

Syrian Arab Republic: 2006 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2006 Article IV consultation with the Syrian Arab Republic, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 16, 2006, with the officials of the Syrian Arab Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 13, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 31, 2006 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Selected Issues Paper

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INTERNATIONAL MONETARY FUND

SYRIAN ARAB REPUBLIC

Staff Report for the 2006 Article IV Consultation

Prepared by the Staff Representatives for the 2006 Consultation
with the Syrian Arab Republic

Approved by Amor Tahari and Anthony Boote

July 13, 2006

- **The 2006 Article IV discussions were held in Damascus April 29–May 16, 2006.** The mission comprised Mrs. Moalla-Fetini (head), Messrs. Dridi and Hasan (all MCD), Mr. Chua (FAD), Mr. Cossé (PDR), and Ms. Kargbo (staff assistant). Ms. Beidas-Strom (Sr. Advisor to Executive Director) joined the policy discussions.
- **The team met with a wide range of senior officials and private sector representatives.** Senior officials included Minister Al-Hussein (Finance), Vice Prime Minister Dardari (in Charge of Economic Affairs and Head of the State Planning Commission), Governor Mayaleh (Central Bank of Syria), Minister Lotfi (Economy and Trade), Minister Allo (Petroleum and Mineral Resources), and Minister Al-Kalaa (Tourism). The team also met representatives of financial institutions, commerce and industrial federations.
- **Significant data weaknesses in terms of coverage, consistency, periodicity, and timeliness remain.** With the exception of notable improvement in the timeliness of fiscal data (preliminary data for the 2005 fiscal outturn became available during the mission), progress in addressing serious deficiencies in real sector and balance of payments (BOP) statistics has been limited (poor quality trade statistics are available for the first six months of 2005 only, and national account statistics suffer from methodological problems in their treatment of price subsidies and in capturing the activity of the private sector). These weaknesses continue to hamper staff's ability to conduct effective surveillance and to monitor the economy's response to the ongoing reforms. Preparation for participation in the GDDS is ongoing.
- **The authorities have shown themselves responsive to previous Board recommendations.** They have continued to make progress in furthering reforms (Annex II), and the recently adopted five-year plan reflects a deeper awareness of the medium-term challenges highlighted during last year's consultation (Annex I).
- **The authorities published the mission's concluding statement.**
- **Syria continues to avail itself of the transitional provisions of Article XIV, and maintains exchange measures that are subject to the Fund's approval under Article VIII.** The exchange rate regime is a multiple exchange rate system, with one official rate pegged to the U.S. dollar and applying to most public sector transactions, another official rate frequently adjusted to reflect movements in the free market rate and applying to a positive list of private sector transactions, and a free market rate, which is floating although it has fluctuated almost exclusively within +/-5 percent around a central parity of Syrian pound 51 per U.S. dollar over the past ten years.

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EXECUTIVE SUMMARY

Recent developments and medium-term prospects

The economy proved quite resilient in the face of the unsettling political developments. Economic activity picked up steam buoyed by private investment and supported by the oil boom in the Gulf region. However, growth was accompanied by a rise in inflation, reflecting, in part, an expansionary monetary policy. The non-oil budget balance improved significantly, although mainly due to an increase in transfers from public enterprises (PEs). Similarly, the non-oil current account balance improved, contributing to maintaining external balance despite the sharp fall in net oil exports. Public and external debts remain moderate, and official reserves cover close to two years of imports. In spite of the still volatile regional environment, the recovery seems poised to continue in 2006, supported by stronger private investment.

The surge in international oil prices has provided a short-term windfall but will aggravate the medium-term outlook when Syria becomes a *net* oil importer around the year 2010. Based on the latest projections for oil output, staff estimates that budgetary oil revenues and net oil exports will deteriorate by more than 10 percentage points of GDP in the next ten years. Cognizant of the adverse medium-term prospects, the authorities' recently adopted Five-Year Plan (FYP) outlines a comprehensive strategy to address these challenges, which is broadly in line with Fund policy advice.

Policy discussions and key recommendations

Against this background, discussions focused on near-term policy adjustment to rein in inflation and on fleshing out the reform agenda in critical areas where action is needed in the next 1–2 years:

- Sustaining the investment-led recovery will hinge critically on unwavering progress in deepening structural reforms to improve the investment climate. Controlling inflation calls for a tighter monetary stance and a restrained wage policy.
- The magnitude of the fiscal adjustment needed to address the fall in oil revenues over the medium term requires a fundamental fiscal reform. Introducing a VAT and phasing out petroleum price subsidies (PPS) should be its main pillars.
- Based on the broad-based political support for exchange rate unification and following the adoption of a law to legalize foreign exchange bureaus, the central bank should finalize preparations to start an interbank foreign exchange market and strengthen capacity to intervene in the unified market to prevent excessive volatility and maintain a competitive rate.
- Accelerating financial sector and trade liberalization, and forging ahead with legal and institutional reforms to lower the cost of doing business and strengthen competition will be critical to strengthen the medium-term outlook and achieve the FYP's 7 percent growth target.

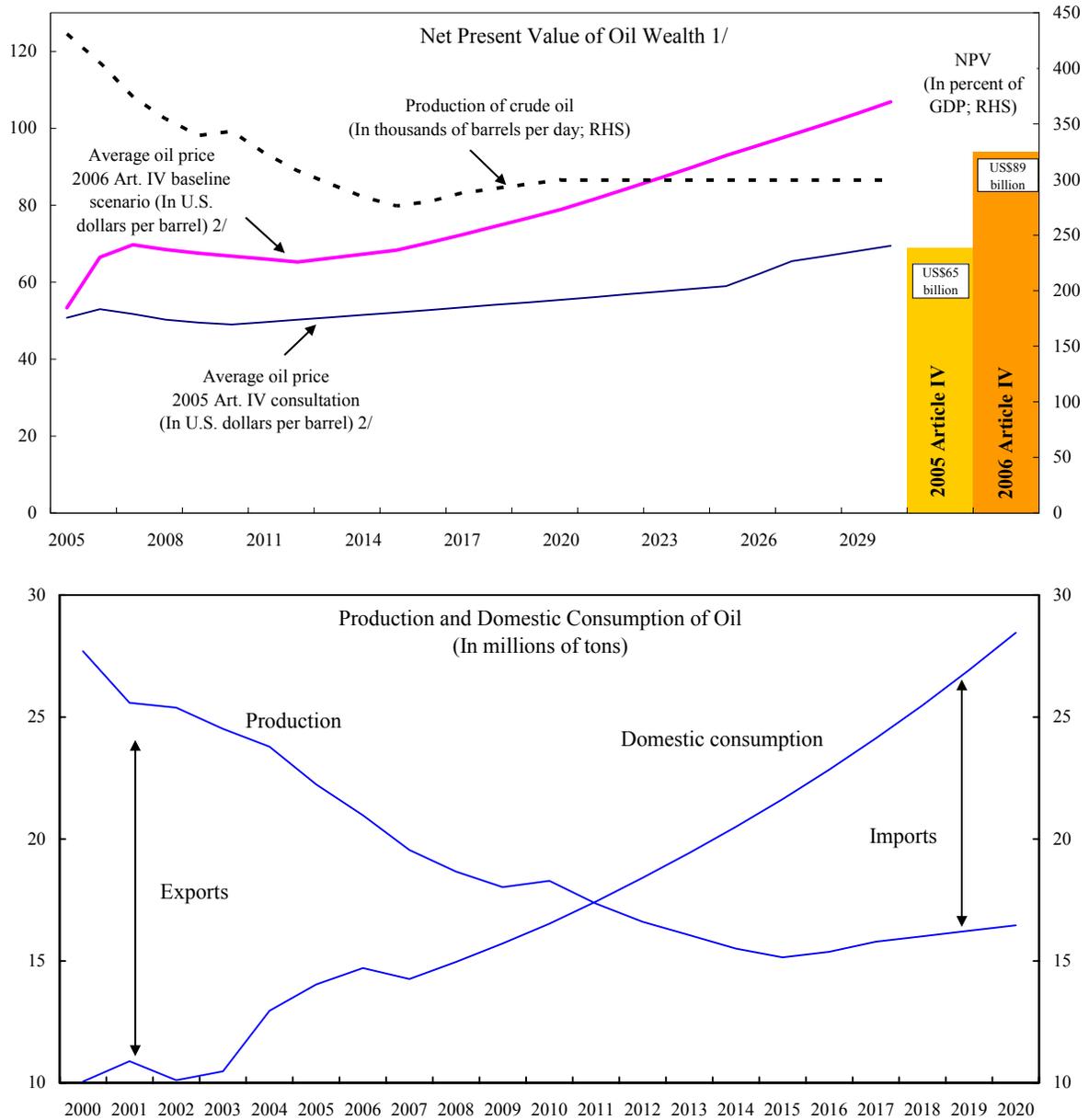
I. INTRODUCTION AND KEY ISSUES

1. **Syria faces daunting economic challenges.** The decline of oil reserves poses a threat to fiscal and external sustainability, and the associated fall in oil revenues will make it harder to preserve, much less improve living standards. A bulge in labor market entrants will strain an already precarious unemployment situation and increase pressure to protect redundant labor in an overstuffed public sector. These challenges are further compounded by political uncertainties and a volatile regional environment. The political environment, which had deteriorated in the aftermath of the assassination of Lebanese Prime Minister Hariri, has now stabilized. The mandate of the UN commission investigating the assassination has been extended to June 2007, warding off the immediate threat of UN sanctions.

2. **In this context, the recent surge in oil prices has been a mixed blessing.** The immediate impact has been to provide windfall revenues and allow economic activity to strengthen, benefiting from strong growth and abundant liquidity in the Gulf region. At the same time, higher oil prices will impose a heavier burden on the balance of payments and raise costs for producers and consumers—if they are passed through—or, otherwise, on public finances when Syria becomes a *net* oil importer in the next 3–4 years. Based on the latest oil output projections, staff estimates that the proceeds from net oil exports will swing from a surplus of 3½ percent of GDP in 2006 to a deficit of about 10 percent in 2015. And, unless petroleum price subsidies (PPS) are curtailed, net oil budgetary revenues would also become increasingly negative compared to the 10 percentage points of GDP they now contribute to the fiscal accounts (Figure 1).¹

¹ Net budgetary revenues from oil are equal to the oil production valued at international prices (net of production costs) minus the net subsidies on the domestic consumption of petroleum products (Table 7, shows a budget presentation making PPS explicit).

Figure 1. Syrian Arab Republic: Medium-Term Prospects for the Oil Sector

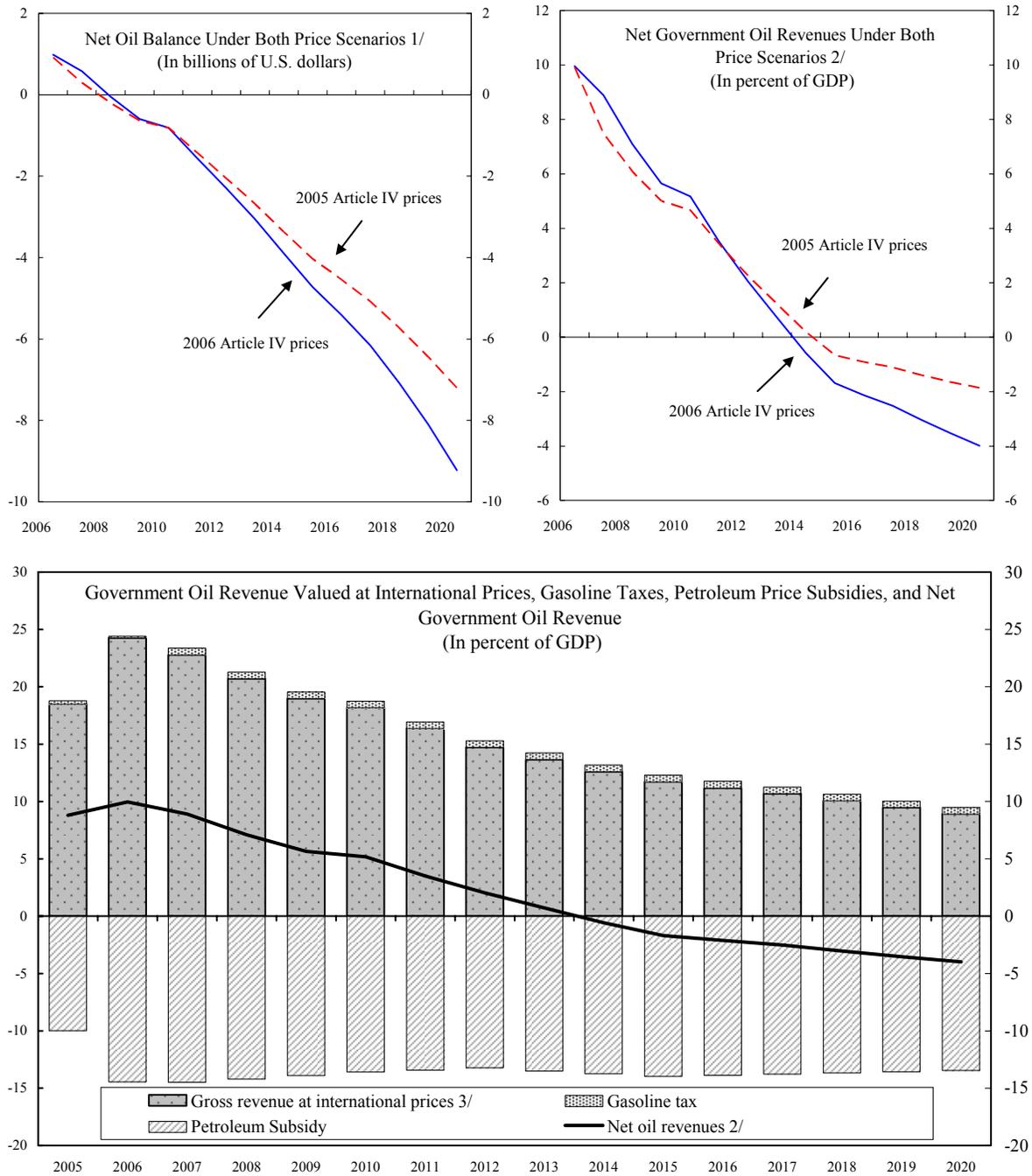


Sources: Syrian authorities; and Fund staff projections.

1/ Using a real discount rate of 4 percent.

2/ From 2006 to 2011 based on WEO projections. From 2012 onward, projections are based on the Energy Information Administration oil price projections.

Figure 1. Syrian Arab Republic: Medium-Term Prospects for the Oil Sector (Concluded)



Sources: Syrian authorities; and IMF staff projections.

1/ Defined as oil exports minus oil imports and repatriation of profits of foreign companies.

2/ Defined as oil production valued at international prices plus taxes on gasoline minus petroleum price subsidies.

3/ Net of production costs.

3. **Cognizant of the adverse medium-term prospects, the authorities' recently adopted FYP seeks to tackle the looming fiscal and balance of payment shock.** It outlines a comprehensive stabilization and structural reform strategy,² broadly in line with Fund policy recommendations during last year's Article IV consultation. Moreover, an action plan specifying concrete policy measures for the next two years has just been finalized. Slow but steady progress continues to be made in furthering reforms, most notably on tariff reduction,³ as per the commitment under the yet-to-be-ratified Syria/EU Association Agreement (Syria/EUAA).⁴

4. **Against this background, discussions focused on two areas:**

- near-term policy adjustment to address rising inflation; and
- the medium-term reform agenda, with particular attention to the critical areas where policy action is needed in the next 1–2 years, including the adoption of a fiscal consolidation strategy—centered around phasing out PPS and introducing a VAT—as well as exchange rate unification.

II. REPORT ON THE DISCUSSIONS

A. Recent Developments, Outlook, and Near-Term Policy Adjustment

Growth and external balance

- **Developments:** Non-oil GDP growth may have risen to about 5½ percent in 2005, from 5 percent in 2004, buoyed by business investment and supported by household consumption and non-oil exports (Table 1).⁵ Assuming a much smaller implementation rate than historically, the surge in investment approvals in 2004 (200 percent) would have led to a strong rise in actual investment (equivalent to close to 5 percent of non-oil GDP). Private consumption was boosted by rapid credit growth, a boom in real estate prices triggered by capital inflows, and the large wage increase from mid-2004. In addition, strong economic activity in the Gulf region and abundant liquidity boosted exports and the demand for investment opportunities. Overall, net non-oil exports contributed positively to growth and to an improvement in the non-oil current account deficit, thereby helping to maintain external balance despite the sharp decline in net oil exports (Table 2).⁶

² See Annex I for an overview of the FYP macroeconomic objectives, strategies, and supporting reforms.

³ For a list of reforms implemented since the last Article IV consultation see Annex II.

⁴ The agreement was signed by Syria in late 2004, but the EU council has yet to approve it.

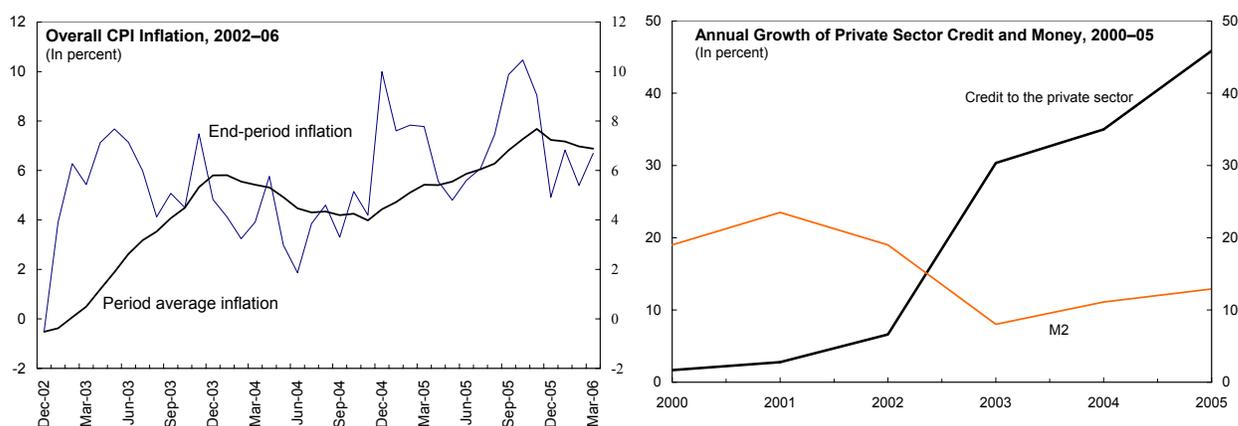
⁵ Overall growth was limited to 3 percent, given the decline in oil production. The latter is, to a large extent, an exogenous variable, and has negligible impact on employment.

⁶ The decline in net oil exports was due to the fall in production, and was further compounded by increased smuggling, as price differentials with neighboring countries widened.

- The outlook for 2006 is fairly positive.** The non-oil GDP growth momentum is expected to be sustained by robust investment expansion⁷ and good export performance, reflecting greater access to regional Arab markets and the benefits from the concerted policy to promote tourism. This, together with the windfall from higher oil prices and an increase in foreign direct investment (FDI), will maintain a comfortable BOP position. However, a slowdown in the pace of economic reforms could dampen investors' interest and the prevailing political uncertainties will remain a source of vulnerability.
- The authorities were encouraged to see that the implementation of their broad-based reforms elicited a positive supply response.** In their view, Syrian and other Arab investors felt that a point of no return in reform has been reached. Furthermore, they welcomed strong interest from domestic and foreign investors toward the newly opened banking and insurance sectors. On the outlook for 2006, they were confident that the economy will continue to improve as investors' confidence in the sustainability of reforms strengthens. They view the risks from the lingering political uncertainty with great concern.

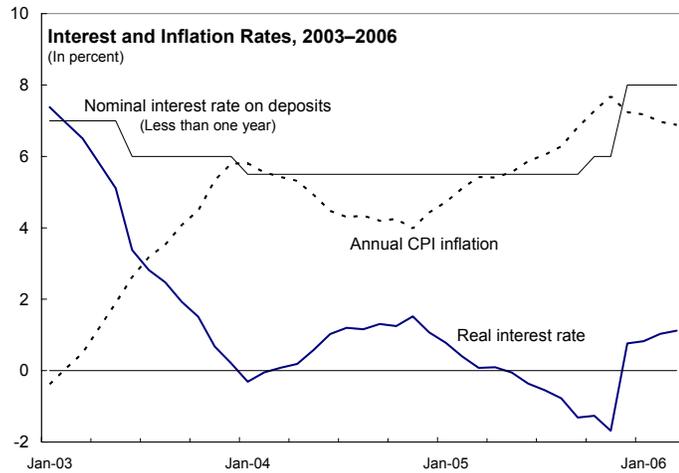
Inflation and monetary policy

- Developments:** The economic recovery since 2004 has been accompanied by a steady rise in inflation. Several factors have contributed including: an expansionary monetary stance (with credit to the private sector growing by some 45 percent (Tables 3 and 4), the depreciation of the exchange rate around the time of the confidence crisis in September–December (see below); large public sector wage increases in mid-2004, and an increase in commodity import prices.



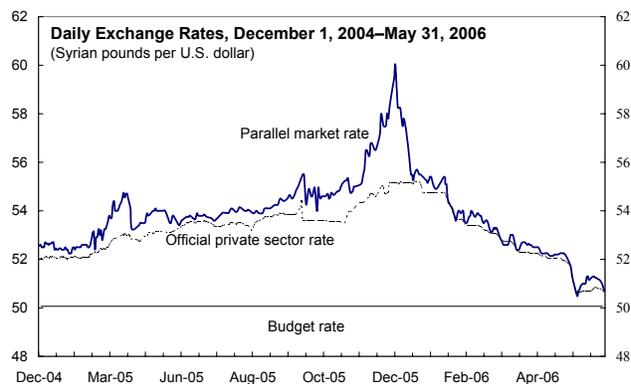
⁷ After tripling in 2004, investment approvals increased by another 80 percent in 2005. About 30 percent of investment approvals in 2005 were by foreign investors, mainly from the Gulf region, up from about 15 percent in 2004.

- Outlook/recommendations:** Although recent inflation data point to some improvement, further reductions in inflation are likely to require tighter monetary and income policies. To this end, credit ceilings, which are still the main instrument of monetary control, should be tightened. Deposit interest rates, which are still administratively controlled and had been raised by 200 basis points in November 2005, should be maintained until inflationary pressures recede further.⁸ Moreover, greater upward flexibility in lending rates should be introduced to increase efficiency in credit allocation and strengthen banks' profitability. With regard to wage policy, pressures to grant further wage increases should be resisted, as the 12 percent across-the-board public sector wage increase in early 2006 already carries a non-negligible inflation risk.
- The authorities viewed the rise in inflation with concern and agreed that the rapid credit growth had played a role.** They also noted other one-off factors—such as stockpiling of food supplies in anticipation of UN sanctions. They pointed to the recent evidence of moderating inflation and said that any remaining concerns are being addressed by measures to tighten credit policy.⁹



Exchange rate policy

- Developments:** Following a successful intervention to alleviate pressure on the exchange rate, the Syrian pound has appreciated in recent months. The central bank took a number of measures including raising interest rates, relaxing some foreign exchange restrictions, and intervening in the parallel market, to deal with the pressures on the exchange rate



⁸ Seen against the 2¾ percent increase in U.S. dollar interest rates since January 2005, the increase in Syrian Pound interest rates is also, from that perspective, largely warranted.

⁹ In early 2006, credit ceilings of state banks were lowered.

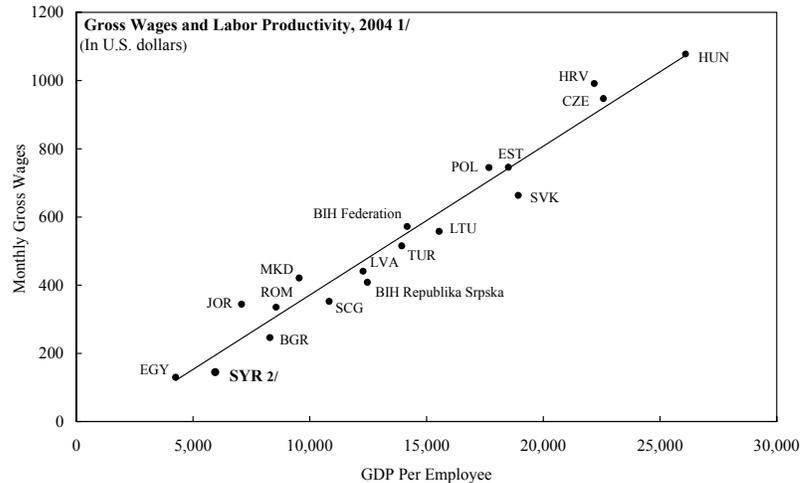
triggered by the politically-driven confidence crisis. The appreciation of the free market exchange rate in recent months reflects some unwinding of positions and a likely underlying strengthening of the balance of payments.

- **Outlook/recommendations:** The current level of the real exchange rate appears broadly appropriate. Price competitiveness is about 20 percent better than in the early 2000s (Figure 2),

thanks in part to the large build-up of official reserves during the oil export boom of the early 2000s. Compared to a selected group of countries, the level of wages appears to leave room for comfortable profit margins.

Nonetheless, the recent strengthening of

the exchange rate should be monitored carefully in view of the prospective decline in oil exports and the need to promote other exports.

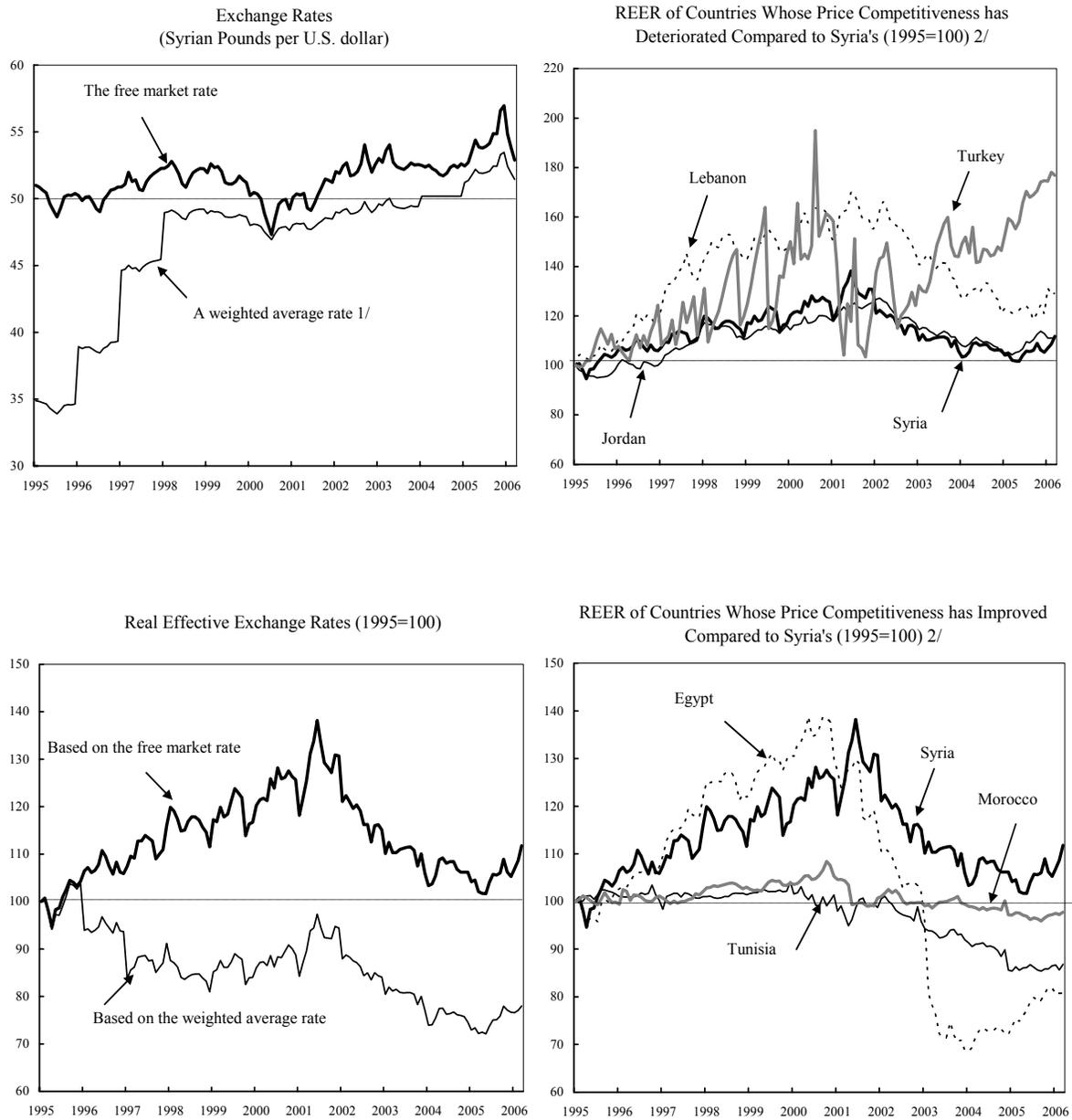


1/ Wages are an average of the public and private sector.

2/ Non-oil GDP per paid worker estimated at US\$5,948 and monthly gross wages estimated at US\$145 in 2004.

- **The authorities agreed on the need for a proactive exchange rate policy in the future,** but preferred to refrain from intervening until after unification, as the current strength of the currency creates the right political economy conditions for exchange rate unification (see below).

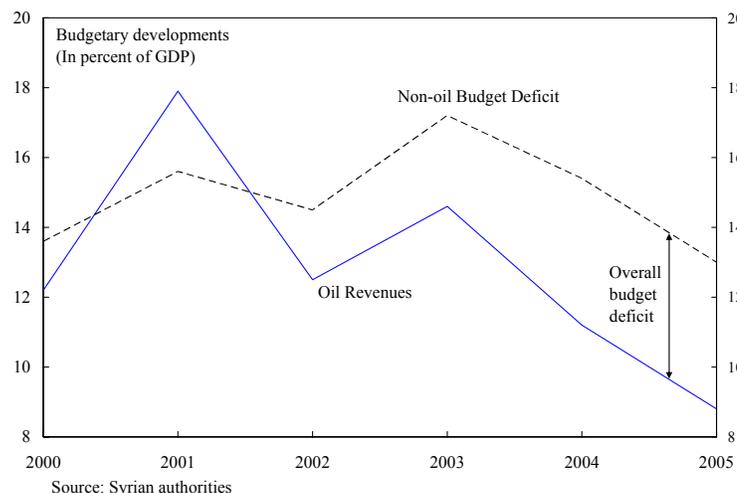
Figure 2. Syrian Arab Republic: Exchange Rates (Syria and Region), 1995–06



Sources: Syrian authorities, INS database, and Fund staff estimates.
 1/ Trade-weighted average of official and parallel market rates.
 2/ Based on the free market rate.

Fiscal policy

- Developments:** The non-oil budget balance improved significantly in 2004 and in 2005 (by 1¼ percent of GDP and 2½ percent of GDP, respectively), offsetting some of the pronounced fall in oil revenues. However, this improvement was mainly due to a surge in PEs surpluses, which may reflect one-off factors rather than a strengthening of their underlying financial position. Total spending declined only marginally—with a drop in development expenditure offsetting an increase in the wage bill.



Non-oil tax revenues remained flat at about 10½ percent of GDP, with additional revenues from broadening the base of indirect taxes offsetting a drop in international trade taxes, and direct taxes holding up at about 3½ percent of GDP, despite significant reduction in rates¹⁰ (Tables 5, 6, and 7).

Summary of Fiscal Operations, 2003–05 (In percent of GDP)				
	2003	2004	Est. 2005	Cumulative Change during 2003–05
Revenue	28.5	27.4	26.5	-2.1
Oil-related proceeds	14.6	11.2	8.8	-5.8
Non-oil tax revenue	10.4	11.6	10.4	0.0
Direct Taxes	3.4	4.7	3.6	0.1
Customs	2.6	2.5	1.8	-0.8
Indirect Taxes	4.4	4.4	5.1	0.6
Non-oil non-tax revenue	3.4	4.4	7.2	3.7
Of which:				
PE surpluses	2.9	3.8	6.2	3.3
Expenditure	31.1	31.6	30.7	-0.5
Current expenditure	17.5	19.1	18.8	1.3
Development expenditure	13.6	12.5	11.8	-1.7
Overall balance	-2.6	-4.2	-4.2	-1.6
Non-oil balance	-17.2	-15.4	-13.0	4.2

Source: Ministry of Finance.

¹⁰ Over the past few years, corporate taxes have displayed great volatility around a stable level of about 3½ percent of GDP.

- **Outlook/recommendations:** The 2006 budget, together with subsequent measures, are expected to yield close to ½ percentage point improvement in the underlying fiscal position.¹¹ This would reflect 1 percentage point of GDP yield from the increase in the price of cement and gasoline, half of which was eroded by wage increases in February. Together with the modest increase in oil revenues due to the rise in international prices, this tightening should narrow the overall deficit to 3¼ percent of GDP and limit the inflationary and crowding out impact of its domestic financing. Given the strengthening of the economy, the adjustment in 2006 should have been more ambitious and, at a minimum, should not be eroded by further wage increases.
- **The authorities** agreed that the sustainability of the surge in PE surpluses is hard to ascertain given the weak accounting standards in PEs, and that this, therefore, represents a fiscal risk. They expressed satisfaction with the corporate tax take, which despite a significant reduction in the top marginal rate (from 65 to 35), did not decline, suggesting buoyant profits and some success in combating tax evasion. On wage policy, the authorities stressed the strong pressures to increase wages and said that a further increase could not be ruled out, particularly in view of the prospective reform of PPS.

B. Addressing Medium-Term Challenges

5. **Although pleased with the recent improvement of the economy, the authorities are increasingly concerned with the considerable risks involved in delaying adjustment and in postponing structural reforms.** The huge surge in the oil import bill, up from negligible amounts in a not-too-distant past, drove home the reality that current policies and most notably PPS are unsustainable. This has strengthened the political will to undertake reforms and that is helpful. However, the authorities are facing difficult challenges in their drive to accelerate reforms stemming from severe capacity constraints and the absence of social safety nets to mitigate the impact of reforms. Political uncertainties and outside pressures add to the complexity of the challenges.¹² Against this background, discussions

¹¹ The non-oil budget balance reflected in Table 6 shows a deterioration of 0.1 percent of GDP. However, a 0.6 percent of GDP additional increase in revenue resulting from an increase in the price of domestic gasoline, which is counted in oil-related proceeds, should be added to the non-oil balance for a proper assessment of the extent of the fiscal adjustment.

¹² U.S. financial institutions are required since February 2006 to terminate all correspondent accounts involving the Commercial Bank of Syria (CBoS) over concerns about “its involvement in money laundering and terrorism financing”. A number of European banks have followed suit. This is creating difficulties for the public sector to execute international transactions, which were previously handled by the CBoS. Syria was assessed by MENAFATF, the FATF style regional body for the Middle East and North Africa region, in May 2006 for

(continued)

focused on fiscal consolidation, exchange rate unification, and trade and financial liberalization. The authorities also highlighted the legal and institutional reforms underway to improve the investment climate and enhance competition.

Consolidating public finances

- **Fiscal policy framework:** The FYP aims to contain the overall budget deficit below 5 percent of GDP and to limit public debt to no more than 45 percent of GDP by 2010.¹³ Although the new forward-looking orientation in fiscal policy is welcome, setting the main objective in terms of the overall budget balance does not guard against the risk that no adjustment takes place, should oil revenues turn out to be more frontloaded than anticipated. A more suitable anchor would be a steady improvement in the non-oil budget balance.¹⁴ Moreover, a 7 percentage point of GDP increase in public debt over five years—as envisaged in the plan—would not be prudent, as room should be left to accommodate contingent liabilities, such as the cost of bank restructuring.¹⁵ **The authorities noted that the 7 percent of GDP increase in public debt should not be seen as a target but as an upper limit with room to maneuver, should the social conditions require it.**
- **Composition of adjustment:** The required fiscal adjustment calls for major fiscal reforms. Introducing a VAT and reforming PPS should be its main pillars.¹⁶
 - **VAT:** With a tax-to-GDP ratio equal to 10½ percent of GDP, increasing taxes is paramount for the government to continue to provide basic services once oil revenues taper off. Although improving tax administration can help, this has limited potential. A well-designed VAT could bring additional revenues equivalent to 5 percent of GDP—if levied at a rate of 15 percent.¹⁷ Although the authorities have committed to introducing a VAT by early 2008, the tax administration reform needed to support it is proceeding slowly, in particular the preparation for introducing self-assessment and the opening of a first large

compliance with the FATF 40+9 Recommendations. The results will be discussed at an upcoming MENAFATF meeting.

¹³ Given the projected decline in oil revenues, this would imply a 5–6 percentage points of GDP improvement in the non-oil budget balance during 2006–10.

¹⁴ See IMF Country Report 05/356 and Chapter I of the background paper.

¹⁵ In particular, the cost of past quasi-fiscal activities of supporting cotton and cereal production, which was born by state banks, may be high. See chapter III of the background paper.

¹⁶ Chapter II of the background paper fleshes out in greater detail these reforms, as well as other measures to provide a broader support to the adjustment strategy.

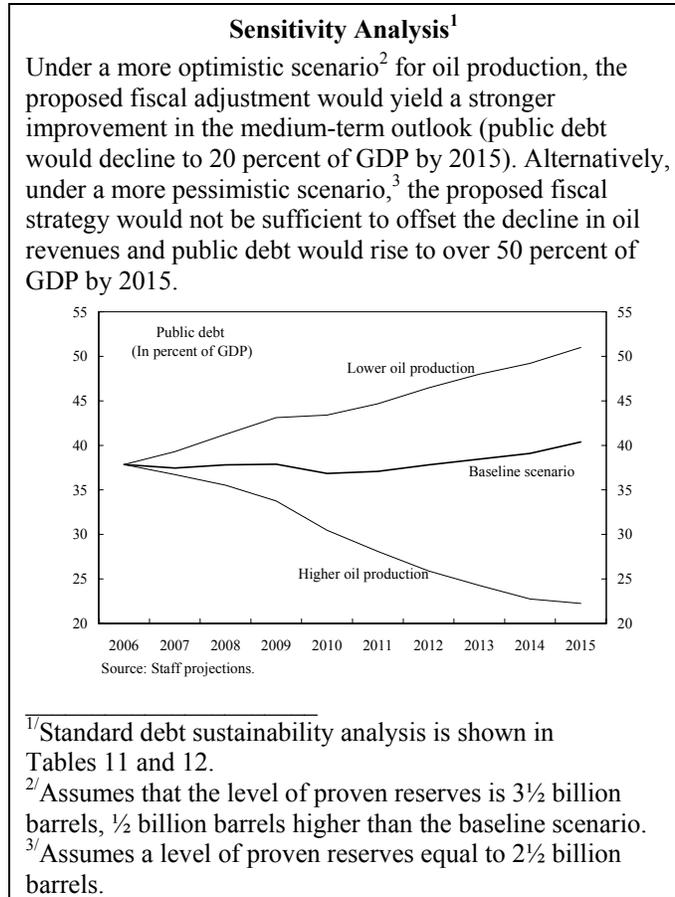
¹⁷ Above the 1½ percent of GDP yield of the existing consumption tax, which it will replace.

taxpayers' unit. Also, critical choices as to the design of the VAT have yet to be made.

- PPS: With most expenditure items at fairly moderate levels and some (such as social assistance, education and health) underfunded, phasing out PPS, whose cost is estimated to surge to 14½ percent of GDP in 2006, would be an essential reform. Beyond large fiscal savings, it would provide significant efficiency gains, improve equity, entail a smaller negative fiscal impulse, and contribute to BOP adjustment¹⁸ and higher long-term growth. A government working group has undertaken a comprehensive analysis and has sought international experts' advice including from the World Bank. Under consideration is a proposal that would: (i) focus the reform initially on the price of diesel (the most subsidized product); (ii) close 60 percent of the gap vis-à-vis international prices upfront, and phase in the remaining adjustment by 2010; and (iii) in the absence of a poverty map and means-testing mechanisms, return to households a certain share of the gross fiscal gains in the form of a flat per person cash compensation, at least initially.
- **The authorities pointed out that significant capacity constraints are hampering progress in tax administration reform**, but they still expected to overcome these obstacles and meet the 2008 target for the VAT. They reiterated their determination to phase in the PPS reform at the earliest opportunity. They were in broad agreement with the main elements of the above proposal, although there is still a debate on the merits of the proposed flat cash compensation versus other compensating measures.

¹⁸ The impact of increasing petroleum prices will fall disproportionately more on the demand for petroleum products, minimizing the demand contraction for other goods and generating a greater oil surplus for export. Phasing out PPS will also reduce pervasive smuggling.

- Prospects:** Staff prepared an illustrative scenario to show that these two key reforms could go a long way to delivering the FYP's fiscal consolidation goals (Tables 8, 9, and 10).¹⁹ Under this scenario, Syria could weather the fall in oil revenues by: (i) adjusting the price of diesel to international levels by 2010 while returning 42 percent of the gross savings to households;²⁰ and (ii) introducing the VAT at a rate of 5 percent in 2008, increasing it gradually to 15 percent by 2012. Fiscal adjustments would be front-loaded (1¾ percent of GDP in 2007 and 2008) to build credibility in the authorities' commitment to preserving fiscal sustainability. Fiscal adjustment and a competitive exchange rate should yield the desired adjustment in the non-oil current account deficit, and together with buoyant FDI, will help maintain external balance and a comfortable cushion of foreign reserves.



¹⁹ In the absence of fiscal adjustment and structural reforms, the widening macroeconomic imbalances would lead to a build up of public debt, rising interest rates, crowding out of private investment, low growth, and a combination of either/or a depreciation-cum-inflation spiral or a rapid loss of official reserves. See IMF Country Report 05/356.

²⁰ The latter has been calibrated such that the reform would make 50 percent of the population better off, striking a balance between fiscal savings and political acceptability. Chapter II of the background paper discusses why the calibration of the PPS reform has to be a function of the level of international oil prices and why a lower price environment would call for a more front-loaded price adjustment and lower cash compensation.

Broad Features of the Proposed Fiscal Consolidation Strategy (In percent of GDP)					
	2006	2007	2008	...2015	Change Between 2006–15
Total revenues	27.5	30.5	30.9	29.6	
Oil-related revenues	10.0	8.9	7.1	-1.7	-11.7
Non-oil taxes	10.4	10.7	11.2	11.8	1.3
Non-oil non tax revenues	7.1	6.8	7.0	7.7	0.6
Impact of adopting a VAT	...	0.0	0.6	4.9	4.9
Impact of phasing PPS	...	4.1	5.0	6.8	6.8
Gross yield	...	7.1	8.7	11.8	11.8
Minus flat cash compensation	...	3.0	3.7	5.0	5.0
Expenditure	30.7	33.0	33.4	33.5	
Current 1/	18.9	19.5	19.9	20.3	1.4
Development 2/	11.8	12.6	12.9	13.2	1.4
Expenditure measures (desirable programs)		1.1	1.1	0.0	0.0
Overall balance	-3.2	-2.5	-2.5	-4.0	
Non-oil balance	-13.1	-11.4	-9.6	-2.3	10.9
Public debt	37.9	37.5	37.8	40.4	2.5
Source: IMF staff estimates and projections					
1/ Reflects, among others, ½ percentage points increase in spending on goods and services due to the PPS reform.					
2/ Reflects 1.4 percent of GDP increase due to the impact of the PPS reform. Development expenditures include all PEs investment Spending.					

Exchange rate unification and current account convertibility

- **Encouraging steps were taken recently towards exchange rate unification and current account convertibility**, including further relaxation of foreign exchange restrictions, and the adoption of a law to legalize foreign exchange bureaus and a regulation setting limits on banks' open exchange position.²¹ Given the low spread between official and parallel market rates, the attendant risks appear limited.
- **The authorities stated that there was now broad political consensus in support of exchange rate unification** and that the timing was right given the strengthening of the currency. The onus is now on the central bank to finalize the preparatory work to launch an interbank foreign exchange market. The authorities agreed with staff that continuing to manage the exchange rate tightly will serve Syria well in the near term, as greater exchange rate volatility could dampen trade flows, given the lack of hedging instruments, and could weaken the role of the exchange rate as a nominal anchor. At the same time, the authorities agreed that greater flexibility will be needed in the future to facilitate adjustment of the real exchange rate, which may well be required, given the prospective depletion of oil reserves and further trade liberalization.

²¹ See Annex III for a description of Syria's exchange rate regime.

Financial sector development

- **Developments/issues:** The authorities' strategy to develop the financial sector by opening it to private initiative was successful in attracting and expanding private banking activities. Five banks have already gained 10 percent market share and some have decided to increase their capital base. Three additional banks are expected to open in 2006, one of which is the first Islamic bank. Prospects for further development of a thriving and profitable private banking sector to meet the needs of a growing economy seem promising. However, the banking system is still dominated by state banks, which are undercapitalized, unprofitable, and saddled with large non-performing loans. The latter problem may have worsened by the recent fast-paced credit expansion.²² Lack of progress in restructuring state banks will hinder interest rate liberalization and the development of deep and liquid money markets. It will stifle competition, and would ultimately increase the cost of an eventual restructuring.²³ This, together with the rapid credit growth, calls for the need to strengthen bank supervision and adopt a prudent licensing policy, and to restructure state banks.
- **The authorities** are confident that adequate banking supervision capacity is being built up, thanks to the technical assistance provided by the Fund. They agreed on the need to carry out detailed independent audits before deciding on specific restructuring options.²⁴ Although they recognize the merits of inviting strategic investors to take an equity share in some of these banks, they indicated that mergers were not excluded. The authorities also noted that the soon-to-be-launched stock exchange is another milestone in their program to deepen financial intermediation.

Trade liberalization and other structural reforms

6. **Trade liberalization, market deregulation, and improving the business climate are key elements of the authorities' reform agenda.** To this effect, further progress was made in lowering tariffs, removing import bans (textile and cement), eliminating import licenses (raw materials), opening markets to the private sector (cement and electricity), streamlining procedures, and reducing transaction costs. Despite this progress, the trade regime remains complex and quite restrictive. Staff encouraged the authorities to lower non-tariff barriers and stressed the importance of addressing other structural rigidities that affect

²² See Chapter III of the background paper.

²³ Chapter III of the background paper assesses progress to-date in financial sector reform and discusses priorities for moving forward.

²⁴ The authorities have commissioned an EIB-funded study, which undertook a preliminary assessment and examined restructuring options focusing exclusively on mergers.

the investment climate.²⁵ The authorities noted, in particular, the move to open the textile sector to international competition and felt confident that this is the way to go to diversify Syria's export base and create new engines of growth.²⁶ They also noted that the system of industrial quotas allowing imports at lower customs rates will be eliminated soon. They agreed on the need for greater transparency about remaining trade restrictions and committed to an early publication of the tariff schedule and the negative lists, and for phasing them out gradually, even if this may imply anticipating the formal implementation of the Syria/EUAA. Furthermore, key economic regulations (company, commerce, and competition laws) will be adopted soon.

Statistical issues

7. The authorities acknowledged the severe data weaknesses and noted the increase in budget allocation and the decision to participate in the GDDS to address these weaknesses. They are hopeful that the GDDS framework will be a vehicle to raise the statistical system's standards, including by mobilizing additional technical assistance.

III. STAFF APPRAISAL

8. **The Syrian economy withstood the increase in political uncertainties and maintained forward momentum.** This achievement has been supported by the oil boom in the Gulf region and the related increased demand for investment opportunities. However, it also owes much to the steady progress in implementing reforms aimed at encouraging private entrepreneurship, promoting market mechanisms, opening the economy, and liberalizing the financial system. This progress is starting to bear fruit and private investment, which had stagnated at very low levels in the past, is now showing much greater vitality.

9. **Although the short-term outlook and positive supply response are encouraging, formidable challenges remain.** The surge in international oil prices has provided a short-term windfall, but will worsen the medium-term prospects when Syria becomes a *net* oil importer in the next 3–4 years. Greater vigilance is, therefore, needed in pursuing fiscal consolidation within a transparent policy framework aiming at a steady improvement in the non-oil budget balance. Accelerating structural reforms to enhance the incentives for the private sector to invest and the capability of the financial sector to intermediate will be critical to creating new sources of growth and income to replace the waning oil wealth.

²⁵ Chapter IV of the background paper take stock of progress to date in trade liberalization and discusses further liberalization measures.

²⁶ Chapter V of the background paper assesses the potential of the textile sector to be a main driver of non-oil export growth.

10. **A sizable fiscal adjustment will be needed to preserve fiscal solvency.** Although, the level of public debt is relatively moderate, additional borrowing to ease the impact of fiscal consolidation should be limited, given the possible need to accommodate the cost of contingent liabilities, such as the possibly large cost of bank restructuring. A front-loaded adjustment will do much to boost market confidence and should be made easier by the economic conjuncture.
11. **Introducing a VAT and phasing out PPS should be the main pillars of a pro-growth fiscal reform.** A broad-based VAT is one of the most efficient taxes, with a significant revenue-raising potential, and limited impact on production and investment. Removing PPS and replacing them with a flat cash compensation could generate large fiscal savings, enhance equity and efficiency, and promote long-term growth by protecting spending on education, health, and infrastructure. Putting in place efficient social safety nets will be essential to achieve the authorities' goal to accelerate the transition to a "social" market economy. In their absence, concerns about social equity may block reforms and will continue to be met by distorting the tax and pricing systems.
12. **Both reforms are politically and operationally challenging and steadfast progress in preparing to launch them is essential.** A far-reaching tax administration reform is needed to underpin the VAT and improve the efficiency of other taxes. The aim should be a modern tax administration, based on self assessment, with fully automated business processes, risk-based compliance programs, and skilled and professional staff, all contributing to an environment characterized by fairness, honesty, and transparency. The capacity constraints that have hindered progress thus far need to be addressed as a matter of priority. The challenges in designing and implementing the compensation scheme for PPS reform and in sustaining the adjustment effort over four years should not be underestimated.
13. **The recent steps toward exchange rate unification and current account convertibility and the political consensus in favor of unification are welcome.** The central bank should now accelerate preparations to launch the interbank foreign exchange market and develop the technical capacity to intervene to reduce excessive volatility and maintain a competitive rate. Although the level of the real exchange rate appears broadly appropriate, its recent strengthening should be monitored carefully in view of the prospective decline in oil exports and the need to promote non-oil exports.
14. **To nurture the development of an open, competitive, and resilient financial sector, the authorities' attention should remain focused on strengthening bank supervision and on restructuring state banks.** Steady progress in strengthening bank regulation and supervision and banks' accounting standards and in carefully screening entry of new banks will be critical to protect the soundness of the banking system. Structural weaknesses of state banks will slow the process of interest rate liberalization and the development of deep and liquid money markets with detrimental impact on the efficiency of financial intermediation and the growth of private banks. Independent audits should be undertaken before deciding on restructuring strategies. Staff encourages the authorities to consider the merits of opening the capital of some of these banks to strategic investors and of

liquidating significantly under-capitalized and low-franchise-value banks. Mergers might be fraught with risks. In all cases, the government should be prepared to deal boldly with the required restructuring measures, including their related costs.

15. Despite significant progress, the trade system remains non transparent and relatively restrictive, and the cost of doing business in Syria is still very high.

Eliminating key nontariff barriers should be the first priority and will strongly signal the authorities' determination to address the trade agenda. Implementing the regulatory measures under the Syria/EUAA will bode well for the future and help progress toward observing WTO rules and disciplines. By implementing this agenda, Syria will gain in credibility as a full-fledged trading partner, will establish a solid track record in shifting toward an open economy, and will boost its potential for a much needed insertion into the global economy.

16. A top priority should be given to improving the quality and timeliness of economic statistics, including indicators of short-term activity. Staff welcomes the authorities' decision to participate in the GDSS and hopes that this will give a much needed impetus to a far reaching revamping of Syria's statistical infrastructure.

17. Syria continues to maintain exchange restrictions under Article XIV, Section 2 (Appendix I). The staff urges the authorities to eliminate these restrictions as soon as its balance of payments position permits. Syria also maintains exchange measures subject to approval under Article VIII (Appendix I). Absent specific measures to eliminate these exchange restrictions and multiple currency practices in a timely manner, the staff does not recommend that the Executive Board grant approval of their retention. The staff urges the authorities to eliminate these restrictions and multiple currency practices without delay.

18. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Syrian Arab Republic: Selected Economic Indicators, 2001–06

	2001	2002	2003	2004	Prej. 2005	Proj. 2006
(Change in percent, unless otherwise indicated)						
National income and prices						
Nominal GDP (LS billions)	1,017.4	1,129.4	1,126.7	1,257.1	1,424.1	1,566.5
Nominal GDP (\$ billions)	21.2	23.0	22.9	24.9	27.3	29.3
Real GDP	3.7	3.7	1.0	3.1	2.9	3.2
Real non-oil GDP	8.1	3.0	3.9	5.0	5.5	5.5
GDP deflator	2.9	7.1	-1.2	8.2	10.1	6.6
CPI period average	3.4	-0.5	5.8	4.4	7.2	5.6
Oil sector						
Crude oil production ('000 barrels/day)	504	496	477	462	431	405
Net oil exports (crude and refined, '000 barrels/day)	319	339	282	187	130	123
Oil export price (\$ per barrel)	22.1	23.2	26.9	33.4	48.3	58.8
(In percent of GDP, unless otherwise indicated)						
Government finances 1/						
Revenue	30.1	26.2	28.5	27.4	26.5	27.5
Oil-related revenue	17.9	12.5	14.6	11.2	8.8	10.0
Non-oil revenue	12.2	13.7	13.9	16.1	17.7	17.6
Expenditure	27.8	28.2	31.1	31.6	30.7	30.7
Current expenditure	17.0	16.2	17.5	19.1	18.8	18.9
Development expenditure	10.8	12.0	13.6	12.5	11.8	11.8
Overall balance	2.3	-2.0	-2.6	-4.2	-4.2	-3.2
Non-oil budget balance	-15.6	-14.5	-17.2	-15.4	-13.0	-13.1
Gross debt 2/	22.3	24.2	25.5	29.2	38.2	37.9
Domestic	4.8	7.3	7.4	9.5	13.2	15.2
External 2/	17.4	16.9	18.1	19.7	25.0	22.6
(Change in percent of beginning period money stock)						
Money and quasi-money	23.5	18.5	7.7	11.1	12.9	9.2
Net foreign assets	21.0	12.2	3.1	5.4	1.1	3.1
Net domestic assets	2.6	6.3	4.6	5.8	11.8	6.1
Credit to government	6.6	4.4	0.5	2.8	6.2	4.1
Credit to private sector	0.4	0.7	3.1	4.3	6.9	4.2
Credit to private sector (change in percent)	4.5	6.6	30.3	35.0	45.9	21.9
Credit to private sector (in percent of GDP)	7.7	7.4	9.7	11.7	15.1	16.8
(In billions of U.S. dollars, unless otherwise indicated)						
Balance of payments						
Oil balance	3.0	3.0	2.4	1.3	0.7	1.0
(in percent of GDP)	14.4	13.1	10.7	5.3	2.5	3.4
Non-oil exports of goods and services	3.0	4.0	3.5	5.0	5.2	5.6
(change in percent)	5.6	31.0	-10.2	39.8	4.2	8.5
(in percent of GDP)	14.3	17.2	15.5	19.9	18.9	19.2
Non-oil imports of goods and services	-5.7	-6.2	-6.1	-7.5	-7.6	-8.4
(change in percent)	13.3	8.8	-1.3	23.8	1.7	9.3
(in percent of GDP)	-26.7	-26.7	-26.5	-30.2	-28.0	-28.5
Non-oil goods and services balance	-2.6	-2.2	-2.5	-2.6	-2.5	-2.7
(in percent of GDP)	-12.4	-9.6	-11.0	-10.2	-9.1	-9.4
Current account balance	1.2	1.6	1.1	0.0	-0.6	-0.6
(in percent of GDP)	5.7	7.1	4.7	0.0	-2.2	-1.9
Foreign direct investment (in percent of GDP)	0.5	0.5	0.7	1.1	2.0	2.5
Overall balance	3.0	2.4	0.8	0.2	-0.2	0.5
Official net foreign assets	14.3	16.8	17.6	17.8	17.6	18.2
(in months of imports of G&S)	29.5	29.3	31.1	24.6	20.9	21.4
Debt						
External debt (percent of GDP) 2/	17.4	16.9	18.1	19.7	25.0	22.6
Debt service-to-exports ratio (payments basis)	19.5	14.7	14.0	11.4	16.1	10.4
Exchange rates						
Weighted average nominal exchange rate LS/U.S.\$ (period average) 4/	48.1	49.1	49.2	50.5	52.2	...
Real effective exchange rate (1990=100)	59.6	57.0	59.0	58.9	59.9	...
(change in percent)	0.4	-4.3	3.5	-0.2	1.7	...

Sources: Data provided by the Syrian authorities; and staff estimates and projections.

1/ Including the Price Stabilization Fund and a broad coverage of public enterprises.

2/ Most of the increase in 2005 is due to the recognition of the old Soviet era debt, which has been rescheduled in late 2004 to early 2005, and was not included in the historical data.

3/ Trade-weighted average exchange rate of official and parallel market rates.

Table 2. Syrian Arab Republic: Balance of Payments, 2001–06
(In millions of U.S. dollars; unless otherwise indicated)

	2001	2002	2003	2004	Est. 2005	Proj. 2006
Current account balance	1,199	1,639	1,071	-3	-592	-551
<i>(In percent of GDP)</i>	5.7	7.1	4.7	0.0	-2.2	-1.9
Oil balance	3,042	3,011	2,450	1,308	687	986
<i>(In percent of GDP)</i>	14.4	13.1	10.7	5.3	2.5	3.4
Exports, f.o.b.	4,050	4,558	4,111	3,395	4,300	4,066
Imports, f.o.b.	-171	-732	-737	-1,156	-2,473	-1,850
Repatriation of profits of oil and gas companies	-837	-815	-924	-931	-1,140	-1,230
Non-oil goods and services balance	-2,635	-2,199	-2,520	-2,553	-2,472	-2,748
<i>(In percent of GDP)</i>	-12.4	-9.6	-11.0	-10.2	-9.1	-9.4
Trade balance	-2,722	-2,270	-2,612	-3,446	-3,520	-3,847
Exports, f.o.b.	1,236	1,998	1,651	2,090	2,186	2,417
Public	342	451	455	437	401	441
Private	894	1,547	1,196	1,653	1,785	1,976
Imports, f.o.b.	-3,958	-4,268	-4,263	-5,536	-5,706	-6,264
Public	-716	-1,113	-871	-1,005	-613	-650
Private	-3,242	-3,155	-3,392	-4,531	-5,093	-5,614
Balance of services	87	71	92	893	1,048	1,100
Receipts	1,781	1,954	1,898	2,872	2,983	3,190
<i>Of which: travel and tourism</i>	1,150	1,365	1,340	2,057	2,130	2,322
Payments	-1,694	-1,883	-1,806	-1,979	-1,935	-2,090
Income (net)	159	249	496	563	492	474
Credit	454	574	671	705	712	706
Debit	-295	-325	-175	-142	-221	-232
Transfers (net)	633	579	645	679	701	737
Credit	682	634	700	695	717	753
<i>Of which: workers' remittances</i>	483	475	530	690	713	749
Debit	-49	-55	-55	-16	-16	-16
Capital and financial account balance	-26	-230	-118	-209	-92	683
<i>(In percent of GDP)</i>	-0.1	-1.0	-0.5	-0.8	-0.3	2.3
Capital account (migrants' transfers)	17	20	20	36	40	44
Direct investment	110	115	160	275	534	724
Long-term government debt (net)	-83	-125	2	-187	-253	-16
Receipts	257	195	224	215	386	363
Payments	-340	-320	-222	-402	-639	-379
Short-term loans (net)	-70	-240	-300	-100	100	132
Private banks			0	-233	-513	-200
Errors and omissions	1,816	1,032	-116	406	514	400
Overall balance	2,989	2,441	837	193	-171	532
Financing: net change in reserves (increase = -)	-2,989	-2,441	-837	-193	171	-532
Convertible	-2,943	-2,334	-496	-195	170.5	-532
Central Bank	-701	-781	-331	-219	-452	-266
Commercial Bank of Syria	-2,242	-1,553	-165	24	622	-266
Nonconvertible (Central Bank)	-46	-107	-341	2	0	0
<i>Memorandum items:</i>						
NFA of the Central Bank and the CBoS	14,339	16,780	17,617	17,811	17,640	18,172
<i>(In months of imports of GNFS)</i>	29.5	29.3	31.1	24.6	20.9	21.4
Government external debt (in millions of dollars) 1/	3,692	3,890	4,137	4,918	6,837	6,626
<i>(In percent of GDP)</i>	17.4	16.9	18.1	19.7	25.0	22.6
Debt service (in percent of exports of non-oil goods and	19.5	14.7	14.0	11.4	16.1	10.4
Weighted average nominal exchange rate (LS/\$) 2/	48.1	49.1	49.2	50.5	52.2	53.5
GDP (in billions of dollars) 2/	21.2	23.0	22.9	24.9	27.3	29.3
Real effective exchange rate (1990=100)	59.6	57.0	59.0	58.9	59.9	...
<i>(change in percent)</i>	0.4	-4.3	3.5	-0.2	1.7	...

Sources: Central Bank of Syria; and staff estimates and projections.

1/ Officially acknowledged debt; excludes military debt. In 2005 includes the rescheduled old Soviet-era debt.

2/ Trade-weighted average of the parallel market rate and official rates.

3/ Calculated using the weighted average exchange rate.

Table 3. Syrian Arab Republic: Monetary Survey, 2001–06

	2001	2002	2003	2004	Prel 2005	Proj. 2006
(In billions of Syrian pounds; end of period)						
Foreign assets (net)	592	677	702	750	761	1,023
Central Bank	93	106	124	136	147	327
<i>(In millions of US\$)</i>	3,622	4,510	5,182	5,399	5,851	6,117
Commercial banks	498	571	578	614	614	696
<i>(In millions of US\$)</i>	10,717	12,270	12,435	12,645	12,535	13,001
Public Banks	10,717	12,270	12,435	12,412	11,790	12,056
Private Banks	0	0	0	233	746	946
Domestic assets (net)	104	148	186	238	354	194
Domestic credit	290	297	342	410	567	671
Claims on public sector	211	213	233	263	352	408
Claims on central government (net)	20	51	55	80	141	187
Claims on public enterprises	191	162	178	182	211	221
Claims on private sector	79	84	109	148	215	263
Other items (net)	-186	-148	-156	-172	-213	-476
Import and restricted deposits	-41	-50	-73	-99	-102	-107
Capital accounts	-104	-109	-104	-132	-154	-184
Valuation adjustment (net)	-67	-47	-47	-57	41	-186
Other	26	59	68	115	1	1
Money and quasi-money (M2)	696	825	889	988	1,115	1,217
Currency outside banks	229	258	285	333	399	435
Syrian Pound deposits	321	383	407	468	503	549
Of which: PE deposits	146	183	197	187	214	...
Foreign Exchange Deposits	52	61	40	63	95	104
Of which: PE deposits	0	0	0	34	33	...
(Change in percent of beginning stock of broad money stock)						
Net foreign assets 1/	21.0	12.2	3.1	5.4	1.1	3.1
Net domestic assets 1/	2.6	6.3	4.6	5.8	11.8	6.1
Domestic credit	7.7	0.9	5.5	7.6	15.9	9.3
Claims on central government (net)	6.6	4.4	0.5	2.8	6.2	4.1
Claims on public enterprises	0.7	-4.2	1.9	0.5	2.9	0.9
Claims on private sector	0.4	0.7	3.1	4.3	6.9	4.2
Other items (net) 1/	-5.1	5.4	-0.9	-1.9	-4.1	-3.2
Broad money (M2)	23.5	18.5	7.7	11.1	12.9	9.2
(Annual change in percent)						
Currency outside banks	12.5	12.7	10.3	16.8	19.8	9.2
Claims on private sector	4.5	6.6	30.3	35.0	45.9	21.9
Reserve money	16.9	16.0	10.2	25.2	11.4	9.2
(In percent of GDP)						
Broad money (M2)	68.4	73.0	78.9	78.6	78.3	77.7
Credit to private sector	7.7	7.4	9.7	11.7	15.1	16.8
Credit to public enterprises	18.8	14.3	15.8	14.5	14.8	14.1
Change in net claims on central government (bil SP)	37.4	30.7	4.3	24.9	60.9	45.8
Change in net claims on central government	3.7	2.7	0.4	2.0	4.3	2.9
Change in net claims on PE (bil SP)	-16.5	-66.9	2.6	-19.6	2.6	...
Memorandum items:						
Currency to deposits ratio	49.1	45.6	47.2	50.8	55.6	55.6
Ratio of FX deposits to total deposits	11.1	10.8	6.6	9.7	13.3	13.3

Sources: Central Bank of Syria; and staff estimates and projections.

1/ In 2006, adjusted for valuation adjustment.

Table 4. Syrian Arab Republic: Central Bank Balance Sheet, 2001–06

	2001	2002	2003	2004	2005	Proj. 2006
(In billions of Syrian pounds)						
Net foreign assets	93.3	106.0	124.1	135.8	147.4	327.2
(In million of U.S. dollars)	3,622	4,510	5,182	5,399	5,851	6,117
Net domestic assets	202.1	236.7	253.5	336.9	379.4	247.9
Net domestic credit	84.2	79.1	88.7	129.4	154.8	197.3
Net credit to government	-73.0	-69.6	-86.2	-15.2	39.4	76.0
Claims on government	301.3	322.0	305.7	309.9	312.7	...
Government deposits	374.3	391.6	391.9	325.0	273.3	...
Credit to public enterprises	0.1	0.1	0.1	0.1	0.1	0.1
Credit to banks	157.2	148.6	174.8	144.5	115.3	121.2
Credit to the private sector	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	117.9	157.5	164.8	207.5	224.6	50.5
Of which: valuation adj	67.4	91.1	92.5	111.1	209.3	33.7
Other	50.5	66.4	72.3	96.4	15.3	16.8
Reserve money	295.4	342.6	377.7	472.8	526.8	575.1
Currency issued	236.7	267.3	294.4	344.3	417.9	456.1
Currency outside banks	229.3	258.4	285.0	332.8	398.7	435.2
Currency with banks	7.4	8.9	9.4	11.5	19.2	21.0
Deposits of public enterprises	13.5	13.5	13.1	22.5	14.5	15.9
Deposits of banks	45.0	61.4	69.9	105.7	94.0	102.7
Other non-government, non-bank deposits	0.3	0.5	0.4	0.4	0.4	0.4
(In percent of initial stock of reserve money)						
Net foreign assets 1/	5.5	4.3	5.3	3.1	2.5	0.8
Net domestic assets	11.3	11.7	4.9	22.1	9.0	8.4
Net domestic credit	1.3	-1.7	2.8	10.8	5.4	8.1
Net credit to government	3.1	1.2	-4.8	18.8	11.5	6.9
Credit to public enterprises	0.0	0.0	0.0	0.0	0.0	0.0
Credit to banks	-1.7	-2.9	7.6	-8.0	-6.2	1.1
Credit to the private sector	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net) 1/	10.0	13.4	2.1	11.3	3.6	0.3
Of which: valuation adj 1/	7.1	8.0	0.4	4.9	20.8	0.0
Other	2.9	5.4	1.7	6.4	-17.2	0.3
Reserve money	16.9	16.0	10.2	25.2	11.4	9.2

Source: Central Bank of Syria.

1/ In 2006, adjusted for valuation adjustment.

Table 5. Syrian Arab Republic: Summary of Fiscal Operations, 2001–06 1/
(In billions of Syrian pounds)

	2001	2002	2003	2004	Est. 2005	Budget 2006	Proj. 2006
Revenue	306.0	295.8	321.6	343.9	377.1	436.5	431.4
Oil-related proceeds	182.0	140.6	164.7	141.2	125.3	173.5	156.1
Non-oil tax revenue	92.1	116.0	117.6	145.4	148.2	157.5	163.7
Income and profits	34.3	42.1	38.7	59.1	50.8	86.2	57.2
International trade	20.4	25.3	28.8	31.3	25.4	17.2	26.3
Other	37.3	48.5	50.1	55.0	72.0	54.1	80.2
Non-oil non-tax revenue	31.2	38.4	38.5	55.9	101.9	105.1	111.2
Public enterprise surpluses	27.0	33.9	33.2	48.0	88.5	91.5	96.3
Other non-tax revenue	4.2	4.5	5.4	7.9	13.4	13.6	14.9
PSF revenue	0.7	0.7	0.7	1.5	1.8	0.4	0.4
Expenditure	282.7	318.4	350.6	396.9	436.5	480.6	481.3
Current expenditure	172.7	182.7	197.7	240.3	267.9	285.6	295.8
Defense	47.6	47.9	59.0	74.7	68.9	64.0	65.5
Wages and salaries	45.0	52.7	59.2	69.5	85.5	85.9	103.5
Goods and services	16.8	17.6	19.0	19.3	20.7	21.4	22.3
Interest payments	6.3	6.8	7.5	11.0	15.5	17.9	17.9
Subsidies	34.8	33.3	29.6	29.8	35.1	36.3	38.6
PSF expenditure	32.1	31.2	27.9	27.0	29.6	30.7	32.5
Other subsidies	2.8	2.0	1.7	2.8	5.5	5.6	6.1
Transfers	22.2	24.3	23.4	36.0	42.2	50.0	47.9
Pensions and social assistance	8.0	8.8	11.2	14.4	17.4	19.0	20.6
Transfers to public enterprises	14.1	15.6	12.2	21.6	24.8	31.0	27.3
Reserves						10.0	
Development expenditure	110.1	135.7	152.9	156.6	168.6	195.0	185.4
Overall balance	23.3	-22.6	-29.0	-53.0	-59.4	-44.1	-49.9
Non-oil balance	-158.7	-163.3	-193.7	-194.1	-184.7	-217.5	-206.0
Identified financing	31.5	27.7	0.7	36.6	61.0	-0.9	49.9
External	-4.0	-6.1	0.1	1.3	-8.0	-0.9	-0.9
Borrowing	12.4	9.6	11.0	11.6	17.6	19.2	19.2
Repayment	16.3	15.7	10.9	10.3	25.6	20.1	20.1
Domestic bank financing	37.4	30.7	4.3	24.9	60.9	...	45.8
Central bank	7.8	3.4	-16.6	71.1	51.3	...	11.8
Commercial banks	29.7	27.3	20.9	-46.2	-5.6	...	3.0
Non-bank financing (investment certificates he	-1.9	3.1	-3.7	10.4	8.1	...	5.0
Unidentified financing	-54.8	-5.1	28.3	16.4	-1.6	...	0.0
<i>Memorandum items:</i>							
Government debt 2/	226.5	273.9	287.1	367.0	544.5	...	593.1
Domestic	49.1	82.9	83.5	118.9	187.8	...	238.6
External 2/	177.5	190.9	203.6	248.2	356.7	...	354.5

Sources: Ministry of Finance; Central Bank of Syria; and Fund staff estimates and projections.

1/ Central government budget and Price Stabilization Fund (PSF).

2/ Valued at a weighted average exchange rate. Most of the increase in 2005 is due to the recognition of the old Soviet era debt, which has been rescheduled in late 2004 to early 2005, and was not included in the historical data.

Table 6. Syrian Arab Republic: Summary of Fiscal Operations, 2001–06 1/
(In percent of GDP)

	2001	2002	2003	2004	Est. 2005	Budget 2006	Proj. 2006
Revenue	30.1	26.2	28.5	27.4	26.5	27.9	27.5
Oil-related proceeds	17.9	12.5	14.6	11.2	8.8	11.1	10.0
Non-oil tax revenue	9.0	10.3	10.4	11.6	10.4	10.1	10.4
Income and profits	3.4	3.7	3.4	4.7	3.6	5.5	3.7
International trade	2.0	2.2	2.6	2.5	1.8	1.1	1.7
Other	3.7	4.3	4.4	4.4	5.1	3.5	5.1
Non-oil non-tax revenue	3.1	3.4	3.4	4.4	7.2	6.7	7.1
PE surpluses	2.7	3.0	2.9	3.8	6.2	5.8	6.1
Others				0.6	0.9	0.9	0.9
PSF revenue	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Expenditure	27.8	28.2	31.1	31.6	30.7	30.7	30.7
Current expenditure	17.0	16.2	17.5	19.1	18.8	18.2	18.9
Defense	4.7	4.2	5.2	5.9	4.8	4.1	4.2
Wages and salaries	4.4	4.7	5.3	5.5	6.0	5.5	6.6
Goods and services	1.6	1.6	1.7	1.5	1.5	1.4	1.4
Interest payments	0.6	0.6	0.7	0.9	1.1	1.1	1.1
Subsidies	3.4	2.9	2.6	2.4	2.5	2.3	2.5
PSF expenditure	3.2	2.8	2.5	2.1	2.1	2.0	2.1
Other subsidies	0.3	0.2	0.1	0.2	0.4	0.4	0.4
Transfers	2.2	2.2	2.1	2.9	3.0	3.2	3.1
Pensions and social assistance	0.8	0.8	1.0	1.1	1.2	1.2	1.3
Transfers to public enterprises	1.4	1.4	1.1	1.7	1.7	2.0	1.7
Development expenditure	10.8	12.0	13.6	12.5	11.8	12.4	11.8
Overall balance	2.3	-2.0	-2.6	-4.2	-4.2	-2.8	-3.2
Non-oil balance	-15.6	-14.5	-17.2	-15.4	-13.0	-13.9	-13.1
Identified financing	3.1	2.5	0.1	2.9	4.3	-0.1	3.2
External	-0.4	-0.5	0.0	0.1	-0.6	...	-0.1
Domestic bank financing	3.7	2.7	0.4	2.0	4.3	...	2.9
Investment certificates	-0.2	0.3	-0.3	0.8	0.6	...	0.3
Unidentified financing	-5.4	-0.5	2.5	1.3	-0.1	...	0.0
<i>Memorandum items:</i>							
Government debt 2/	22.3	24.2	25.5	29.2	38.2	...	37.9
Domestic	4.8	7.3	7.4	9.5	13.2	...	15.2
External 2/	17.4	16.9	18.1	19.7	25.0	...	22.6
Nominal GDP (in billions of Syrian pounds)	1017	1129	1127	1257	1424	...	1566

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Central government budget and Price Stabilization Fund (PSF).

2/ Valued at a weighted average exchange rate. Most of the increase in 2005 is due to the recognition of the old Soviet era debt, which has been rescheduled in late 2004 to early 2005, and was not included in the historical data.

Table 7. Syrian Arab Republic: Expliciting Petroleum Price Subsidies in the Budget

	Actual Presentation				New Presentation			
	2003	2004	2005	2006	2003	2004	2005	2006
(In billion of Syrian Pounds)								
Total revenues	320.8	342.5	375.3	431.0	351.3	419.1	517.6	657.2
Oil-related revenues	164.7	141.2	125.3	156.1	176.0	204.1	263.2	380.0
Tax on gasoline consumption	0.0	0.0	0.0	0.0	19.1	13.6	4.4	2.3
Other tax revenues	117.6	145.4	148.2	163.7	117.6	145.4	148.2	163.7
Non-oil nontax revenues	38.5	55.9	101.9	111.2	38.5	55.9	101.9	111.2
Expenditure	350.6	396.9	436.5	481.3	381.0	473.5	578.8	707.5
Current expenditure	197.7	240.3	267.9	295.8	228.2	316.9	410.2	522.1
Defense	59.0	74.7	68.9	65.5	59.0	74.7	68.9	65.5
Wages	59.2	69.5	85.5	103.5	59.2	69.5	85.5	103.5
Good and services	19.0	19.3	20.7	22.3	19.0	19.3	20.7	22.3
Interest payments	7.5	11.0	15.5	17.9	7.5	11.0	15.5	17.9
Subsidies	29.6	29.8	35.1	38.6	60.0	106.4	177.4	264.9
Oil subsidies	0	0	0	0	30.4	76.6	142.3	226.2
Other subsidies	29.6	29.8	35.1	38.6	29.6	29.8	35.1	38.6
Transfers	23.4	36.0	42.2	47.9	23.4	36.0	42.2	47.9
Development expenditure	152.9	156.6	168.6	185.4	152.9	156.6	168.6	185.4
Overall budget deficit	-29.8	-54.4	-61.2	-50.3	-29.8	-54.4	-61.2	-50.3
Non-oil budget balance	-194.4	-195.6	-186.4	-206.4	-205.8	-258.6	-324.4	-430.3
(in percent of GDP)								
Total revenues	28.5	27.2	26.4	27.5	31.2	33.3	36.3	42.0
Oil-related revenues	14.6	11.2	8.8	10.0	15.6	16.2	18.5	24.3
Tax on gasoline consumption	0.0	0.0	0.0	0.0	1.7	1.1	0.3	0.1
Other tax revenues	10.4	11.6	10.4	10.4	10.4	11.6	10.4	10.4
Non-oil nontax revenues	3.4	4.4	7.2	7.1	3.4	4.4	7.2	7.1
Expenditure	31.1	31.6	30.7	30.7	33.8	37.7	40.6	45.2
Current expenditure	17.5	19.1	18.8	18.9	20.2	25.2	28.8	33.3
Defense	5.2	5.9	4.8	4.2	5.2	5.9	4.8	4.2
Wages	5.3	5.5	6.0	6.6	5.3	5.5	6.0	6.6
Good and services	1.7	1.5	1.5	1.4	1.7	1.5	1.5	1.4
Interest payments	0.7	0.9	1.1	1.1	0.7	0.9	1.1	1.1
Subsidies	2.6	2.4	2.5	2.5	5.3	8.5	12.5	16.9
Oil subsidies	0.0	0.0	0.0	0.0	2.7	6.1	10.0	14.4
Other subsidies	2.6	2.4	2.5	2.5	2.6	2.4	2.5	2.5
Transfers	2.1	2.9	3.0	3.1	2.1	2.9	3.0	3.1
Development expenditure	13.6	12.5	11.8	11.8	13.6	12.5	11.8	11.8
Overall budget deficit	-2.6	-4.3	-4.3	-3.2	-2.6	-4.3	-4.3	-3.2
Non-oil budget balance	-17.3	-15.6	-13.1	-13.2	-18.3	-20.6	-22.8	-27.5
Memorandum item:								
GDP (in billion of SP)	1,127	1,257	1,424	1,566	1,127	1,257	1,424	1,566

Table 8. Syrian Arab Republic: Medium-Term Macroeconomic Framework, 2005–15

	<u>Prel.</u> 2005	<u>Proi.</u> 2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
(Change in percent, unless otherwise indicated)											
National income and prices											
Nominal GDP (LS billions)	1,424	1,566	1,838	2,004	2,199	2,436	2,675	2,946	3,254	3,598	3,988
Real GDP	2.9	3.2	3.7	4.6	4.9	5.8	4.9	5.2	5.5	5.6	5.8
Real non-oil GDP	5.5	5.5	6.1	6.4	6.4	6.5	6.5	6.5	6.5	6.6	6.6
GDP deflator	10.1	6.6	13.1	4.2	4.6	4.7	4.6	4.7	4.7	4.8	4.8
CPI period average	7.2	5.6	14.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Oil sector											
Crude oil production ('000 barrels/day)	431	405	374	354	340	343	324	308	296	284	276
Net oil exports (crude and refined, '000 barrels/day)	130	123	104	72	44	33	-4	-38	-69	-102	-132
Oil export price (\$ per barrel)	48.3	58.8	61.7	60.6	59.7	59.1	58.4	57.7	58.6	59.5	60.4
(In percent of GDP, unless otherwise indicated)											
Government finances 1/											
Revenue	26.5	27.5	30.5	30.9	31.5	32.7	31.8	31.3	31.4	30.3	29.6
Oil-related revenue	8.8	10.0	8.9	7.1	5.6	5.2	3.5	2.0	0.7	-0.6	-1.7
Non-oil revenue	17.7	17.6	21.6	23.8	25.8	27.5	28.2	29.3	30.6	30.9	31.2
Of which: measures											
VAT			0.0	0.6	1.5	2.4	2.9	3.8	4.9	4.9	4.9
Phasing petroleum price subsidies			4.1	5.0	5.9	6.6	6.5	6.5	6.6	6.7	6.8
Expenditure	30.7	30.7	32.1	32.8	33.0	33.3	33.4	33.4	33.5	33.5	33.5
Current expenditure	18.8	18.9	19.5	19.9	20.0	20.1	20.2	20.2	20.3	20.3	20.3
Development expenditure	11.8	11.8	12.6	12.9	13.0	13.2	13.2	13.2	13.2	13.2	13.2
Expenditure measures (desirable programs)			0.9	0.6	0.9	1.0	0.8	1.0	1.0	0.0	0.0
Overall balance	-4.2	-3.2	-2.5	-2.5	-2.4	-1.6	-2.4	-3.0	-3.1	-3.2	-4.0
Non-oil budget balance	-13.0	-13.1	-11.4	-9.6	-8.1	-6.8	-5.9	-5.1	-3.8	-2.6	-2.3
Gross debt 2/	38.2	37.9	37.5	37.8	37.9	36.8	37.1	37.8	38.5	39.1	40.4
Domestic	13.2	15.2	14.0	13.8	13.5	12.9	12.9	13.3	13.5	13.8	14.5
External 2/	25.0	22.6	23.5	24.0	24.3	24.0	24.1	24.6	24.9	25.3	25.9
(Change in percent of beginning period money stock)											
Money and quasi-money	12.9	9.2	14.4	10.1	8.9	9.3	10.7	10.7	10.2	10.3	10.6
Net foreign assets	1.1	3.1	7.4	3.9	2.5	2.5	1.3	-0.2	-2.0	-4.5	-5.6
Net domestic assets	11.8	6.1	6.9	6.2	6.4	6.8	9.5	10.9	12.2	14.8	16.2
Credit to government	6.2	4.1	1.1	1.1	1.0	0.7	1.4	1.8	1.8	1.9	2.3
Credit to private sector	6.9	4.2	5.6	5.0	5.2	6.0	7.9	9.0	10.3	12.9	13.7
Credit to private sector (change in percent)	45.9	21.9	26.2	20.9	19.8	20.7	25.0	25.0	25.4	27.9	25.7
Credit to private sector (in percent of GDP)	15.1	16.8	18.0	20.0	21.8	23.8	27.1	30.8	34.9	40.4	45.8
(In billions of U.S. dollars, unless otherwise indicated)											
Balance of payments											
Oil balance	0.7	1.0	0.6	0.0	-0.6	-0.8	-1.6	-2.3	-3.1	-3.9	-4.7
(in percent of GDP)	2.5	3.4	1.9	-0.1	-1.8	-2.3	-4.3	-5.9	-7.5	-9.1	-10.4
Non-oil exports of goods and services	5.2	5.6	6.2	6.8	7.6	8.4	9.4	10.2	11.2	12.3	13.5
(in percent of GDP)	18.9	19.2	20.5	21.8	23.0	24.2	25.6	26.6	27.6	28.6	29.6
Non-oil imports of goods and services	-7.6	-8.4	-8.7	-9.2	-9.8	-10.5	-11.4	-12.2	-13.1	-14.1	-15.2
(in percent of GDP)	-28.0	-28.5	-28.9	-29.2	-29.7	-30.2	-31.0	-31.6	-32.2	-32.8	-33.5
Non-oil goods and services balance	-2.5	-2.7	-2.5	-2.3	-2.2	-2.1	-2.0	-1.9	-1.9	-1.8	-1.8
(in percent of GDP)	-9.1	-9.4	-8.5	-7.4	-6.7	-6.0	-5.5	-5.0	-4.6	-4.2	-3.8
Current account balance	-0.6	-0.6	-0.7	-1.1	-1.5	-1.5	-2.1	-2.7	-3.3	-4.1	-4.8
(in percent of GDP)	-2.2	-1.9	-2.3	-3.4	-4.4	-4.4	-5.7	-7.0	-8.2	-9.4	-10.5
Foreign direct investment (in percent of GDP)	2.0	2.5	2.7	2.8	2.9	3.3	3.6	3.6	3.6	3.6	3.6
Overall balance	-0.2	0.5	0.9	0.6	0.3	0.3	0.0	-0.3	-0.9	-1.7	-2.1
Official net foreign assets	17.6	18.2	19.1	19.7	20.1	20.4	20.4	20.1	19.2	17.5	15.4
(in months of imports of G&S)	20.9	21.4	21.4	20.5	19.2	17.9	16.3	14.8	12.9	10.8	8.7
Debt											
External debt (percent of GDP) 2/	25.0	22.6	23.5	24.0	24.3	24.0	24.1	24.6	24.9	25.3	25.9
Debt service-to-exports ratio (payments basis)	16.1	10.4	12.2	12.8	12.5	11.1	10.5	10.0	9.8	9.6	8.3

Sources: Data provided by the Syrian authorities; and staff estimates and projections.

1/ Including the Price Stabilization Fund and a broad coverage of public enterprises.

2/ Most of the increase in 2005 is due to the recognition of the old Soviet era debt, which has been rescheduled in late 2004 to early 2005, and was not included in the historical data.

Table 9. Syrian Arab Republic: Medium-Term Fiscal Outlook, 2005–15 1/
(in percent of GDP)

	Projections														
	Est. 2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	26.5	27.5	30.5	30.9	31.5	32.7	31.8	31.3	31.4	30.3	29.6				
Oil-related proceeds	8.8	10.0	8.9	7.1	5.6	5.2	3.5	2.0	0.7	-0.6	-1.7				
Non-oil tax revenue	10.4	10.4	10.7	11.2	11.3	11.3	11.5	11.6	11.6	11.7	11.8				
Income and profits	3.6	3.7	3.8	3.9	3.9	4.0	4.0	4.1	4.2	4.2	4.2				
International trade	1.8	1.7	1.6	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.2				
Other	5.1	5.1	5.3	5.7	5.8	5.9	6.0	6.1	6.2	6.2	6.3				
Non-oil non-tax revenue	7.2	7.1	6.8	7.0	7.1	7.2	7.3	7.4	7.5	7.6	7.7				
Impact of the VAT 1/			0.0	0.6	1.5	2.4	2.9	3.8	4.9	4.9	4.9				
Impact of phasing petroleum price subsidies 3/			4.1	5.0	5.9	6.6	6.5	6.5	6.6	6.7	6.8				
Gross yield			7.1	8.7	10.1	11.4	11.3	11.2	11.4	11.6	11.8				
Minus cash compensation 4/			3.0	3.7	4.3	4.8	4.8	4.7	4.8	4.9	5.0				
Expenditure	30.7	30.7	33.0	33.4	33.9	34.3	34.2	34.4	34.5	33.5	33.5				
Current expenditure 2/	18.8	18.9	19.5	19.9	20.0	20.1	20.2	20.2	20.3	20.3	20.3				
Development expenditure 2/	11.8	11.8	12.6	12.9	13.0	13.2	13.2	13.2	13.2	13.2	13.2				
Expenditure measures (desirable programs)			0.9	0.6	0.9	1.0	0.8	1.0	1.0	0.0	0.0				
Overall balance	-4.2	-3.2	-2.5	-2.5	-2.4	-1.6	-2.4	-3.0	-3.1	-3.2	-4.0				
Non-oil balance	-13.0	-13.1	-11.4	-9.6	-8.1	-6.8	-5.9	-5.1	-3.8	-2.6	-2.3				
Identified financing	4.3	3.2	2.5	2.5	2.4	1.6	2.4	3.0	3.1	3.2	4.0				
External	-0.6	-0.1	1.5	1.5	1.5	1.0	1.4	1.8	1.9	1.9	2.4				
Domestic bank financing	4.3	2.9	0.7	0.7	0.7	0.5	0.7	0.9	0.9	1.0	1.2				
Investment certificates	0.6	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4				
Unidentified financing	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
<i>Memorandum items:</i>															
Government debt 2/	38.2	37.9	37.5	37.8	37.9	36.8	37.1	37.8	38.5	39.1	40.4				
Domestic	13.2	15.2	14.0	13.8	13.5	12.9	12.9	13.3	13.5	13.8	14.5				
External 2/	25.0	22.6	23.5	24.0	24.3	24.0	24.1	24.6	24.9	25.3	25.9				
Nominal GDP (in billions of Syrian pounds)	1424	1566	1838	2004	2199	2436	2675	2946	3254	3598	3988				

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Assume the VAT is introduced at the rate of 5 percent in 2008, then raised in steps to 15 percent from 2014 on.

2/ Takes into account the impact of the increase in diesel prices on government purchases.

3/ Assumes diesel prices are adjusted in 2007 to close 60 percent of the gap with respect to international prices. The remaining adjustment is spread over the following three years. The remaining implicit subsidy beyond 2010 reflect subsidies on fuel oil.

4/ Assumes that each year 42 percent of gross yield to the government is returned to households.

Table 10. Syrian Arab Republic: Medium-Term Fiscal Outlook, 2005-15 (Expliciting Petroleum Price Subsidies in the Budget)
(In percent of GDP)

	Est.					Proj.					
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenue	36.5	42.0	40.9	40.1	39.5	39.7	38.6	38.1	38.3	37.4	36.7
Oil-related proceeds	18.5	24.3	22.8	20.7	19.0	18.2	16.4	14.7	13.7	12.6	11.7
Non-oil tax revenue	10.7	10.6	11.3	11.7	11.9	11.9	12.0	12.1	12.2	12.3	12.4
of which: Tax on gasoline 1/	0.3	0.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Non-oil non-tax revenue	7.2	7.1	6.8	7.0	7.1	7.2	7.3	7.4	7.5	7.6	7.7
Impact of the VAT 2/	0.0	0.0	0.0	0.6	1.5	2.4	2.9	3.8	4.9	4.9	4.9
Expenditure	40.6	45.2	42.5	42.6	41.9	41.3	41.0	41.1	41.4	40.6	40.7
Current expenditure 3/	28.8	33.3	29.9	29.7	28.9	28.1	27.8	27.9	28.2	27.4	27.5
Wages (including defense)	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Spending on goods and services	1.5	1.4	1.7	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Interest payments	1.1	1.1	1.4	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Subsidies on petroleum products	10.0	14.4	10.4	9.2	8.0	7.0	6.9	6.8	6.9	7.1	7.2
Implicit subsidy 4/	10.0	14.4	7.4	5.5	3.8	2.2	2.1	2.1	2.1	2.1	2.2
Compensation for price adj. 5/	0.0	0.0	3.0	3.7	4.3	4.8	4.8	4.7	4.8	4.9	5.0
Other current spending	5.4	5.5	5.6	6.3	6.7	6.8	6.7	6.9	7.0	6.1	6.1
Development expenditure 3/	11.8	11.8	12.6	12.9	13.0	13.2	13.2	13.2	13.2	13.2	13.2
Expenditure measures (desirable programs)				0.6	0.9	1.0	0.8	1.0	1.0	0.0	0.0
Overall balance	-4.2	-3.2	-1.6	-2.5	-2.4	-1.6	-2.4	-3.0	-3.1	-3.2	-4.0
Non-oil balance	-22.7	-27.4	-24.4	-23.2	-21.4	-19.8	-18.8	-17.8	-16.7	-15.8	-15.7
<i>Memorandum items:</i>											
Government debt	38.2	37.9	37.5	37.8	37.9	36.8	37.1	37.8	38.5	39.1	40.4
Domestic	13.2	15.2	14.0	13.8	13.5	12.9	12.9	13.3	13.5	13.8	14.5
External	25.0	22.6	23.5	24.0	24.3	24.0	24.1	24.6	24.9	25.3	25.9
Price of diesel (in SP per metric ton)											
Domestic price	8,702	8,702	28,810	34,444	40,264	46,286	47,882	49,526	52,610	55,884	59,375
International price	26,474	34,979	42,215	43,381	44,732	46,286	47,882	49,526	52,610	55,884	59,375

Source: Syrian authorities and Fund staff estimates and projections.

1/ Assumes that starting in 2007 taxes on gasoline are turned into a 20 percent advalorem tax.

2/ Assume the VAT is introduced at the rate of 5 percent in 2008, then raised in steps to 15 percent from 2014 on.

3/ Takes into account the impact of the increase in diesel prices on government purchases.

4/ Assumes diesel prices are adjusted in 2007 to close 60 percent of the gap with respect to international prices. The remaining adjustment is spread over the following three years. The remaining implicit subsidy beyond 2010 reflect subsidies on fuel oil.

5/ Assumes that each year 42 percent of gross yield to the government is returned to households.

Table 11. Syrian Arab Republic: Public Sector Debt Sustainability Framework, 2001–11
(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Debt-stabilizing primary balance 9/	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		2011
1 Baseline: Public sector debt 1/ ow foreign-currency denominated	22.4	24.5	25.7	29.5	38.2	37.9	37.5	37.8	37.9	36.9	37.1	-0.7
2 Change in public sector debt	1.3	2.1	1.2	3.8	8.8	-0.4	-0.4	0.4	0.1	-1.0	0.2	
3 Identified debt-creating flows (4+7+12)	-3.5	0.2	2.6	2.0	1.1	-0.3	-3.1	-0.6	-0.9	-2.1	-0.9	
4 Primary deficit	-2.9	1.4	1.9	3.4	3.1	2.1	1.1	0.9	0.9	0.1	0.9	
5 Revenue and grants	30.3	26.5	28.8	27.6	26.5	27.5	30.5	30.9	31.5	32.7	31.8	
6 Primary (noninterest) expenditure	27.4	27.9	30.7	31.0	29.6	29.6	31.7	31.8	32.3	32.8	32.7	
7 Automatic debt dynamics 2/	-0.5	-1.2	0.7	-1.3	-2.0	-2.3	-4.2	-1.5	-1.8	-2.2	-1.8	
8 Contribution from interest rate/growth differential 3/	-0.7	-1.6	0.7	-1.8	-2.6	-2.3	-4.2	-1.5	-1.8	-2.2	-1.8	
9 Of which contribution from real interest rate	0.0	-0.8	0.9	-1.0	-1.9	-1.2	-3.0	0.1	-0.1	-0.2	-0.1	
10 Of which contribution from real GDP growth	-0.7	-0.7	-0.2	-0.7	-0.7	-1.1	-1.2	-1.6	-1.7	-2.0	-1.7	
11 Contribution from exchange rate depreciation 4/	0.2	0.4	0.0	0.4	0.6	...	...	...	...	...	...
12 Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	4.8	1.9	-1.5	1.7	7.7	-0.1	2.7	1.0	1.0	1.0	1.1	
Public sector debt-to-revenue ratio 1/	74.0	92.6	89.3	106.7	144.4	137.5	122.7	122.3	120.5	112.7	116.9	
Gross financing need 6/ in billions of U.S. dollars	0.9	6.1	6.6	9.4	11.3	10.3	9.8	9.8	9.7	8.4	9.1	
	0.2	1.4	1.5	2.3	3.1	3.0	3.0	3.1	3.2	2.9	3.3	
Scenario with key variables at their historical averages 7/ Scenario with no policy change (constant primary balance) in 2005-2010						37.9	39.7	39.6	39.4	39.3	39.2	-1.5
						37.9	38.4	39.9	41.1	42.0	43.2	-0.9
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	3.7	3.7	1.0	3.1	2.9	3.2	3.7	4.6	4.9	5.8	4.9	
Average nominal interest rate on public debt (in percent) 8/	3.2	3.0	2.7	3.8	4.2	3.3	4.3	4.6	4.5	4.5	4.4	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	0.3	-3.8	3.7	-4.2	-6.9	-3.3	-8.8	0.3	-0.1	-0.2	-0.2	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-0.8	-2.1	-0.3	-2.5	-3.3	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.9	6.8	-1.0	8.0	11.1	6.6	13.1	4.2	4.6	4.7	4.6	
Growth of real primary spending (deflated by GDP deflator, in percent)	6.1	5.6	11.2	4.1	-1.8	3.4	10.9	5.2	6.6	7.3	4.5	
Primary deficit	-2.9	1.4	1.9	3.4	3.1	2.1	1.1	0.9	0.9	0.1	0.9	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - p(1+g)) - g + ae(1+r)] / (1+g+p+gp)$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth, real interest rate, and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 12. Syrian Arab Republic: External Debt Sustainability Framework, 2001–11
(In percent of GDP, unless otherwise indicated)

	Actual											Projections				Debt-stabilizing non-interest current account 6/ -3.7
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2010	2011			
1 Baseline: External debt	17.6	17.1	18.2	19.9	25.0	22.6	23.5	24.0	24.4	24.0	24.2	24.0	24.2			
2 Change in external debt	-2.1	-0.5	1.1	1.7	5.1	-2.4	0.9	0.5	0.3	-0.4	0.2	0.3	-0.4	0.2		
3 Identified external debt-creating flows (4+8+9)	-7.3	-9.1	-5.4	-2.6	-1.7	-1.3	-1.2	-0.4	0.4	-0.3	1.0	0.4	-0.3	1.0		
4 Current account deficit, excluding interest payments	-6.9	-8.3	-5.9	-0.7	1.5	1.2	1.6	2.5	3.5	3.3	4.7	3.5	3.3	4.7		
5 Deficit in balance of goods and services	-5.9	-7.1	-3.8	1.3	2.4	1.8	2.9	4.7	6.3	6.6	8.4	6.3	6.6	8.4		
6 Exports	33.6	37.4	33.7	33.8	34.7	33.0	32.7	32.1	31.9	32.7	32.6	32.1	31.9	32.7		
7 Imports	27.7	30.2	30.0	35.1	37.1	34.9	35.6	36.7	38.1	39.3	41.0	36.7	38.1	39.3		
8 Net non-debt creating capital inflows (negative)	-0.5	-0.5	-0.7	-1.1	-2.0	-2.5	-2.7	-2.8	-2.9	-3.3	-3.6	-2.8	-2.9	-3.3		
9 Automatic debt dynamics 1/	0.1	-0.2	1.3	-0.8	-1.2	-0.1	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1	-0.1	-0.3		
10 Contribution from nominal interest rate	1.2	1.1	1.2	0.7	0.7	0.7	0.7	0.9	1.0	1.0	1.1	0.9	1.0	1.1		
11 Contribution from real GDP growth	-0.7	-0.6	-0.2	-0.5	-0.5	-0.8	-0.8	-1.0	-1.1	-1.3	-1.1	-1.0	-1.1	-1.1		
12 Contribution from price and exchange rate changes 2/	-0.4	-0.8	0.2	-0.9	-1.4	...	...	...	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	5.2	8.6	6.5	4.3	6.8	-1.1	2.1	0.9	-0.1	-0.1	-0.8	-0.1	-0.1	-0.8		
External debt-to-exports ratio (in percent)	52.2	45.7	54.0	58.9	72.2	68.5	71.8	74.9	76.5	73.3	74.2	76.5	73.3	74.2		
Gross external financing need (in billions of US dollars) 4/	2.4	1.8	2.1	3.0	3.8	3.5	4.0	4.6	5.1	5.3	6.0	4.6	5.1	5.3		
in percent of GDP	11.3	8.1	9.1	12.2	13.7	12.1	13.2	14.5	15.5	15.2	16.5	14.5	15.5	16.5		
Scenario with key variables at their historical averages 5/						22.6	20.1	16.6	12.1	7.7	2.6	16.6	12.1	7.7		
Key Macroeconomic Assumptions Underlying Baseline																
Real GDP growth (in percent)	3.7	3.7	1.0	3.1	2.9	3.2	3.7	4.6	4.9	5.8	4.9	4.6	4.9	5.8		
GDP deflator in US dollars (change in percent)	2.1	4.5	-1.3	5.4	7.5	3.9	-0.8	-0.4	0.0	0.1	0.0	-0.4	0.0	0.1		
Nominal external interest rate (in percent)	6.3	7.1	7.0	4.0	4.0	3.0	3.1	4.1	4.3	4.5	4.6	4.1	4.3	4.5		
Growth of exports (US dollar terms, in percent)	10.4	20.4	-10.0	9.1	13.3	2.2	1.9	2.1	4.2	8.8	4.5	2.1	4.2	8.8		
Growth of imports (US dollar terms, in percent)	12.5	18.2	-1.1	27.4	16.6	0.9	5.1	7.6	8.9	9.1	9.6	5.1	7.6	8.9		
Current account balance, excluding interest payments	6.9	8.3	5.9	0.7	-1.5	-1.2	-1.6	-2.5	-3.5	-3.3	-4.7	-2.5	-3.5	-4.7		
Net non-debt creating capital inflows	0.5	0.5	0.7	1.1	2.0	2.5	2.7	2.8	2.9	3.3	3.6	2.8	2.9	3.3		

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

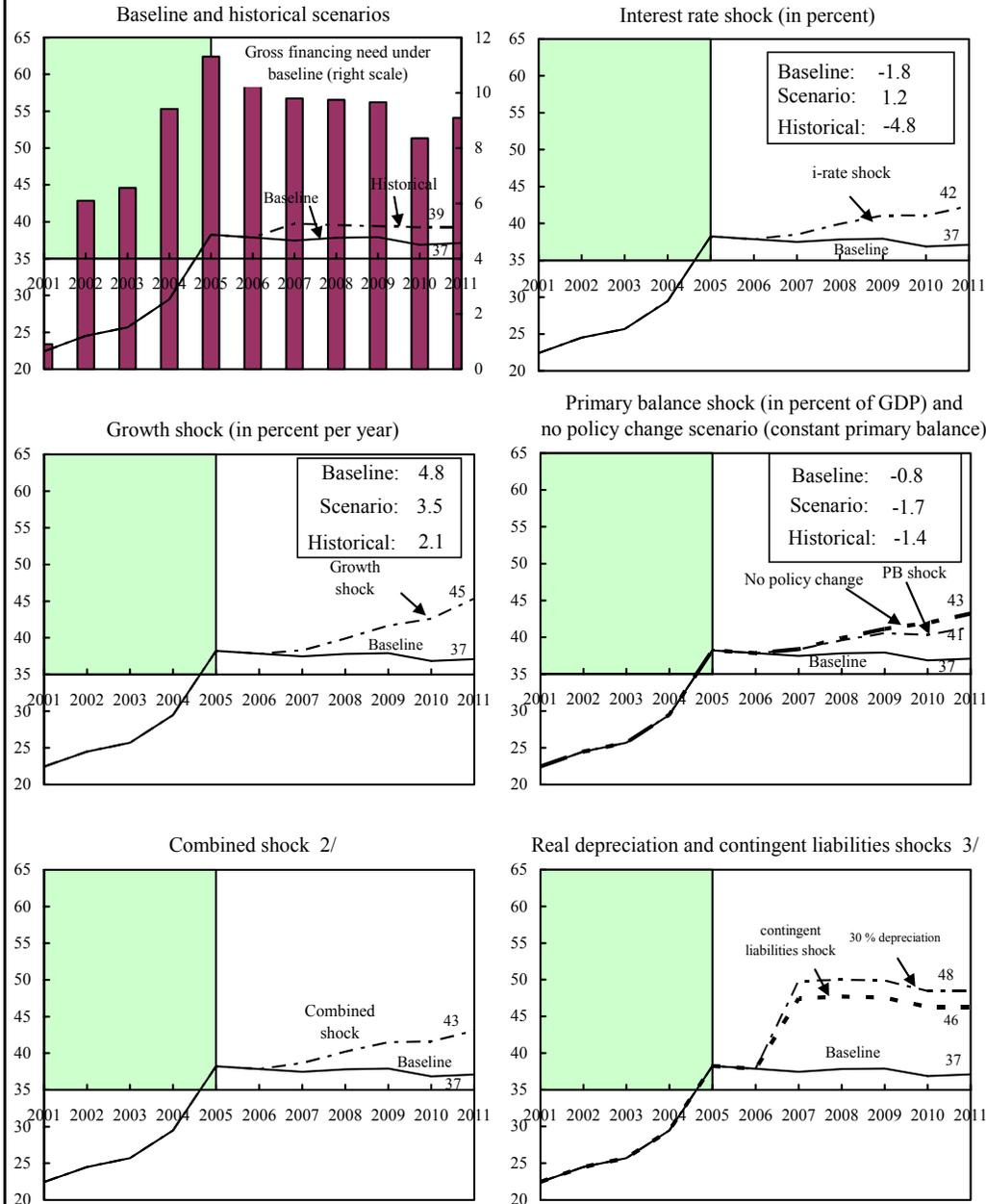
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth, nominal interest rate, dollar deflator growth, and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 3. Syrian Arab Republic: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



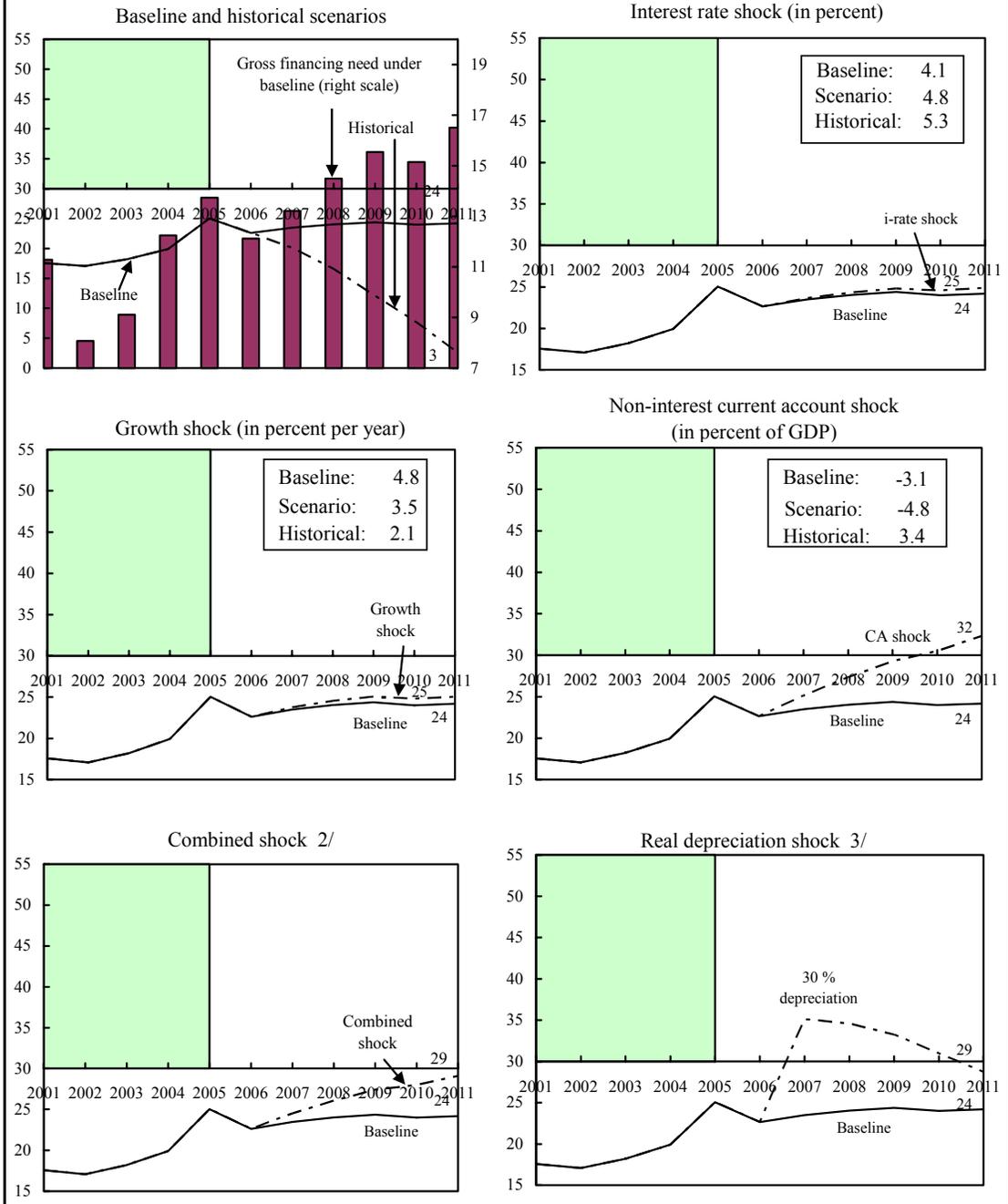
Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 4. Syrian Arab Republic: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks.

Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2006.

Annex I. Syrian Arab Republic: The Reform Strategy in the 10 th Five-Year Development Plan, 2006–10 Accelerating the transition to a social market economy while maintaining financial stability			
Objectives	Strategy	Instruments	Supporting Reforms
<ul style="list-style-type: none"> • Raise per capita GDP growth to 5 percent by slowing population growth by ½ percent to 2 percent per year and increasing overall growth rates to 7 percent. • Reduce unemployment from 12 percent to 8 percent by 2010. • Reduce the poverty rate below 10 percent by 2010. 	<p>Maintain macroeconomic stability by ensuring effective adjustment to the fiscal and BOP shock from declining oil wealth.</p> <p>Accelerate structural reforms to create new sources of growth and income to compensate for the loss of oil revenues. The main driver of growth is private investment both domestic and foreign</p>	<p>Fiscal consolidation of 5-6 percent of GDP focused on revenue measures and phasing out oil price subsidies.</p> <p>Reforming the monetary policy framework.</p> <p>Trade liberalization.</p> <p>Improve the business climate.</p> <p>Promote financial sector development to mobilize savings and channel these to productive investments.</p>	<ul style="list-style-type: none"> • Tax policy reform toward a simple, efficient, and equitable system relying on two main taxes: (i) global income tax and (ii) VAT; • Tax administration reform: to allow the launch of the VAT, centered around introducing a large taxpayers unit, self assessment, and function-based tax administration; • PFM reform: modernize the budget process and adopt a new basic finance law; • Public expenditure review; • Civil service and public administration reform; • Public enterprise reform; • Put in place efficient social safety nets. • Give the central bank the mandate to maintain price stability. • Move toward market-based monetary control, including interest rate liberalization. • Unification of the exchange rate. • Current account convertibility. • Multilateral tariff reduction. • Reduce nontrade barriers. • Streamline customs procedures. • Company, competition, and bankruptcy laws. • Streamline licensing and registration requirements. • Judiciary reform aimed at improving the process and effectiveness of business-related penal cases. • Launch a T-bill market. • Restructure state-banks. • Strengthen bank regulation and bank supervision • Launch a stock exchange; develop insurance, pensions, and mortgages.

Annex II. Syrian Arab Republic: Reforms Since the Last Article IV Consultation

Fiscal

- The price of gasoline and cement were raised in January, 2006 by 23 and 55 percent, respectively.
- Tobacco tax was increased by 15 percent.
- Taxes on mobile phone and land-line were increased by 3 percent and 2 percent, respectively.
- The rates of the consumption tax on alcoholic beverages were increased.
- Stamp duties on contracts were reduced.
- A new vehicle duty was introduced.
- Procedures to collect property taxes were streamlined.

Monetary and Financial

- A Capital Market Authority was established in February, 2006
- A law to legalize the operations of foreign exchange bureaus was enacted in March, 2006.
- Two additional banks were licensed, one of which is the first Islamic bank.
- Nine insurance companies have been licensed since a legislation was issued in May, 2005 to open the market for the private sector.
- A regulation on net open position was issued in April, 2006.
- Banks were allowed to issue certificate of deposits.

Exchange Rate, Trade, and Market Regulation

- Following a tariff reduction round in May 2005, five additional rounds covering textile and clothing, cement, processed food, chemicals and inputs for metal industries were implemented in the remainder of the 2005 and in early 2006. As a result of these rounds, the maximum tariff rate has been lowered from 255 to 65 percent.
- The ban on imports of cotton fabric and garments was removed in early, 2006.
- The cement and electricity sectors were opened to private initiative and the ban on cement import was abolished.
- The licensing requirements for the import of raw materials were eliminated.

- The authorities expanded the list of private sector imports that could be financed through the official banking system in 2005 and allowed residents to buy foreign currencies from the licensed banks (within a limit of US\$ 5000) conditional on depositing it for a minimum period of 3 months in banks.
- Syria joined the International Center for Settlement of Investment Disputes, a measure aimed at boosting foreign investors' confidence.

Reforms “in the pipeline” include:

- Amendments to the Basic Finance Law are being finalized.
- A draft company law has been submitted to the government, which would simplify procedures and reduce the costs of starting a business.
- A draft competition and anti-trust law is being finalized.
- Ongoing work on a new investment law, which would, among other things, scrap the 49 percent limit on foreign ownership of banks.
- A law is being drafted to pave the way toward incorporating the Syrian Telecommunications Establishment and creating an independent regulatory body.

Annex III. Syrian Arab Republic: Summary of Exchange Rate System (as of May 2006)		
Exchange Rate 1/	Type of Transaction	
	Receipts	Payments
	I. Official Rates 2/	
Public sector transaction rate (LS/\$ 50)3/	<ul style="list-style-type: none"> • Public sector exports of crude oil and petroleum • Exports of public sector enterprises 4/ • Public sector remittances abroad • External loans and grants 	<ul style="list-style-type: none"> • Public sector imports including subsidized goods and invisibles. • Repayment of public loans and interest not related to inactive payments agreements. • Payment by the public sector approved by the committee for foreign Exchange. • Public sector enterprises' foreign exchange transactions.
Free market foreign exchange rate 5/ May 2,2006 (LS/\$ 51.75- 51.90) .	<ul style="list-style-type: none"> • Private exports. • Private capital inflow. • Private sector remittances and services receipts. • Earnings of staff of UN and diplomatic missions in Syria. • Domestic expenses of foreign oil companies. 	<ul style="list-style-type: none"> • All private imports of raw materials and some intermediate and final goods 6/ • Private sector purchases of foreign exchange for noncommercial transaction, including medical, students, religious, and travel expenses for limited amounts. • A few public sector invisible transactions.
	II. Unofficial Rate	
Parallel market rate 7/ May 2.,2006 (LS/\$ 51.80 – 51.90)	<ul style="list-style-type: none"> • Private unrecorded exports, remittances, service receipts, and capital inflows. 	<ul style="list-style-type: none"> • Private sector import payments (except for those listed above). • Unrecorded capital outflows.
<p>1/ Buying/selling rates. 2/ There is a legally designated official rate (LS/\$ 11.20/11.25); but Law 25 of 6/16/2004 abolishes the use of this rate for all transactions except service of debt under some inactive payment agreement. 3/ Set each year by the budget. 4/ Public sector enterprises may retain 100 percent of their export proceeds in special foreign currency accounts at the Commercial Bank of Syria and use the proceeds to import goods, subject to prior approval by the committee for foreign exchange, or they may sell the proceeds to other public enterprise 5/ Free market foreign exchange rate set daily by the CBoS in reference to the parallel market rate and used by banks for their transactions. Starting May 2005, the CB started quoting a band. 6/ Estimated in 2005 at about 60 percent of all private imports. 7/ Average of daily rates for the Syrian pound in Amman and Beirut.</p>		

Appendix I. Syrian Arab Republic: Fund Relations
(As of end-June 2006)

I. Membership Status: Joined April 10, 1947; Article XIV

II. General Resources Account:	SDR Million	Percent of Quota
Quota ¹	293.60	100.00
Fund holdings of currency	293.60	100.00
Reserve position in Fund	0.01	0.00

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	36.56	100.00
Holdings	36.58	100.03

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements: None

VI. Projected Obligations to Fund: (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2005	2006	2007	2008	2009
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00

VII. Exchange Rate Arrangement:

The exchange system in Syria is characterized by multiple exchange rates and a foreign exchange market segmented into public and private sector pools. The private sector has almost no access to the official pool, sourced by public sector foreign exchange revenues channeled through the Commercial Bank of Syria, and conducts its transactions on an unofficial parallel market located in Syria and offshore, sourced by foreign exchange from tourism, workers' remittances, proceeds from unrecorded exports, and private capital inflows. Under the multiple rate structure, there are two official rates pegged to the dollar and one unofficial (market determined) rate. The parallel market rate for the Syrian pound in

¹ Under the Eleventh General Review.

other countries in the region averaged about LS/\$52.3 in 2004 and about LS/\$54.3 in 2005. Most private sector transactions take place at this rate.

VIII. Article IV Consultations:

Syria is on the annual consultation cycle. The last consultation was held in April/May 2005 and was completed on August 31, 2005.

IX. Article XIV Restrictions:

Syria continues to maintain, under Article XIV, restrictions on payments and transfers for current international transactions, including administrative allocation of foreign exchange. Syria also maintains exchange measures that are subject to Fund approval under Article VIII: (i) prohibition against purchases by private parties of foreign exchange from the banking system for some current international transactions; (ii) a multiple currency practice resulting from divergences of more than 2 percent between the official exchange rate and officially recognized exchange rates; (iii) a non-interest-bearing advance import deposit requirement of 75–100 percent for public sector imports as well as private sector imports which are not financed from abroad; and (iv) an exchange restriction arising from the net debt under inoperative bilateral payments arrangements with the Islamic Republic of Iran, and Sri Lanka.

The Executive Board adopted the decision No. 13554-(05/75) at a Board meeting on August 31, 2005:

1. The Fund takes this decision relating to the Syrian Arab Republic's exchange measures subject to Article VIII, Section 2(a) and 3, and in concluding the 2005 Article XIV consultation with the Syrian Arab Republic, in the light of the 2005 Article IV consultations with the Syrian Arab Republic concluded under Decision No. 5392- (77/63) adopted on April 29, 1977, as amended (surveillance over Exchange Rate Policies).
2. The Syrian Arab Republic maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, as described in the IMF Country Report 05/356. In addition, as described in the IMF Country Report 05/356, the Syrian Arab Republic maintains measures subject to approval under Article VIII. The Fund encourages the Syrian Arab Republic to eliminate the restrictions maintained under Article XIV, Section 2 as soon as its balance of payments permits, and to eliminate the measures that are subject to approval under Article VIII as soon as possible.

IX. Technical Assistance:

Department	Topic	Date
FAD	Public Financial Management	February 2006
MFD	Long-term advisors on central bank accounting, reserves management, and monetary policy issues.	On going
MFD	Foreign Exchange Market Development, Unification and Exchange Regime	January 2006
MFD	Long-term advisor on securities market	September 2005
MFD	Centralization of Official Foreign Reserves and Associated Accounting, Reserves and Public Debt Management Issues	September 2005
METAC	National income accounts	Ongoing
	Bank regulation and supervision	Ongoing
MFD	Re-organization of the central bank of Syria	May 2005
FAD	Revenue Administration	March 2005
MFD/LEG	AML/CFT	Feb/March 2005
STA	Multi-sector statistics (national accounts, fiscal, monetary, and balance of payments)	June 2004
FAD	Value-added tax	July 2004
MAE	Two long-term advisors on bank regulation and bank supervision	2002–2004
MAE	Two-day workshop on on-site banking supervision	July 2002
MAE	Workshop on off-site banking supervision	March 2002

Appendix II. Syrian Arab Republic: Relations with the World Bank Group
(End-March 2006)

1. In June 2002, Syria settled its overdue service payments to IBRD and IDA, which had risen to the equivalent of \$526 million as of mid-1997, and all loans and credits were restored to accrual status. Consequently, the country's eligibility for disbursements was reinstated as of July 1, 2002.
2. Subsequent to the agreement on arrears in July 1997, the World Bank began to provide non-lending services to Syria. Initial activities included support for the Ministry of Finance and the Central Bank of Syria in accounting and the establishment of an external debt management system in the form of grants from the Institutional Development Fund; planning and implementation grants supporting Year 2000 remediation efforts; the Global Environment Fund biodiversity project; and reviews of the trade regime (including export promotion), health, roads, urban water and sanitation, and agricultural irrigation sectors.
3. In the last two years, the authorities have continued to request only non-lending support from the Bank. Analytical services have focused mainly on the trade and investment agenda. A trade policy report entitled "Harnessing Trade for Growth" was submitted to the Authorities in December 2004. A Trade Logistics study was completed in 2003, and discussed in a large workshop with the private sector in December 2003. An Investment Climate Assessment survey was carried out in 2003 and 2004, and its result have been finalized in a report dated June, 2005. The World Bank has also initiated a grant activity (from April 2005) in collaboration with the Fund and the UNDP to establish a National Statistical Capacity Strategy.
4. The Bank program over the next 3 years will be based mainly on knowledge transfer and analytical services focusing on two pillars: (i) economic reform and transition; and (ii) human development and social protection.
 - On the first pillar, the program will build on the substantial analytical and survey work done in the last year that resulted in two trade reports and in the forthcoming Investment Climate Assessment report that will be presented to the authorities. The Bank will provide both analytical advice and technical assistance to the Authorities in their search for a solid and global strategy of economic growth and transition to private sector-led economy. This would imply integrating within the existing trade and investment agenda issues linked to fiscal and monetary policy, financial sector reform, and public enterprise reforms.
 - On the second pillar, the Bank will be focusing on assisting the Authorities in (i) developing a comprehensive education sector strategy as agreed with the Minister of Education; (ii) understanding the labor market and designing appropriate policies

and programs, and (iii) assessing their social assistance programs and policies and providing recommendations on reforming the system.

5. IFC has been active in Syria since 1999 when the Board approved the corporation's first investment in the country—a \$1 million equity stake in a manufacturer of drip irrigation systems. Since that time, IFC has made two other investments, including an equity position in the first private sector bank in Syria and a loan to a chemicals company. The total held portfolio is \$20.2 million. IFC has also conducted technical assistance work, including studies of aspects of the financial sector.

Appendix III. Syrian Arab Republic: Statistical Issues

1. The macroeconomic statistics are affected by weaknesses in coverage, consistency, periodicity, and timeliness, which hamper the staff's ability to conduct economic analysis and effective surveillance. Efforts should be directed to address weaknesses in national accounts, government finance, monetary and financial, and balance of payments statistics.
2. In the context of Article IV missions, Syrian representatives have expressed an intention to address the need for statistical improvement. They have agreed that Syria's participation in the General Data Dissemination System (GDDS) would provide a framework for statistical development. To this end, compilers from the Ministry of Finance, Central Bank of Syria (CBS), and the Central Bureau of Statistics participated in a GDDS Workshop in Abu Dhabi during February 27-March 9, 2005 and prepared preliminary metadata for all macroeconomic sectors. In addition, the authorities have appointed a GDDS coordinator. A draft description of institutional frameworks, data sources, compilation methods, and data dissemination practices (metadata) for Syria's fiscal, financial, and external sector data was sent to Syria's GDDS Coordinator in May 2006 with a request to review and complete the missing information. On May 30, 2006, the draft metadata were transmitted to the GDDS coordinator to be updated, clarified where needed, and to include the missing information.
3. Statistical issues in various sectors of the economy are discussed below.

A. Real Sector

4. A series of Statistics Department (STA) and Middle East Technical Assistance Center (METAC) national accounts and price statistics missions over the period 2005-early 2006 found that the Central Bureau of Statistics has made steady progress implementing prior STA recommendations and updating the base year for the national accounts to 2000. However the following weaknesses still exist:
 - GDP estimates by the production approach suffer from under-coverage of activities, particularly in private services while free zone activities are not covered;
 - Syria has a multiple exchange rate system. This imposes implicit indirect taxes and subsidies that can affect GDP and other national accounts aggregates. Currently, no adjustments are made to accounts for these factors;
 - estimates of household final consumption expenditures are residually determined and include the change in inventories, as the latter is not estimated separately. The authorities have begun to make use of the 2004 Household Income and Expenditure Survey and to collect data on inventory changes in the public sector;

- consumption of fixed capital is estimated as a constant ratio of output;
 - net income flows between residents and nonresidents derived from the balance of payments are unsatisfactory. As a result, the estimates of saving, investment, and net borrowing from abroad are unreliable;
 - consumer price index calculations are nonstandard. Prices for each month are compared to the same month of the base year; and there are four weighing schemes, one for each quarter. Consequently, no month-on-month inflation can be derived, and the annual average inflation is not equal to the sum of the monthly indices. However, improvements are imminent following technical assistance provided by METAC; and
 - the wholesale price index is compiled and reported annually, but it is not representative of market determined prices, as most prices are for goods and services provided by public sector enterprises.
5. The latest national accounts figures reported for publication in the *International Finance Statistics* (IFS) refer to 2002, although the Central Bureau of Statistics published more recent data in its Statistical Abstract.

B. Government Finance

- Syria's government finance statistics (GFS) suffer from major deficiencies with respect to definitions, coverage, classification, methodology, accuracy, reliability, and timeliness that generate severe inconsistencies with monetary and balance of payments statistics. The multisector mission of June 2004 found that compilation of GFS by the MOF is adversely affected by cumbersome institutional arrangements, inadequate resource availability and unresolved methodological problems. The methodology used for compilation does not follow either *GFSM 2001* or *GFSM 1986*. While budget data are available with very long lags (two years for final budget accounts), financing data are not available. There is no dissemination of GFS data, and even access to key data sources by GFS compilers within the MOF, such as the breakdown of debt service into interest and amortization, is problematic. This contributes to discrepancies in external financing as reported in the budget and the balance of payment statistics.
- The largest, most persistent and volatile discrepancies are between the financing requirements of the budget, as reported by the MOF, and government financing as reported by the CBS. The lack of a common and regularly updated coverage of the government sector between the MOF and the CBS, misclassification of public enterprises investment expenditure, as well as timing and valuation issues, are mainly responsible for those discrepancies.

- Other discrepancies between fiscal and monetary accounts relate to the unorthodox treatment by the CBS of some transactions with government, such as the parallel rise of government deposits and claims on government in the CBS balance sheet, which is likely due to government withdrawals being counted as credit and never netted out against deposits, and profits transferred to government treated as permanent claim on the government.
- To address the methodological issues, the June 2004 multisector mission developed a preliminary bridge table that maps the budgetary source data codes to the *GFSM 2001* classification codes, and conducted a seminar to clarify various aspects of the *GFSM 2001* methodology to the MOF officials. To help the Directorate of Planning and Statistics (DPS) implement a proper sectorization scheme, the mission provided an updated institutional table showing the current coverage of government and public enterprises—the investment expenditure of public enterprises is included in government’s capital expenditure—for circulation to all relevant agencies. Moreover, the mission formulated a detailed work plan centered around the provision of adequate resources and training for the DPS to fulfill its tasks. The work plan calls for the DPS to access core source data necessary for compilation—initially on a cash basis—of annual GFS data according to the *GFSM 2001*, and for the resumption of data reporting to STA for publication in *GFSY* and *IFS*, together with improved reporting, in terms of coverage and classification, to the IMF’s Middle East and Central Asia Department (MCD). The mission also recommended improvement in the timeliness of annual data, including data on financing, and a start on the compilation of sub-annual data.
- Syria stopped reporting annual fiscal data for publication in the *Government Finance Statistics Yearbook*. The latest data reported are for 1999. Moreover, the reported data are partial, overly aggregated, in part misclassified, and do not include extra-budgetary and social security accounts. No data on financing and debt are provided.

C. Monetary Accounts

6. Monetary statistics suffer from major deficiencies which hamper the staff's ability to conduct meaningful analysis of monetary developments. The multisector statistics mission in June 2004 found that while the format of monetary statistics is largely consistent with the structure of recommended *MFSM* sectoral surveys, the institutional coverage of monetary statistics is incomplete, and there are deficiencies in the source data arising from, *inter alia*, (i) the use of different exchange rates at the CBS and at the other banks for valuing their foreign positions; (ii) financial positions are not valued at market prices or market-price equivalents; (iii) a number of accounting procedures for the maintenance of public sector accounts cause distortions in the measurement of gross positions; (iv) recently established private banks as well as banks and bank branches operating in the Free Zones are excluded from the coverage of monetary survey; and (v) there are disparities between the institutional coverage of public sector in monetary statistics and the government finance statistics.

7. To address the source data deficiencies, the June 2004 multisector mission recommended: (a) the use of a market exchange rate for valuing all foreign currency denominated positions at all banks, including the central bank, or as an intermediate step, the use of a single rate closest to the market rate for valuing all foreign currency positions at the CBS and at the other banks, (b) valuation of financial positions based on market prices or market price equivalents; (c) inclusion of recently established private banks as well as banks and bank branches operating in the Free Zones in the coverage of the monetary survey; and (d) full adoption of the residency principle based on the center of economic interest. Further, the accounting procedures for the maintenance of public administrative sector's current accounts and the classification of the CBS' profit advances to the government should be revised to an outstanding stock basis (for example, by ensuring that the deposit accounts are debited for any checks presented instead of the check amount treated as an advance and credited to a claim on the check issuer). The institutional lists for public administrative and economic sectors should be updated for consistency with the recommendations for the government finance statistics made by the mission, and these lists should be used as the basis for collecting data and compiling monetary accounts.

8. Monthly monetary data for the *IFS* are reported with a considerable lag, only very recently reduced to about six months.

D. Balance of Payments

9. Annual balance of payments statistics are compiled by the CBS on a provisional basis with about an eight-month lag. As of April 2006, the latest balance of payments statistics reported for publication in the *IFS* refer to 2004. Trade data are compiled monthly by the Customs Department and reported quarterly by the Central Bureau of Statistics in local currency units with a six-month lag. The BOP is presented in *BPM5* format, but its

compilation method is not entirely consistent with the *BPM5* methodology. The June 2004 STA mission observed the following weaknesses:

- Private transfers do not fully reflect remittances by Syrians working abroad. The statistics in the BOP for official transfers differ significantly from figures provided from other sources, such as donors.
- Data on long-term official capital inflows and amortization are not consistent with the data provided by the MOF on the external financing of the budget deficit. Data on private capital movements are incomplete.
- Data on external debt continue to be incomplete, and external debt service obligations and arrears are not recorded in the BOP.
- Military imports are excluded from BOP and external debt data.
- There is a large discrepancy between reserve flows reported in the BOP and the reserve flows implied by the monetary survey. In particular, Net Foreign Assets (NFA) of the banking system are much higher in the monetary survey than in the international liquidity table derived from the balance of payments.

10. The mission recommended the adoption of a new foreign exchange form (developed by the mission) to improve source data—and the establishment of an enterprise register to estimate foreign direct investment—for the balance of payments statistics. It also recommended the dissemination of international reserves and external debt data—neither of which is currently disseminated for reasons of confidentiality.

11. In February 2006, an STA assessment mission visited Damascus to assess the status of the work program as a basis for developing a METAC technical assistance program on external sector statistics. The mission reported minimal progress in implementing the work program and in addressing weaknesses. The mission recommended the following five priority areas for technical assistance:

- compiling reliable import and export data based on information from the banking system and data sources other than the Customs Department/CBS;
- estimating FDI data based on information from the Ministry of Planning and/or a sample of FDI companies;
- implementing the new reporting form for commercial banks (to improve various components of the BOP, specifically services);
- deriving flow data from the balance sheets from commercial banks and the CBS (financial account transactions); and
- hands-on training for the new staff.

A METAC mission will visit the Central Bank of Syria (CBS) in Damascus during June 26–29, 2006 to: assess progress in developing the institutional infrastructure for compiling balance of payments statistics; provide technical advice on implementing the international transactions reporting system (ITRS) for commercial banks and foreign exchange bureaus; review the international reserves data; and identify specific areas for further technical assistance in revamping the data compilation system. The mission will also follow up with CBS and the central bureau of statistics on finalizing the external sector metadata for the General Data Dissemination System (GDDS).

Syrian Arab Republic: Table of Common Indicators Required for Surveillance
As of June 22, 2006

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	Feb. 2006	Mar. 2006	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Feb. 2006	Mar. 2006	M	...	M
Reserve/Base Money	Sep. 2005	Mar. 2006	M	...	M
Broad Money	Sep..2005	Mar. 2006	M	...	.M
Central Bank Balance Sheet	Sep. 2005	Mar. 2006	M	...	M
Consolidated Balance Sheet of the Banking System	Sep. 2005	Mar. 2006	M	...	M
Interest Rates ²	Mar..2005	Apr. 2005	M	...	M
Consumer Price Index	Dec. 2004	Apr. 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2003	Apr. 2005	A	A	A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	2003	Apr. 2005	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2003	Apr. 2005	A	A	A
External Current Account Balance	Dec. 2004	Apr. 2005	A	A	A
Exports and Imports of Goods and Services	Dec. 2004	Apr. 2005	A	A	A
GDP/GNP	Dec. 2003	Apr. 2005	A	A	A
Gross External Debt	Dec. 2003	Apr. 2005	A	A	A

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).



INTERNATIONAL MONETARY FUND

Public Information Notice

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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2006 Article IV Consultation with the Syrian Arab Republic

On July 31, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Syrian Arab Republic.¹

Background

The economy proved quite resilient in the face of the unsettling political developments, following the assassination of Lebanese Prime Minister Hariri. Economic activity picked up steam buoyed by private investment and supported by the oil boom in the Gulf region. However, growth was accompanied by a rise in inflation, reflecting, in part, an expansionary monetary policy. The non-oil budget balance improved significantly by about 2½ percent of GDP, offsetting some of the pronounced fall in oil revenues. However, this improvement was mainly due to transfers from public enterprises. Similarly, the non-oil current account balance improved, contributing to maintaining external balance despite the sharp fall in net oil exports. Public and external debts remain moderate, and official foreign reserves cover close to 2 years of imports.

The recovery seems poised to continue in 2006 despite the still volatile regional environment. The non-oil GDP growth momentum is expected to be sustained by robust investment

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

expansion and good export performance, reflecting greater access to regional Arab markets and the benefits from the concerted policy to promote tourism. This, together with the windfall from higher oil prices and an increase in Foreign Direct Investment, will maintain a comfortable balance of payments. The 2006 budget and measures adopted subsequently, including the increase in the price of cement and gasoline, is expected to yield close to ½ percentage-point improvement in the underlying fiscal position. Together with a modest increase in oil revenues, this fiscal tightening should narrow the overall budget deficit to 3¼ percent of GDP and limit the inflationary and crowding out impact of its domestic financing. With the recent measures to tighten credit policy, these developments should help in reining in inflation, if supported by an appropriately restrained wage policy.

Over the medium term Syria faces daunting economic challenges. The decline of oil reserves poses a threat to fiscal and external sustainability, and the associated fall in oil revenues will make it harder to preserve, much less expand living standards. A bulge in labor market entrants will strain an already precarious unemployment situation and increase pressure to protect redundant labor in an overstuffed public sector. These challenges are further compounded by political uncertainties and a volatile regional environment. In this context, the surge in international oil prices has provided a short-term windfall but will aggravate the medium-term outlook when Syria becomes a net oil importer around the year 2010 based on current oil price projections. Based on the latest projections for oil output, staff estimates that budgetary oil revenues and net oil exports will deteriorate by more than 10 percentage points of GDP in the next 10 years.

To address these challenges, a number of reforms have already been initiated to encourage private entrepreneurship, promote market mechanisms, open the economy to the rest of the world, liberalize the financial system, and begin to strengthen the medium-term fiscal outlook. Looking forward, the recently adopted Five-Year Plan (FYP) outlines a comprehensive strategy to deepen these reforms.

Executive Board Assessment

Executive Directors commended the Syrian authorities for their steady progress in implementing reforms aimed at encouraging private entrepreneurship, promoting market mechanisms, opening the economy, and liberalizing the financial system. The ongoing pickup in economic activity is testimony to the impact of these reforms on the investment climate. These reforms, together with the support from the oil boom in the Gulf region, have so far allowed the economy to withstand the heightened political uncertainties and maintain forward momentum.

Directors noted that, although the short-term outlook and positive supply response are encouraging, there are important challenges ahead. The short term windfall afforded by the surge in international oil prices will end as Syria becomes a net oil importer in the next few

years, with adverse implications for medium-term prospects. Directors considered that the newly-adopted FYP reflects appropriately the need to confront these challenges. They encouraged the authorities to be ambitious in implementing the FYP's comprehensive reform strategy, in particular by pursuing strong fiscal consolidation and structural reforms to create new sources of growth and income to replace the waning oil wealth. Directors emphasized that putting in place efficient social safety nets will help preserve social equity and engender public support for the reform efforts.

Directors agreed that a sizable fiscal adjustment will be needed to preserve sustainability, and in this context observed that the adoption of a transparent fiscal policy framework, aimed at a steady improvement in the non-oil budget balance, would be key to help maintain fiscal discipline. They noted that a front-loaded effort, taking advantage of the current favorable economic conjuncture, would boost market confidence.

Directors agreed that introducing a broad-based value-added tax (VAT) and phasing out petroleum price subsidies should be the main pillars of the fiscal adjustment. In addition, phasing out petroleum price subsidies should generate significant efficiency gains, redress part of the social inequity in the existing policy, and bolster long term growth prospects by enabling fiscal retrenchment without cutting critical spending on education, health, and infrastructure. While recognizing the challenges involved and the capacity constraints faced by the authorities, Directors underscored that steadfast preparation of both these reforms, with technical assistance support, should be given a high priority. In this respect, they called for faster progress in implementing the reforms of tax administration needed to underpin a VAT. In particular, preparations for introducing the tax self-assessment mechanism and opening the first large taxpayers' unit need to be accelerated. Directors also noted the work to be undertaken to ensure that the compensation scheme to mitigate the impact of phasing out the petroleum price subsidies is carefully designed and implemented.

Directors concurred that a tighter monetary stance, along with wage discipline, is needed to reduce inflation pressures. Going forward, they called for the development of market-based monetary instruments. They welcomed the recent steps toward exchange rate unification and current account convertibility, including the relaxation of exchange restrictions on private sector imports, and encouraged the authorities to move towards unification, building on the broad-based political consensus. Directors called for steady progress in the central bank's preparations to launch the interbank foreign exchange market and to develop the technical capacity to intervene to reduce excessive volatility. They considered that although the level of the real exchange rate appears broadly appropriate, its recent strengthening should be monitored carefully in view of the prospective decline in oil exports and the need to promote non-oil exports.

Directors welcomed the fast-paced expansion of private banking activity and strong investor interest in the financial sector. They encouraged the authorities to build on the preliminary assessment of the activities and financial position of the state banks with further steps toward their restructuring. In this regard, independent audits of state banks could help to guide the decision on the restructuring options, including opening their capital to strategic investors, or liquidating significantly undercapitalized or low-franchise-value banks. Directors highlighted the importance of ensuring that bank supervision keeps pace with financial liberalization, and that Anti-Money Laundering/Combating Financing of Terrorism legislation is effectively implemented.

Directors welcomed the steady progress made in trade liberalization, and the authorities' commitment to greater transparency regarding remaining trade restrictions. They urged the authorities to give priority to eliminating key nontariff barriers in order to signal their determination to address the trade agenda. Implementing the regulatory measures under the Syria/European Union Association Agreement will contribute to making progress towards observance of WTO rules and disciplines. More broadly, Directors encouraged the authorities to press ahead with reforms aimed at scaling down the state's involvement in the economy, improving governance, and fostering private-sector growth.

Directors urged the authorities to improve the quality and timeliness of economic statistics, including indicators of short-term activity. They welcomed the authorities' decision to participate in the General Data Dissemination System, which should give impetus to a far-reaching revamping of Syria's statistical infrastructure.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The Staff Report for the 2006 Article IV Consultation with is also available.

Syrian Arab Republic: Selected Economic Indicators, 2001–06

	2001	2002	2003	2004	Prel. 2005	Proj. 2006
	(Change in percent, unless otherwise indicated)					
Real sector						
Real GDP	3.7	3.7	1.0	3.1	2.9	3.2
Real non-oil GDP	8.1	3.0	3.9	5.0	5.5	5.5
CPI period average	3.4	-0.5	5.8	4.4	7.2	5.6
Crude oil production ('000 barrels/day)	504	496	477	462	431	405
Oil export price (\$ per barrel)	22.1	23.2	26.9	33.4	48.3	58.8
	3.0	4.0	3.5	5.0	5.2	5.6
	(In percent of GDP, unless otherwise indicated)					
Public finances 1/						
Revenue	30.1	26.2	28.5	27.4	26.5	27.5
Oil-related revenue	17.9	12.5	14.6	11.2	8.8	10.0
Non-oil revenue	12.2	13.7	13.9	16.1	17.7	17.6
Expenditure	27.8	28.2	31.1	31.6	30.7	30.7
Current expenditure	17.0	16.2	17.5	19.1	18.8	18.9
Development expenditure	10.8	12.0	13.6	12.5	11.8	11.8
Overall balance	2.3	-2.0	-2.6	-4.2	-4.2	-3.2
Non-oil budget balance	-15.6	-14.5	-17.2	-15.4	-13.0	-13.1
Gross debt 2/	22.3	24.2	25.5	29.2	38.2	37.9
	(Change in percent of beginning period money stock)					
Money and quasi-money	23.5	18.5	7.7	11.1	12.9	9.2
Net foreign assets	21.0	12.2	3.1	5.4	1.1	3.1
Net domestic assets	2.6	6.3	4.6	5.8	11.8	6.1
Credit to private sector (change in percent)	4.5	6.6	30.3	35.0	45.9	21.9
Reserve money (change in percent)	16.9	16.0	10.2	25.2	11.4	9.2
	(In billions of U.S. dollars, unless otherwise indicated)					
Balance of payments						
Balance of goods and services	11.7	13.1	12.1	13.8	13.5	14.9
Oil balance	3.0	3.0	2.4	1.3	0.7	1.0
Non-oil exports of goods and services	3.0	4.0	3.5	5.0	5.2	5.6
Non-oil imports of goods and services	-5.7	-6.2	-6.1	-7.5	-7.6	-8.4
Current account balance	1.2	1.6	1.1	0.0	-0.6	-0.6
Foreign direct investment (in percent of GDP)	0.5	0.5	0.7	1.1	2.0	2.5
Overall balance	3.0	2.4	0.8	0.2	-0.2	0.5
Official net foreign assets	14.3	16.8	17.6	17.8	17.6	18.2
(in months of imports of G&S)	29.5	29.3	31.1	24.6	20.9	21.4
Debt						
External debt (percent of GDP) 2/	17.4	16.9	18.1	19.7	25.0	22.6
Debt service-to-exports ratio (payments basis)	19.5	14.7	14.0	11.4	16.1	10.4
Exchange rates LS/\$ (period average)						
Official transaction rate	46.5	46.5	46.5	48.7	50.0	...
Parallel market rate (Beirut/Amman)	50.4	52.4	52.8	52.3	54.3	...
Weighted average nominal exchange rate 3/	48.1	49.1	49.2	50.5	52.2	...
Real effective exchange rate (1990=100)	59.6	57.0	59.0	58.9	59.9	...
(change in percent)	0.4	-4.3	3.5	-0.2	1.7	...

Sources: Data provided by the Syrian authorities; and staff estimates and projections.

1/ Including the Price Stabilization Fund and a broad coverage of public enterprises.

2/ Most of the increase in 2005 is due to the recognition of the old Soviet era debt, which has been rescheduled in late 2004 to early 2005, and was not included in the historical data.

3/ Trade-weighted average exchange rate of official and parallel market rates.