



Syrian currency hints things are grim but not yet 'chaotic'

Dawn Kissi

September 27, 2015

Judging by the flood of refugees seeking refuge in Europe amid a violent civil conflict, it goes without saying that Syria's economy lies in tatters. However, one surprising indicator suggests conditions, while indeed dire, perhaps aren't as bad as they could be, at least not yet.

Syria, now being ravaged by a civil uprising and an insurgency led by the militant group ISIS, has devastated growth in an economy the Heritage Foundation recently ranked as one of the least free in the world.

That tumult has not spared the Syrian pound, an illiquid currency that has plummeted by about 80 percent since the country's woes began four years ago. The conflict has caused Syria's economy to contract by 60 percent, according to estimates from Chatham House, a U.K.-based think tank.

In fact, a black currency market has emerged, with the pound selling at nearly double on the black market to its current exchange rate of 180 pounds per U.S. dollar, and recently plunged to a record low of more than 300 per dollar.

Curiously, the decline is what one economist called an "orderly, not chaotic, deterioration." Faint praise to be sure, but not bad considering the oil producer's current turmoil.

Looking at raw data rather than unnerving headlines, "the Syrian economy seems to be somewhat stable," Steve Hanke, the head of the Johns Hopkins Troubled Currencies Project and a scholar at the libertarian Cato Institute.

Today, the Syrian pound now sits on the Project's "Watch List," a rundown of currencies Hanke and his colleagues monitor in relation to their depreciation to the U.S. dollar.

Even with all that ails the country, Hanke told CNBC that the pound isn't faring as badly as one might think: The currency has actually seen an uptick that allowed the economist to move it from his "troubled currencies" list to a "watch" classification.

Still, there is little doubt Syria's conflict has wreaked havoc on its economy. A recent analysis by the Energy Information Agency noted that the strife has sent the country's oil and natural gas production reeling to almost nothing. Prior to the conflict, Syria produced nearly 400,000 barrels of oil per day.

The agency notes that oil and gas revenues comprise a fourth of government revenues, with the inability to produce and export energy has hit the country's economy hard.

"ISIS currently has control over half of Syrian territories, but a large part of that area is unpopulated," Ayham Kamel, London-based director of Middle East & North Africa with geopolitical consultancy Eurasia Group said.

"The main effect is on lost government oil revenue from the fields that ISIS now controls. ISIS, however, is not able to export oil due to current coalition airstrikes," Kamel added.

The Russia effect

What's perhaps more interesting is what the pound's behavior may indicate for the future. Recent reports suggest Russia is fortifying a military presence in the country, which complicates Western efforts to contain militants and end the regime of Bashar al-Assad, an objective recently reiterated by top U.S. officials.

Hanke, however, believes Russia's presence in the country may help stabilize its economy. "With Russia's recent ramp-up in Syria, it will be worth paying particular attention to the SYD/USD black-market exchange rate," he said.

"If the pound stabilizes, or strengthens, we will know that the presence of Russia, from the al-Assad government's point of view, is paying dividends," Hanke added.