure No 8:
Sample Breakdown by Age

Data collection took place between August 18-27, 2020. Field researchers received two days' training on the survey questions and the targeted sample. Quality control for the data was set to ensure the following criteria:

- All questions in each survey were answered.
- Each interview took at least 15 minutes.
- Each field researcher could upload data through a maximum of two electronic devices—to ensure that data was updated by the researchers themselves, rather than by respondents.
- The sample was balanced in terms of gender, age, educational background, and ethnicity.

Disclaimer: The sample is not assumed to perfectly represent the population as a whole. In order to make that assumption, a larger sample size and additional stratification methods would have to be added to better balance factors other than those included above. Such methods would be both costly and time-consuming. We therefore believe that, given the types of questions covered, and taking into account cost and time constraints, the current combination of data quality controls and sample size is adequate for this report.

Findings

1| What triggered the recent depreciation?

We asked the respondents what, in their opinion, are the main drivers of the Syrian pound depreciation.

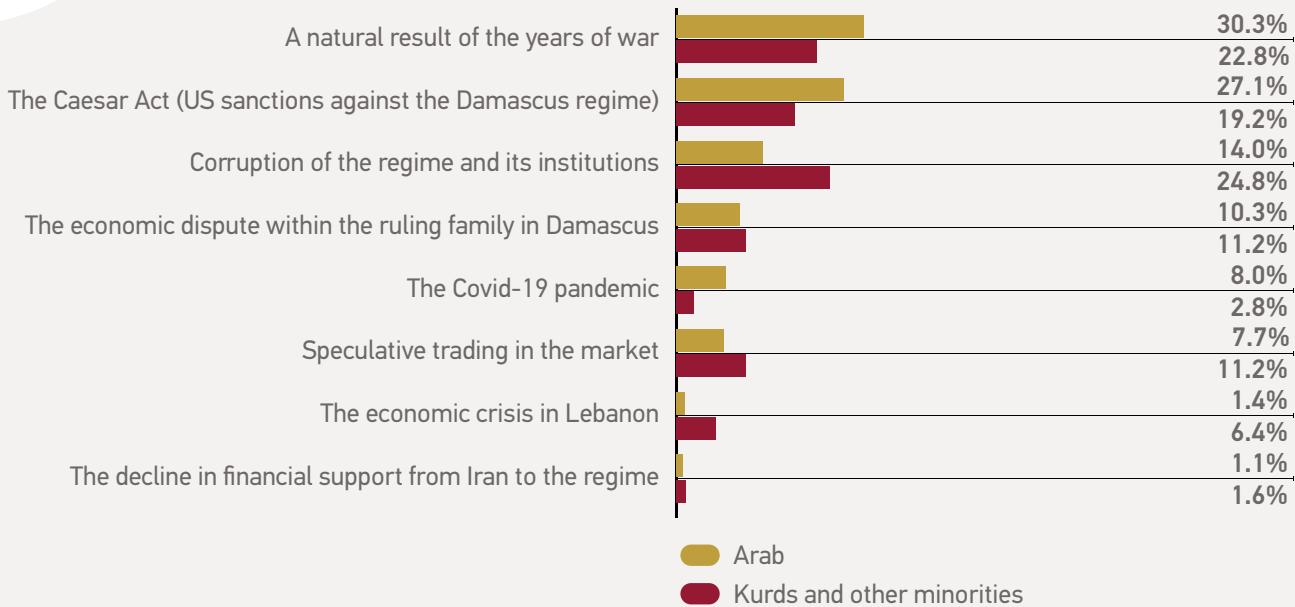
Figure 9: In Your Opinion, what is the Main Driver of the Syrian Pound Depreciation?



Most respondents chose the natural result of the years of war and US sanctions as drivers for SP depreciation, followed by regime corruption and infighting between members of the ruling family.

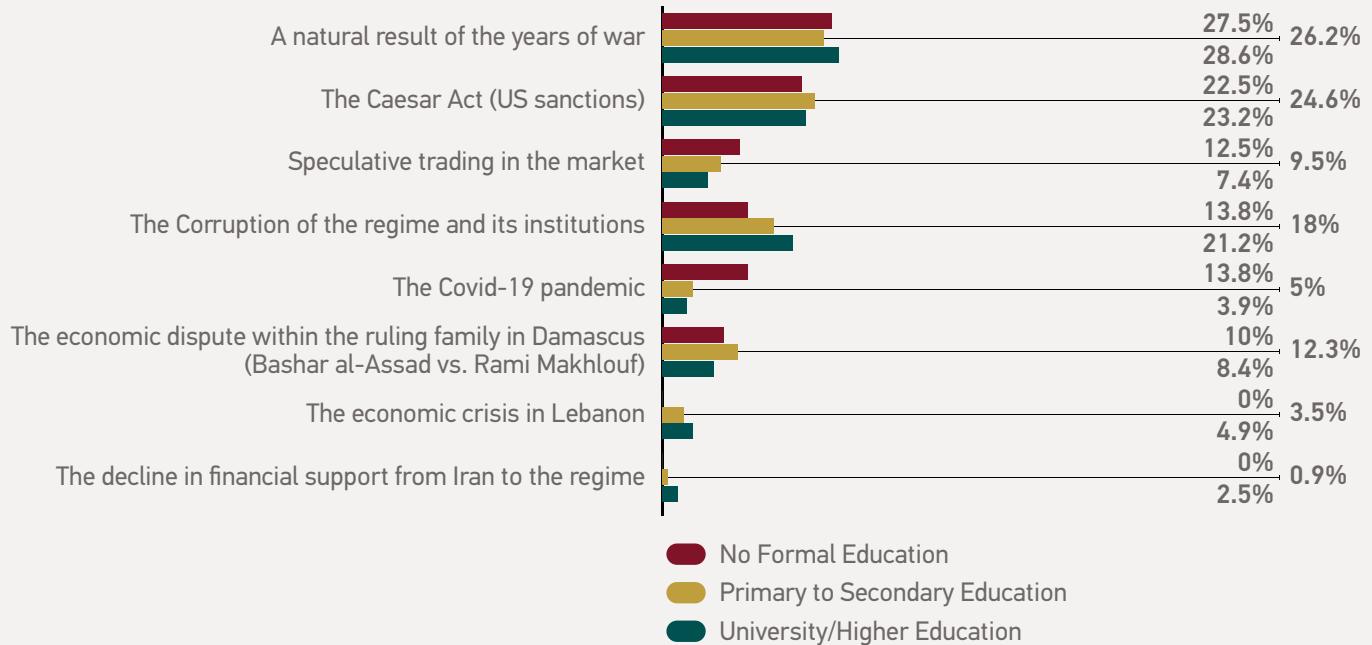
Broken down by ethnicity, presented in Figure 10, opinions are quite similar. The same four drivers are chosen, but there is some variation in ranking. While Arabs, who endured greater direct losses due to the war, state that the war is the main driver behind the depreciation, Kurds and other minorities primarily blame regime corruption. Interestingly, Arabs also give greater weight to the Caesar Act; this may reflect that much of the media hype about the Act was in Arabic, the predominant language in the regime areas targeted by the Act.

Figure 10: In Your Opinion, what is the Main Driver of the Syrian Pound Depreciation?



We also looked to see if any insight could be gained by focusing on educational background. Those results, shown in Figure 11, do show some interesting differences.

Figure 11: In Your Opinion, what is the Main Driver of the Syrian Pound Depreciation?



Interestingly, all respondents tend to believe that the war and the Caesar Act are the most important two drivers of the depreciation, irrespective of their level of education. Those with no formal education, however, tend to believe that the pandemic has played a greater role compared with those who have at least some schooling.

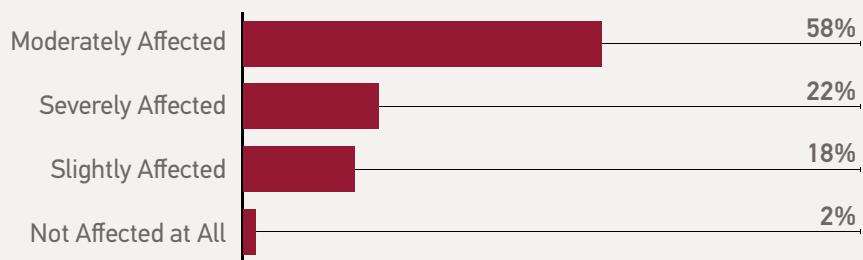
While the data tell us the perceptions, there is no scientific way to assess the actual relative significance of those drivers to the depreciation of the Syrian pound. This is a well-known problem in Economics, commonly referred to as the **indigeneity or simultaneity problem**. In layman's terms, x causes y, but y also causes x; therefore, it is impossible to determine exactly what is most influencing what, regardless of the perception.

Despite the importance of the Caesar Act, it's relevant to note that much of the economic impact of the US sanctions is psychological, due to media coverage of the latest round of sanctions. To date, only four people have in fact been sanctioned under the Act: Khaled al-Zubaidi, Nader Kalai, Nazir Ahmad Mohammed Jamaleddine, and Wassim Anwar al-Qattan.

2| How were people affected?

We asked the respondents what, if any, negative effects the SP depreciation caused to them and their families. The results are telling: eighty percent of the respondents have been moderately or severely affected by the SP's depreciation. If we assume that this sample does represent the population of northeast Syria as a whole, it is telling indeed.

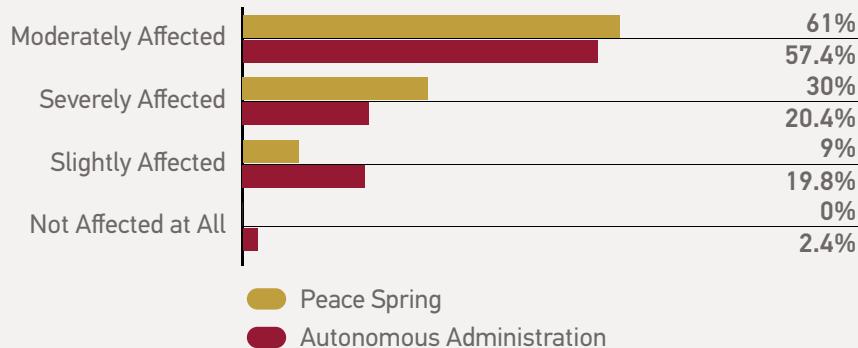
Figure 12: How severely have you and your family been affected by the Syrian pound depreciation?



But how do these figures change when we break them down by location? Figure 13 shows that while we still see a majority of respondents moderately or severely affected, the percentages shift noticeably. Peace Spring area residents—the area under Turkish control—had a larger percentage of those severely affected than those in the AA-held area, as well as a smaller percentage reporting being only slightly affected.

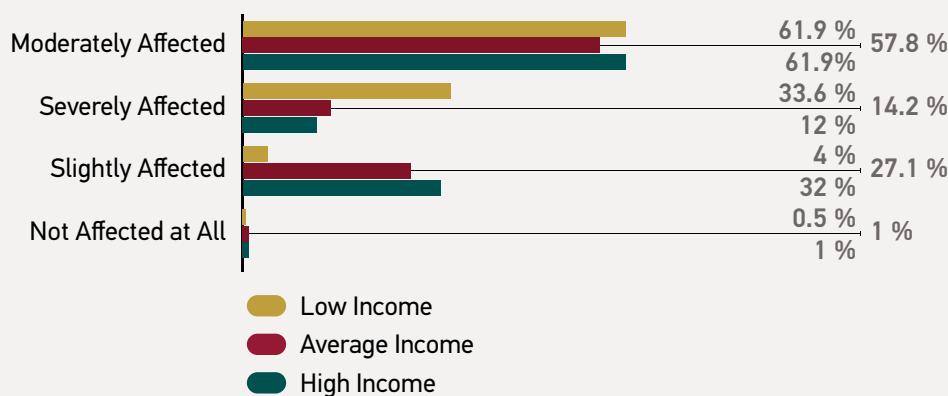
As will be presented later in this report, respondents in the AA-held area reported more positive feedback in terms of area authorities taking measures to alleviate the impact of SP depreciation, compared with feedback from the Peace Spring area; this likely explains the regional variation.

Figure 13: How severely have you and your family been affected by the Syrian pound depreciation?



Broken down by the self-declared economic level of the respondents, as shown in Figure 14, all economic classes were at least moderately affected; however, far more low-income respondents were severely affected. This is unsurprising, as low-income families have fewer means to offset an economic shock like a sharp currency depreciation.

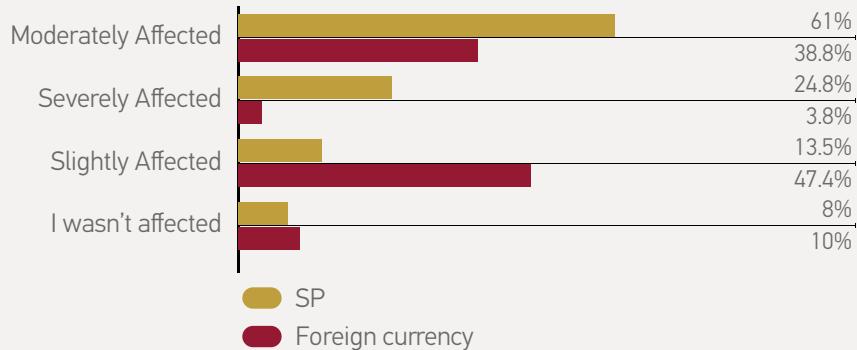
Figure 14: How severely have you and your family been affected by the Syrian pound depreciation?



The impact of SP depreciation on livelihoods will likely come through lower real income (curtailed purchasing power). Most retail shops raised their prices as the SP depreciated, as many of their goods are imported from abroad. But savings and credit issues were inclined to be limited, as most dealings prior to the SP depreciation were indexed in other currencies. As discussed earlier, the SP has become first and foremost a medium of exchange—a “working currency” for buying and selling.

This is further reflected as we break down the results by what type of currency respondents receive their salaries in, shown in Figure 15. Those who receive income in Syrian pounds were far more severely impacted than those who receive income in a foreign currency, be that USD or TL. Again, curtailed purchasing power is the ultimate result, which creates a vicious downward spiral of customers unable to afford goods, which means retail and service owners have less business, which means raising prices in order to meet operational costs, and so on.

Figure 15: How severely were you and your family affected by the Syrian pound depreciation?

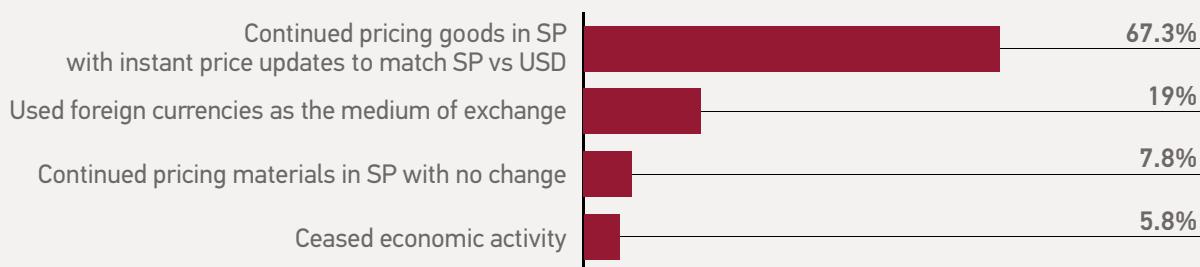


Finally, a small number of respondents were not affected at all by the SP depreciation. As shown in Figure 15, more respondents salaried in foreign currency felt no effect than those salaried in Syrian pounds, but both numbers are small in comparison to those who were affected in some way. In fact, those salaried in foreign currency may even have benefited from the SP depreciation; most shops don't fully and immediately pass exchange rates on to consumer prices. This is known as **price stickiness**.

3| What was local markets' response in general?

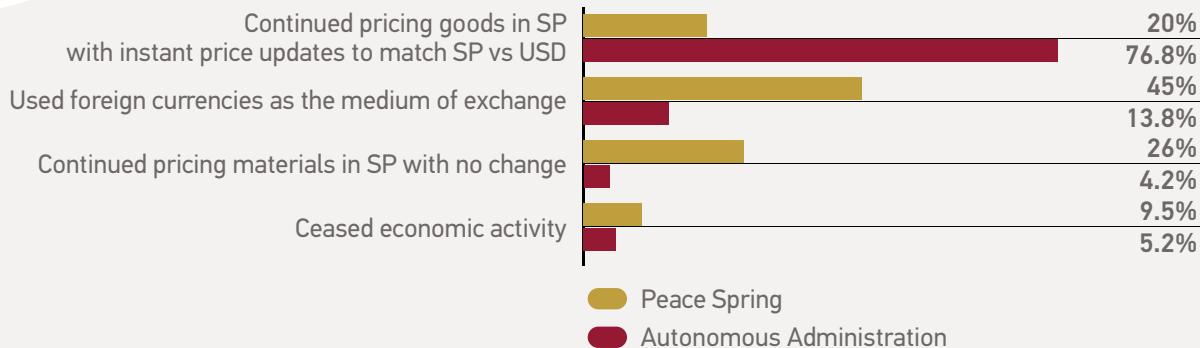
It appears that, for the most part, local markets adapted to the volatile SP by adjusting prices to match the USD exchange rate rather than switching to foreign currencies. Figure 16 shows the results when we asked respondents about their local market responses to the SP depreciation.

Figure 16: What was your community's general local market response to the SP depreciation?



But when we focus on location, the numbers change significantly. The AA-held region overwhelmingly kept the SP as the medium of exchange, while the Peace Spring area reported far more introduction of foreign currencies—most notably, the Turkish lira (TL). The survey reports of market responses by location are broken down in Figure 17.

Figure 17: What was your community's general local market response to the SP depreciation?



This disparity has two main causes:

- Turkey has been pumping their national currency into Peace Spring, with Local Councils and the Syrian Armed Opposition (SAO) in the area paying their staff salaries in TL as well, which results in a higher likelihood of accepting the TL as a medium of exchange in the market.
- The Autonomous Administration in the northeast has refused the TL, mainly due to Kurdish enmity with Turkey. The US dollar is not a practical alternative, because of the lack of small-denomination banknotes—the majority of US currency available are 100\$ bills, nearly impossible to use in daily small-scale Syrian transactions like groceries and sundries. As a result of these two obstacles, the AA area has trended more toward continuing to use the SP as a medium of exchange.

The lack of transparency in the amount of TL being dumped into Syria favors Turkey, as this allows it to obtain USD from opposition-held areas and exchange it for newly printed TL from Turkey. As a result, Turkey can print new money and distribute it outside its own borders, avoiding the inflation that usually results from such a practice.

We asked respondents how their local markets reacted regarding the medium of exchange. Overall, most responded that the SP was retained as the medium of exchange; less than 25% reported a change to a foreign currency. But as with the previous question of general market response, focusing on location revealed a similar disparity, shown in Figures 18 and 19.

Figure 18: In your local community, what was the local market response in terms of medium of exchange?

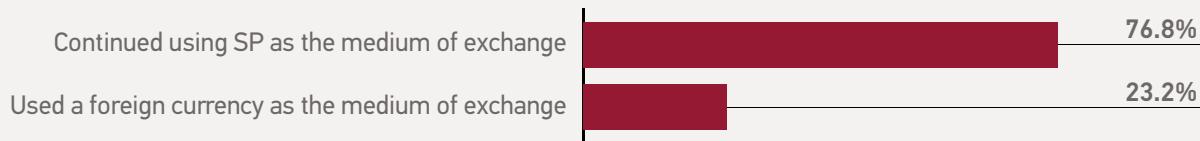
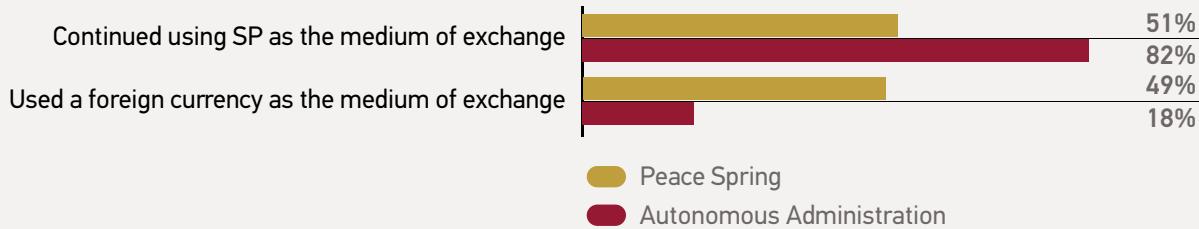


Figure 19: In your local community, what was the local market response in terms of medium of exchange?

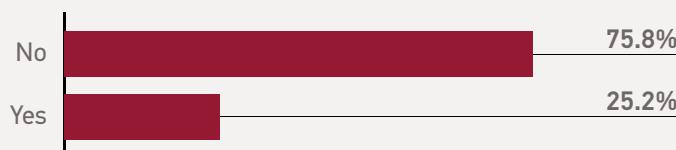


Imposing the TL on AA areas leaves the economic fates of the AA and Turkey intertwined in a manner that neither of the two is likely to be comfortable with.

4| What was the institutional response?

We asked respondents if the local authorities in their communities took any mitigative steps in response to the SP depreciation:

Figure 20: In your local community, did you notice any measures taken by local authorities to alleviate the impact of the Syrian pound depreciation?



The results indicate, as would be expected in a country ravaged from years of war and struggling under constantly unstable controlling parties, that local authorities did nothing or very little to mitigate the effects of SP depreciation—or at least it was not perceived by the respondents. But again, going to the location subsets reveals noteworthy findings.

Figure 21: In your local community, did you notice any measures taken by local authorities to alleviate the impact of the Syrian pound depreciation?

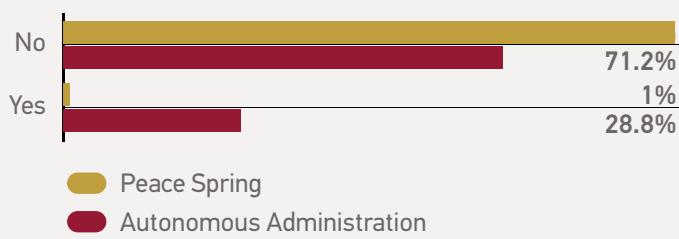


Figure 20 indicates that the vast majority of the respondents in both regions didn't notice any measures taken by local or regional authorities to alleviate the impact of SP depreciation. But the more focused lens of the subsets in Figure 21 indicates that almost all Peace Spring respondents saw no mitigation efforts, but AA area respondents did see at least some.

Indeed, the AA has taken some measures to mitigate the impacts of the depreciation on its territories. This included raising the salaries of all its employees by 150% on June 18, 2020. The AA has promised that this increase is flexible and will be revisited as long as the SP is losing value. Additionally, just ten days prior (June 8), the AA fixed the price of the wheat it purchases from farmers in the NES in USD; however, the AA will pay the farmers in SP.

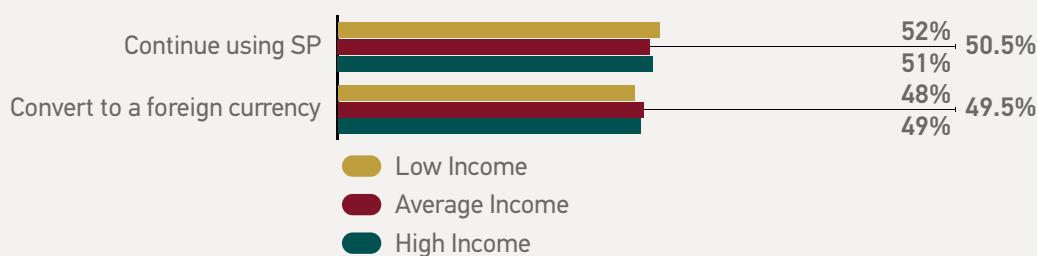
5| Attitudes and preferences toward the SP vs. a foreign currency

To gauge respondents' preferences regarding this issue, we asked what they would recommend (as policy) should the SP continue to depreciate. Figure 22 reveals the respondents were almost equally divided on the subject. Even when broken down into subsets of economic living condition, the divides remained very similar, as shown in Figure 23.

Figure 22: If the Syrian pound continues to depreciate, what do you recommend?

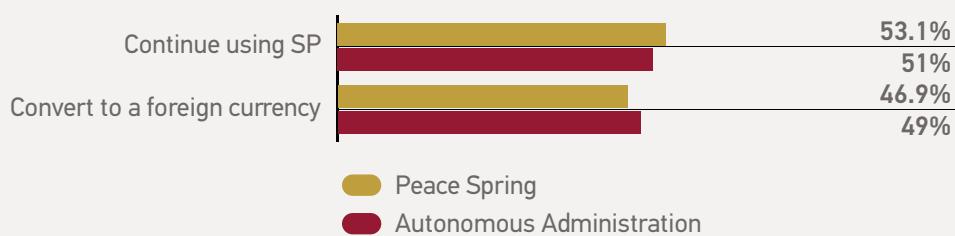


Figure 23: If the Syrian pound continues to depreciate, what do you recommend?



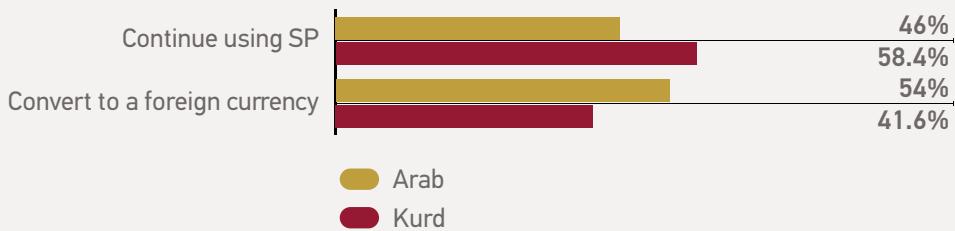
Even the location subsets, which until now have revealed much larger disparities than the overall results would suggest, maintained this split recommendation:

Figure 24: If the Syrian pound continues to depreciate, what do you recommend?



Only when we used the ethnic background subsets did a perceptible difference emerge; even then, the disparity was not large. It was, however, visibly reversed, as shown in Figure 25.

Figure 25: If the Syrian pound continues to depreciate, what do you recommend?

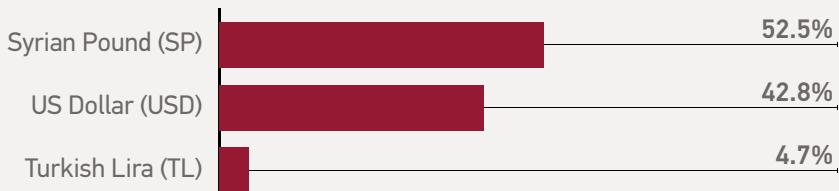


If we assume that our sample generally reflects the population as a whole, the results suggest that the Kurdish population leans more toward keeping the SP, while the Arab population leans slightly more toward using a foreign currency (the USD, as seen in Figure 27).

This is likely due to the resistance that the Kurdish population has toward using the TL, for reasons discussed earlier, and the impracticality of using the US dollar because of the unavailability of small-denomination banknotes.

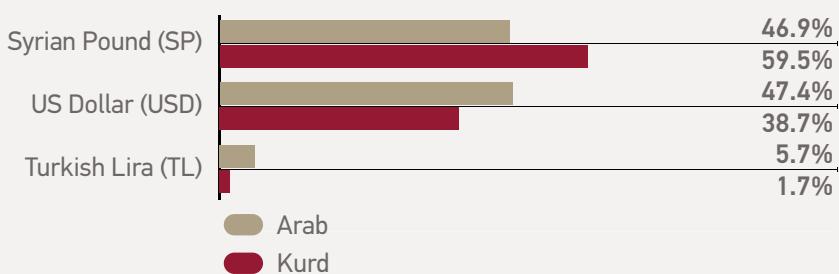
We then asked respondents their personal preference for local currency:

Figure 26: What currency would you, personally, prefer to have used in your community?



Respondents chose the SP by a fair margin over the US dollar, but both results dwarfed the preference for the TL. When split by ethnicity, in Figure 27, personal preferences suggest the TL is not welcome—be it in areas where it became common (Peace Spring) or in the areas where it did not (AA). In other words, the results suggest that the residents of Peace Spring areas believe that the TL was imposed on them.

Figure 27: What currency would you, personally, prefer to have used in your community?



A likely reason for respondents' personal reluctance to use the TL, regardless of ethnic background or political stance, is that the TL has also been on a depreciation trend; the TL has lost 78% of its value against the USD between March 2011 and today, compared with 98% for the SP.

Conclusion

- The majority of the respondents see the drivers of SP depreciation as first, a normal result of the years of war, then US sanctions under the Caesar Act. It should be noted, however, that while the Caesar Act is important, most of its harshest impact is likely to be psychological rather than economic, due to media coverage relating to the latest round of sanctions.
- SP depreciation impacted most people in northeastern Syria, with those at average and low economic levels (the majority of the population) even more impacted and vulnerable, as they had little means by which to mitigate the impacts of the depreciation.
- The SP continued serving its function as the medium of exchange in the AA-held area, while it lost much of this function in the Peace Spring area, as the market there tended to both pay salaries and price goods in TL.
- Most respondents believe that local authorities took no measures to alleviate the impact of SP depreciation. However, regional authorities in the AA-held area showed a relatively better response, increasing the salaries of its employees and fixing the price of purchased wheat from farmers in USD.
- If we assume that our sample generally reflects the population as a whole, there is a slight preference toward continuing to use the SP over switching to the USD (with a valid reason for not doing so at this time stated below). There was little personal preference for switching to the TL, a trend which was even clearer among the Kurdish population, for these reasons:
 - » The Kurdish population refuses to use the TL for political reasons.
 - » The TL is not much more stable than the SP.
 - » The USD is not a practical option at this time because of a lack of small-denomination banknote supply.

| Outlook for the Syrian pound in Northeast Syria and Peace Spring:

We believe that, due to Turkey's role in the Syrian areas they control, including the Peace Spring area, these regions will move steadily toward using the Turkish lira, which is already happening despite resistance from local residents. Such change will result in the further fragmentation of Syria and will likely burden lower-income residents who make up the majority of the population. Moving to the TL in other parts of Syria will particularly hurt those still earning their incomes from the Damascus Government in Syrian pounds, as they'll need to pay currency exchange costs to buy goods and services.

In light of the challenge of continued SP depreciation, the AA will have to deal with the dilemma of converting to foreign currency—which is not an option for the AA as discussed earlier in this report—or to start developing its own local currency, which will require resources and international acceptance we don't believe are possible in the near future. The AA's last option would be to continue leveraging oil revenue to alleviate the impact of the SP depreciation.



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