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Syrian Arab Republic: 2005 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 2005 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 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 2, 2005, 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 26, 2005. 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 August 31, 2005 discussion of the staff report that concluded the Article IV consultation.

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

Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

SYRIAN ARAB REPUBLIC

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with the Syrian Arab Republic

Approved by Amor Tahari and Anthony Boote

July 26, 2005

- **The 2005 Article IV discussions were held in Damascus during April 18–May 2, 2005.** The mission met with Minister Al-Hussein (Minister of Finance), Governor Mayaleh (Governor of the Central Bank of Syria), Minister Lotfi (Minister of Economy and Trade), Minister Dardari (Head of the State Planning Commission), Minister Hadad (Minister of Petroleum and Mineral Resources), Minister Al-Kalaa (Minister of Tourism), and Minister Alhaj Aref (Minister of Labor and Social Affairs). The staff team comprised Mrs. Moalla-Fetini (head), Messrs. Mikhael, Pani, and Singh (all MCD), Mr. Kisinbay (MFD), Mr. Soueid (ICM), and Ms. Dakanay (staff assistant). Mr. Kanaan (Alternate Executive Director) joined the policy discussions.
- **At the conclusion of the 2004 Article IV consultation on April 30, 2004, Executive Directors** commended the authorities for maintaining a stable macroeconomic framework with external account surpluses and a comfortable international reserve position in a difficult security environment. They noted that progress had been made on structural reforms, including a simplification of the exchange rate system, the adoption of a new income tax law, the introduction of some interest rate flexibility, and the licensing of private banks. Directors noted, however, that growth remained moderate and unemployment high, while the fiscal position was weakening and vulnerable to oil price fluctuations. They agreed that Syria needed to accelerate the pace of reforms, reduce its dependency on depleting oil reserves, and raise private investment and growth to reduce unemployment.
- **Significant data weaknesses in terms of coverage, consistency, periodicity, and timeliness remain.** Preliminary balance of payments and monetary statistics are available up to 2004, while national income and fiscal accounts are available only up to 2003. These weaknesses continue to hamper the staff's ability to conduct economic analysis and effective surveillance.
- **Syria continues to avail itself of the transitional provisions of Article XIV, and maintains exchange measures that are subject to Fund's approval under Article VIII.**

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Executive Summary

Recent developments and medium-term prospects

- Following a significant growth slowdown in 2003 owing to the regional conflict, a mild recovery—driven by a surge in investment and an upturn in exports—seems to have started since early 2004. In spite of the troubled international environment, the recovery is poised to continue in 2005, supported by further strengthening of private investment and exports. Inflation remained subdued, while the external position weakened, reflecting a decline in oil exports and unidentified inflows. Nonetheless, public and external debt remains manageable, and official foreign assets cover more than 2½ years of imports.

- Over the medium term, Syria faces a major fiscal and balance of payment shock from the decline in oil production and the dwindling of oil reserves. In the absence of new discoveries, Syria is likely to become a net oil importer within a few years and will exhaust its oil reserves in the late 2020s. This would halve government oil revenues to about 7½ percent of GDP by 2010, while net foreign exchange receipts from oil would decline from 14 percent of GDP (US$3 billion) in 2003 to nearly zero by 2010.

Policy discussions

Against this background, discussions focused on two inter-related medium-term challenges posed by the prospective depletion of oil reserves:

- The first challenge is to maintain fiscal sustainability and financial stability: staff welcomed the recent tax and expenditure measures, but recommended that these steps be developed into a credible fiscal consolidation strategy within a transparent medium-term fiscal framework, which should target a steady improvement in the non-oil budget balance. This calls for comprehensive tax and expenditure reforms, including adopting a broad-based VAT, overhauling the price subsidy system, downsizing an overstuffed and ill-paid civil service, and restructuring/privatizing public enterprises. Maintaining financial stability would also require strengthening the role of the central bank in formulating and implementing monetary and foreign exchange policies, with a primary focus on price stability, and re-orienting the activities of the commercial bank of Syria toward traditional commercial banking.

- The second challenge is to boost growth in order to expand and diversify the production and export base of the economy before oil resources are exhausted, and face the high demographic pressures on the labor market. This calls for accelerating structural reforms to enhance the incentives for the private sector (both domestic and foreign) to invest, and the capability of the financial sector to intermediate. Priority areas are further trade liberalization, foreign exchange unification and current account convertibility, the nurturing of an open, competitive and resilient financial sector, and institutional reforms aimed at strengthening competition, good governance, property rights, and the rule of law.

I. Overview And Key Issues

1. **Following a decade of high growth in the 1990s, economic performance has weakened significantly in recent years, and the medium-term outlook is clouded by the prospect of declining oil production.** The growth acceleration in the early 1990s had reflected rising oil production and an upsurge in private sector investment prompted by fiscal incentives and reforms to start the transition to a market economy. In addition, higher oil revenues allowed the financing of a number of large-scale power projects and infrastructure development. The leveling off and subsequent decline of oil production, and a sharp contraction of private investment—as the reforms ebbed and the external environment became less hospitable—led to a significant growth slowdown (Figures 1 and 2). Real economic growth averaged only 1¼ percent a year in 1999–2003, lagging population growth and leading to a decline in living standards and an increase in unemployment. The medium-term prospects are worrisome given that oil, which presently contributes 20 percent of GDP, two-thirds of exports, and half of government revenues (about 15 percent of GDP), is likely to be exhausted in the late 2020s and Syria may become a net oil importer within a few years.

2. **Rising international oil prices starting in mid-1999 helped maintain financial stability in the face of declining oil production.** Buoyant oil revenues contributed to low inflation, stable exchange rates, and strong external balances. As a result, public debt was kept at relatively moderate levels, while official foreign assets were built up to over 2¾ years of imports.

3. **Against this background, government policies and Fund advice since the early 2000s have focused primarily on structural reforms to boost growth and also on strengthening the medium-term budgetary outlook, given the prospective decline in oil revenues.** While there has been agreement on the overall strategy, differences have mainly been related to the pace of reform.

4. **Therefore, two key issues are at the heart of the policy agenda in Syria**:

- **Fiscal sustainability:** Syria's budget has been relying increasingly on oil revenues and the trend increase in international oil prices has led to a creeping increase in public spending. By 2003, spending rose to an amount equivalent to 33 percent of GDP, leading to a widening of the non-oil budget deficit to 18 percent of GDP (Tables 1, 2, and 3). The prospective depletion of oil reserves makes the current fiscal policy unsustainable and calls for a major fiscal consolidation.

Overall and Non-Oil Budget Balances
(In percent of GDP)

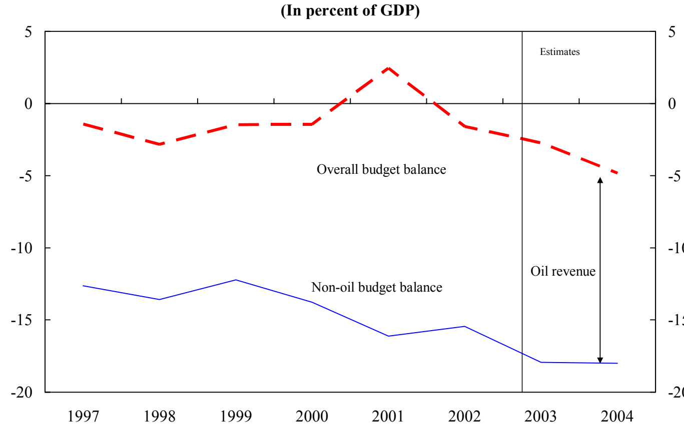
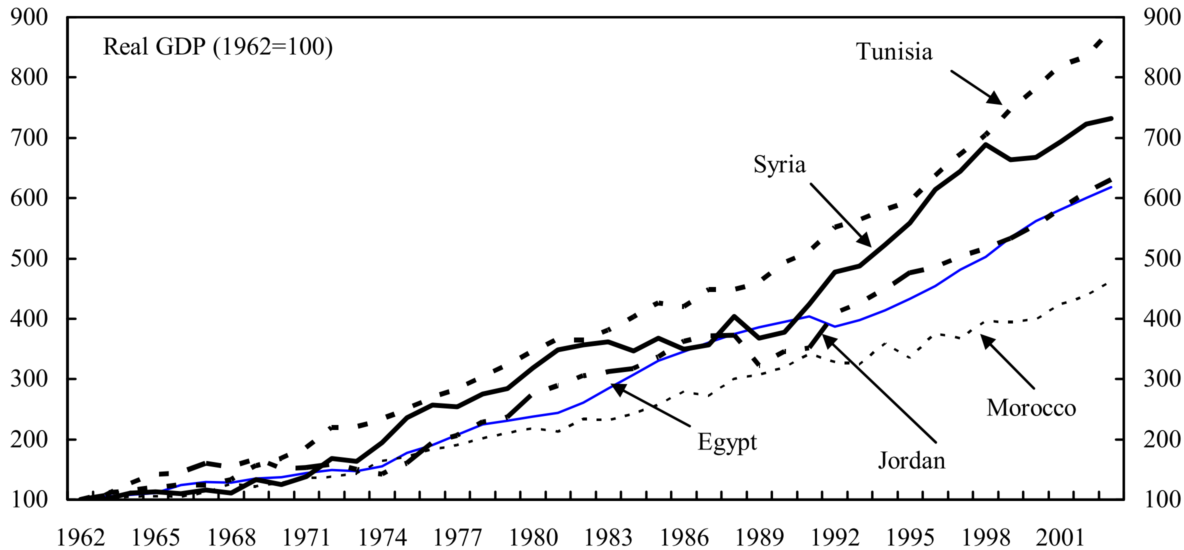
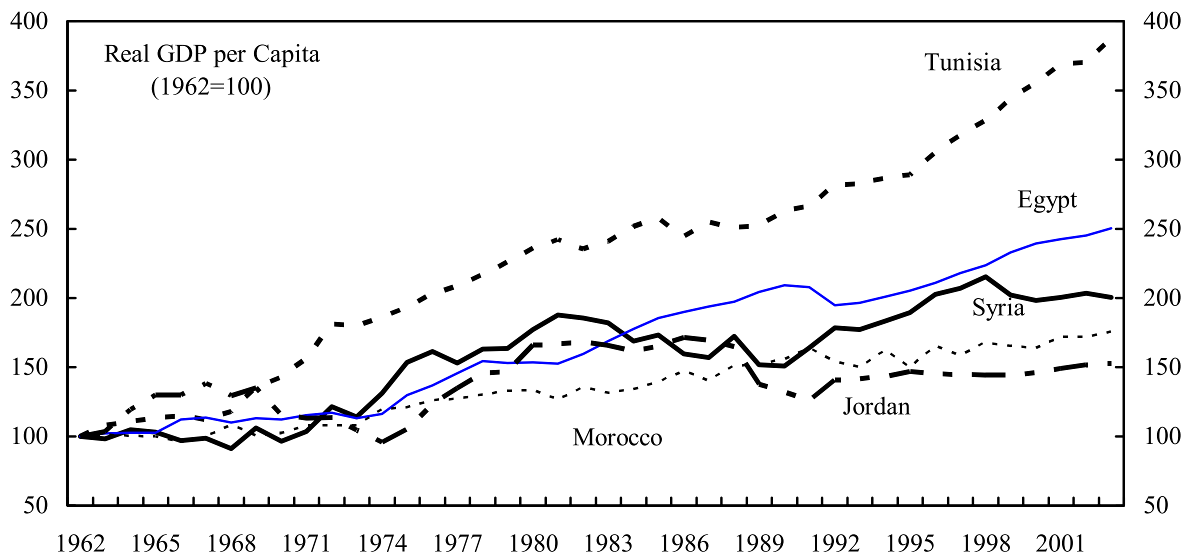


Figure 1. Syrian Arab Republic: Comparative Growth Performance

Compared to other Arab countries with similar natural resource endowment, growth in Syria during 1960-1998, has matched that of Tunisia, which is the strongest performer in the group...

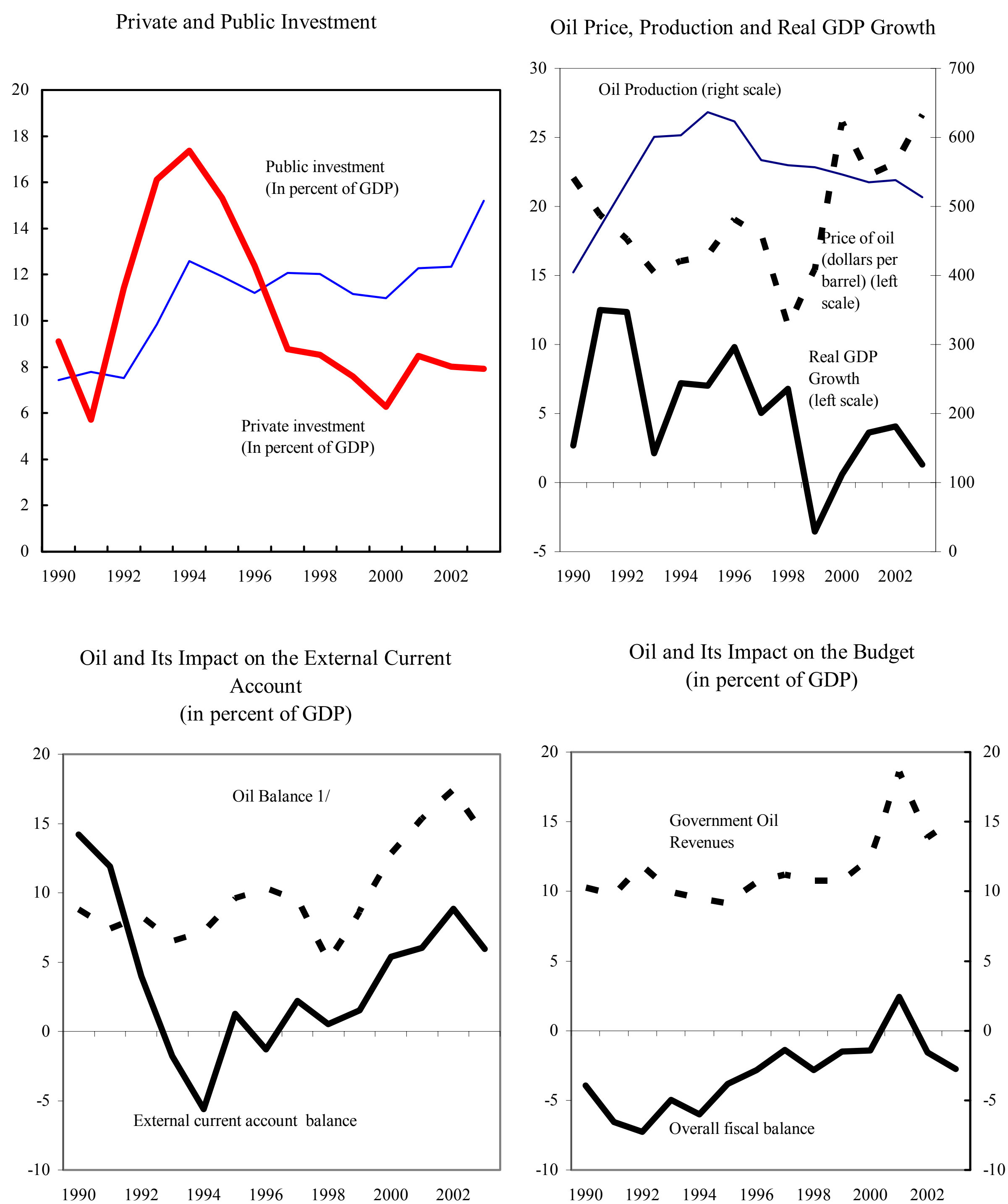


...although in per capita terms, growth performance has been much weaker



Source: WEO

Figure 2. Syrian Arab Republic: Growth, Macroeconomic Balances and Oil, 1990-2003



Sources: Syrian authorities and staff estimates

1/ Defined as net oil exports minus profits of international oil companies

Box 1. Fund Policy Recommendation and Implementation

Fund policy recommendations were supportive of the authorities' reform agenda aimed at furthering the transition to a market economy, strengthening the incentive system, improving price signals, promoting private sector activity, and strengthening the medium-term fiscal outlook.

Although the pace of reforms has fallen short of Fund advice, progress has been made in a number of areas over the past few years,[1] but the reform agenda remains substantial.

Price, trade, and foreign exchange liberalization: The number of official exchange rates has been reduced and their level adjusted. The surrender requirement has been fully phased out. With the gradual move towards unified exchange rates, implicit price subsidies have been largely eliminated. Prices have been liberalized, except those of a few subsidized commodities and of a few goods, which are still predominantly produced by public enterprises. In foreign trade, positive lists of importable goods have been replaced with a negative list, customs procedures have been streamlined, import duties have been simplified and tariffs lowered, and free trade agreements have been signed with several countries. Notwithstanding this progress, Syria has yet to unify its exchange rate market and adopt current account convertibility, while its foreign trade regime remains one of the most restrictive in the world.

Financial sector reform: Banking and insurance have been opened to the private sector. With Fund assistance, a comprehensive banking regulatory framework has been set up and supervision capacity built up. A credit and monetary council has been reactivated as a step toward a more active monetary policy, and some flexibility in interest rates has been introduced. Nonetheless, 98 percent of financial assets are still held by state banks, the level of financial intermediation is very low, and the government has yet to launch a T-bill market as a pre-requisite for the development of financial markets and the proper pricing of financial assets.

In the tax field: The income tax has been simplified and marginal rates lowered substantially, various specific taxes were consolidated into a single ad valorum consumption tax, and much of the remaining tax legislation has been reviewed and streamlined. Nonetheless, the tax regime is still complex, with widespread exemptions and tax liabilities which are subject to negotiations between tax collectors and taxpayers.

Public administration and PEs: Limited progress has been achieved in this area. An overstuffed and ill-paid civil service is still a major impediment to effective economic management and reform implementation, while PEs—operating under a soft budget constraint—continues to drain resources and hinder the growth of the private sector (see Box 2).

[1]For a list of the reform measures implemented since the last Board meeting, see Annex I.

Box 2. The Size of PEs and Their Contribution to the Public Accounts' Deficit

PEs continues to play an important role in the economy, in particular in the energy and utilities' sectors, and in financial services. Overall, PEs account for about 30–35 percent of GDP. They are dominant in the energy sector, where the share of international companies in total production is limited to about 25 percent. They are also dominant in the financial sector, where the share of private banks' assets is less than 2 percent of total financial assets, and they enjoy a monopoly in all utilities. However, all agriculture (about 35 percent of non-oil GDP) and over 75 percent of non-government-non-financial services (about 45 percent of non-oil GDP) are in private hands. The role of the public sector in manufacturing—which represents only about 8 percent of non-oil GDP—is unclear, although it may be high, as PEs continue to enjoy a monopoly in cement, oil and sugar refining, fertilizers, and mineral water (see Table 13 of the Statistical Appendix). Through their monopoly privileges or privileged role in key supply chains such as in cotton and cereals, PEs limit private investment both directly, through prohibition, and indirectly, through unfair competition and crowding out.

However, the share of PEs in total employment is relatively small, as they are mainly concentrated in capital intensive sectors. In 2002, PEs employed 296 thousand people, out of a total estimated employment of 4.8 million people,[1] a relatively small share compared to other countries, which suggests that addressing redundant labor in PEs in the context of a PE reform would be relatively less challenging than in other countries (Statistical Appendix Table 12).

Employment in State Owned Enterprises (In percent of population)

Syria	MENA	Central and Eastern Europe	Low income countries	Middle income countries
1.7	2.7	8.3	13.1	3.6

Source: World Bank Administrative and Civil Service Reform Web Page
http//www.worldbank.org/public sector/civil service development.htm

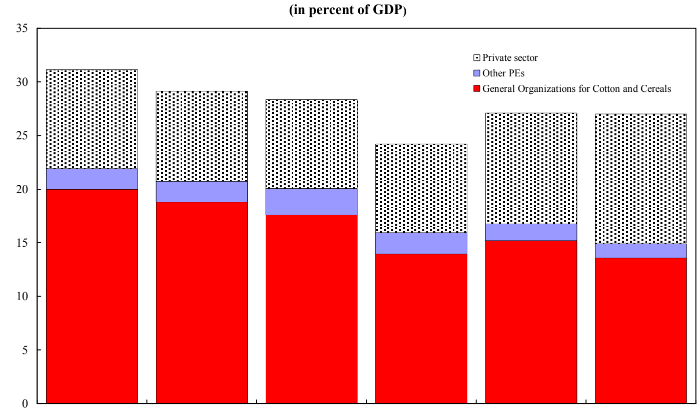
PEs operates under a soft budget constraint, with their operational deficits covered by the budget and most of their investment needs met by on-lending by the budget. This, at times, has contributed as much as 35 percent of total non-oil budget deficits. On-lending by the budget has seldom been repaid and has been frequently written-off and converted into government participation in PEs' capital. Large deficits in PEs reflect low investment, poor management skills, and quasi-fiscal activities.

Budgetary Accounts
(In percent of GDP)

	2000	2001	2002	2003
Revenue	27.2	32.1	29.8	30.4
Oil	12.3	18.6	13.9	15.2
PEs' surplus	4.6	3.4	4.0	3.5
Taxes and other revenues	10.3	10.2	12.0	11.7
Expenditure	28.7	29.7	31.4	33.1
Current	18.2	18.1	18.0	18.7
Of which: transfers to public enterprises	1.6	1.5	1.5	1.2
Capital	10.5	11.6	13.4	14.4
Of which: on-lending to public enterprises	6.2	7.4	7.9	7.1
Overall balance	**-1.4**	**2.4**	**-1.6**	**-2.7**
Non-oil balance	**-13.8**	**-16.1**	**-15.4**	**-17.9**
Government proper	-10.6	-10.7	-10.0	-13.2
Public enterprises	-3.1	-5.4	-5.4	-4.8
Contribution of PEs to non-oil budget deficit	**22.9**	**33.8**	**35.0**	**26.7**

Source: Syrian authorities.

Bank Loans to Private and Public Sectors
(in percent of GDP)

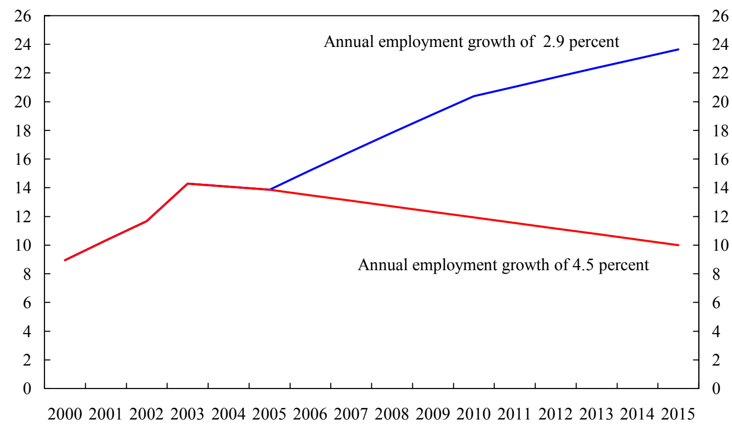


Budgetary financing of PEs has avoided the typical source of risk to the soundness of state banks from exposure to loss making PEs. Except the relatively large stock of loans to the general organizations for cereals and cotton, which administer two of the main government price support policies, the stock of bank loans to other PEs is less that 2 percent of GDP (Statistical Appendix Table 40).

[1]The 873 thousands civil servants account for another 18 percent of total employment.

- **Accelerating structural reforms:** Syria urgently needs to boost growth in order to (i) diversify and expand the production and export base of the economy before oil resources are depleted; and (ii) absorb a bulge in entrants to the labor force arising from decades of very rapid population growth. With the labor force projected to increase at 4 percent a year,[1] unemployment could exceed 20 percent by the end of the decade.[2] An average employment growth rate of 4.5 percent a year would need to be sustained over the next 10 years to reverse this trend—a daunting challenge.

Unemployment Under Two Growth Scenarios
(in percent)



5. **This year's Article IV consultation discussions took place against the backdrop of difficult political circumstances**. Following economic sanctions imposed by the U.S. in May 2004 and a U.N. Security Council resolution calling for the withdrawal of Syrian troops from Lebanon, regional tensions have escalated in recent months. The Ba'ath Party Congress held in June 2005 renewed commitment to reforms and called on the government to establish a timetable to push reforms forward.

II. Recent Economic Developments and Outlook

A. Developments in 2003–04

6. **Following a slowdown in 2003, a mild recovery seems to have started in 2004.** The slowdown in 2003 reflected declining oil production, a poor harvest, and the impact of the conflict in Iraq on exports and investment. An expansionary fiscal stance (see below) cushioned the impact of these shocks and helped limit the slowdown in economic activity to 1¼ percent. A recovery in private sector exports and a surge in the volume of investment approvals and in imports together with the continued expansion of credit to the private sector

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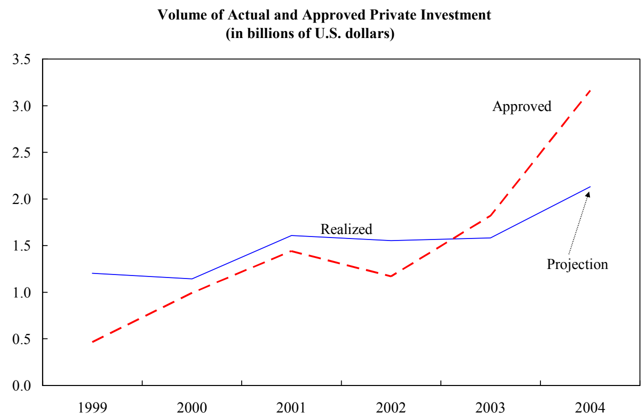
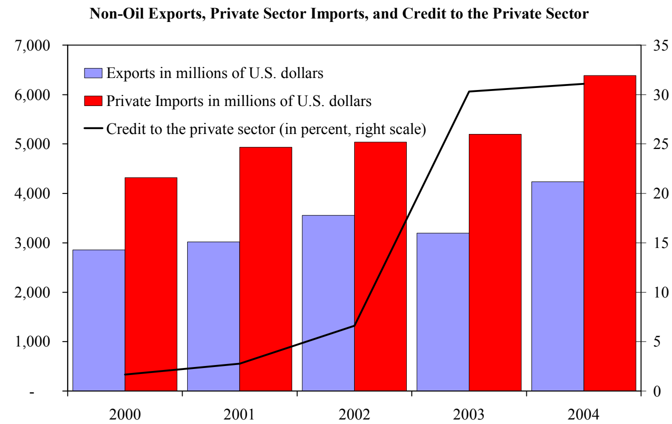
[1]This would result from the projected natural growth rate of working age population (3 percent annual average) and a modest education-driven increase in labor force participation rates.

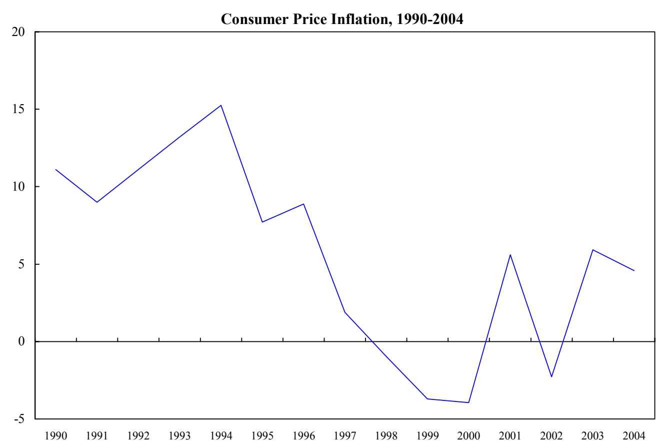
[2]The rate of job creation has declined from 4.8 percent in the 1990s to about 2.9 percent a year since 2000, while unemployment is estimated to have risen from 9½ percent in 2000 to 14 percent in 2004.

suggest that the economy recovered somewhat in 2004, growing at 2½–3 percent.[3] A boost in public sector wages[4] and a recovery of agriculture contributed to the upturn (Tables 1 and 2).





7. **Inflation picked up in 2003 but decelerated somewhat in 2004.** The pick up of inflation in 2003 reflected mainly a nominal effective depreciation of the Syrian pound—driven by the appreciation of the euro—and the impact of the drought. Inflation started to decelerate in early 2004 and was running below 4 percent year-on-year by September—allaying somewhat previous concerns about a monetary overhang. The introduction of the consumption tax in October 2004 (see below) may have been the main contributing factor to a rise in prices in the last quarter of the year, with inflation at year-end running at 10 percent.



8. **Fiscal policies have remained expansionary in 2003 and 2004.** In 2003, the non-oil budget deficit widened by 2½ percentage points of GDP to 18 percent, reflecting a combination of lower non-oil revenues—largely due to the economic slowdown—and higher spending on investment, defense, and wages (Tables 3 and 4). The increase in the wage bill reflected the carry forward from the 20 percent wage increase in mid-2002 and additional hiring to support employment (see Box 3). No data on the fiscal out-turn in 2004 are yet

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[3] Official preliminary national income accounts (NIA) for 2004 are not yet available.

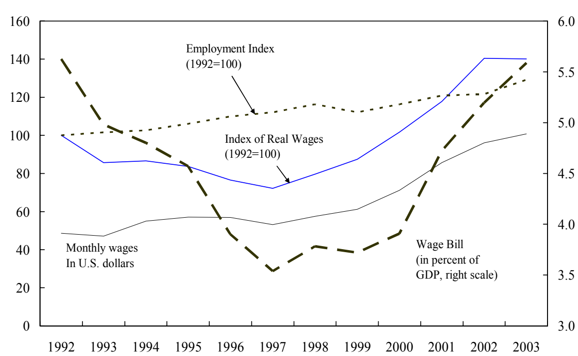
[4] Wages of civil servants and other public sector workers were raised by 20 percent in May 2004.

available. However, the cost of an additional 20 percent wage increase in mid-year may have been offset by an increase in trade taxes owing to the surge in imports and some decline in development expenditures, leaving the non-oil balance unchanged. In September 2004, and as a step toward implementing a VAT, a new consumption tax[5] was introduced—which is estimated to yield some 0.7 percent of GDP on an annual basis—and diesel prices were raised closer to international levels.[6] The overall budget deficit was about 2¾ percent of GDP in 2003, but with the decline in oil revenues in 2004, the deficit is estimated at close to 5 percent of GDP.

Box 3. Government Employment and Wage Policies

Government's wage and employment policies in recent years have been aimed at correcting the erosion in wages during the early 1990s and at supporting the sluggish labor demand. As a result, the wage bill has increased steadily from 3½ percent of GDP in 1997 to 5.6 percent in 2003, a level which is comparable to other countries. However, salaries are still 40 to 45 percent lower than those in the private sector, while government employment is already close to 20 percent of total employment, a level which is high compared to the experience in other countries.

Civil Service: Size, Wages, and Wage Bill, 1992-2003



General Government Employment and Wages

	Gen Gov't employment in percent of P opulation	Gen Gov't employment in percent of Total Employment	Central Gov Wages in percent of GDP	Average Central Gov Wage as multiple of per capita GDP
Syria 1/	**5.2**	**18.1**	**5.6**	**1.1**
Africa	2.3	6.7	6.9	4.8
Asia	2.6	6.3	7.5	2.4
ECA	14.1	16.0	6.3	4.4
LAC	4.9	8.9	8.3	2.3
MENA	6.1	17.5	10.3	1.8
OECD	10.6	17.2	3.2	1.2
Overall	6.7	11.0	7.1	2.8

Source: World Bank publication "An International Survey of Government Employment and Wages."

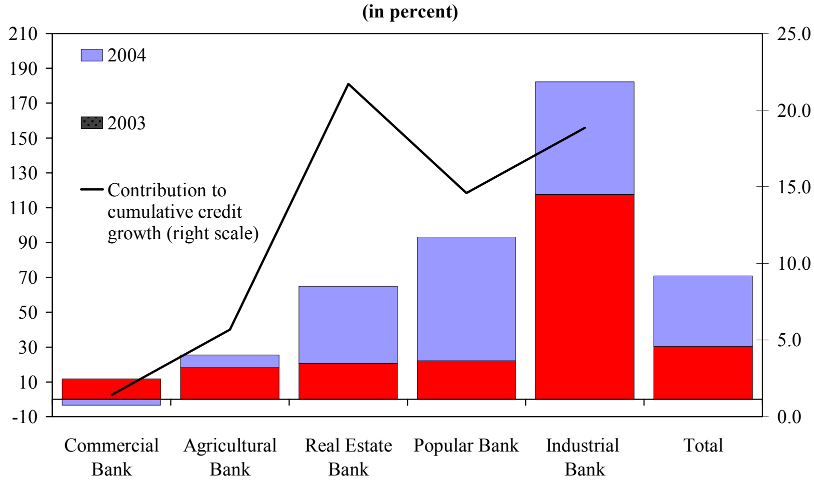
1/ Syria's data is based on 2003 estimates; for all other countries data is from the late 1990s.

[5] The new tax replaces the 1987 consumption tax, broadening its base and changing its rate structure, and repeals various fees and levies.

[6] Diesel prices, which were about 20 percent of international prices in 2003, were raised by 450 percent.

9. **In response to the slack in the economy and consistent with the policy to support private sector growth, credit policy was eased in 2003–04.** State banks were encouraged to expand their credit facilities by raising the ceiling on single loans and relaxing the collateral requirements somewhat, while interest rates were cut by a cumulative 2 percentage points (Table 5, Figure 3). As a result, credit to the private sector increased by 70 percent during 2003–04, albeit from a very low base—at end 2004, the stock of credit to the private sector was equivalent to only 12 percent of GDP.[7] The large expansion of credit was facilitated by the monetization of part of government debt held by state banks, contributing to a surge in high powered money (Table 6).[8] Three new private banks commenced operations in 2004 and the only restriction on their activities in the form of a ceiling on their deposit rate[9] did not seem to have affected adversely their profit margins nor the rate at which they were able to mobilize deposits. At the end of 2004, their financial assets amounted to 2 percent of total banking assets.

Growth of State Banks' Credit to the Private Sector in 2003-04 and Individual Banks' Contribution to Cumulative Credit Growth (in percent)



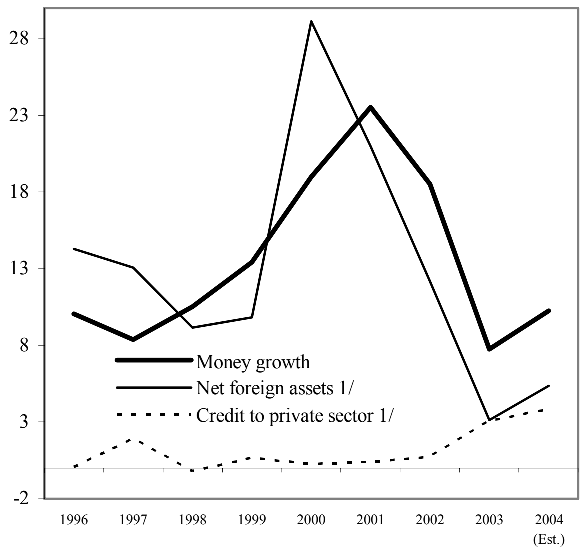
[7] Difficulties experienced by the Agricultural bank in collecting debt led to a decision to restructure its entire stock of loans to the farmers, which is equivalent to about 2 percent of GDP. Financial soundness indicators are not available.

[8] Banks' cash and deposits at the central bank (CB) now exceed the reserve requirement by over 200 percent.

[9] This ceiling is equal to the administratively set deposit rate of state banks.

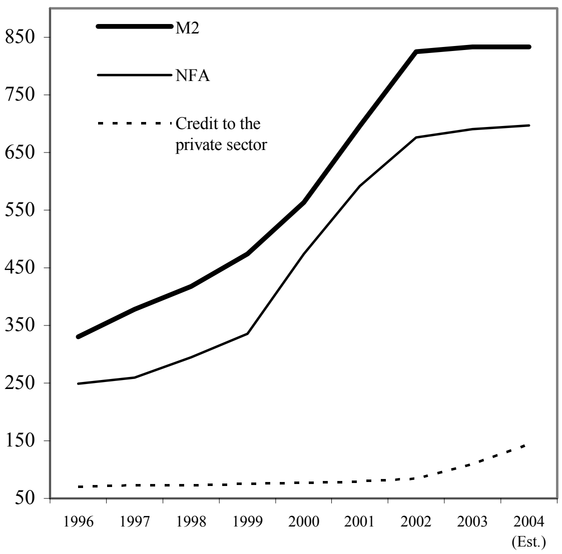
Figure 3. Syrian Arab Republic: Monetary Aggregates and Interest Rates

Broad Liquidity, Credit to the Private Sector and NFA, 1996–2004
(Year-on-year percentage change)

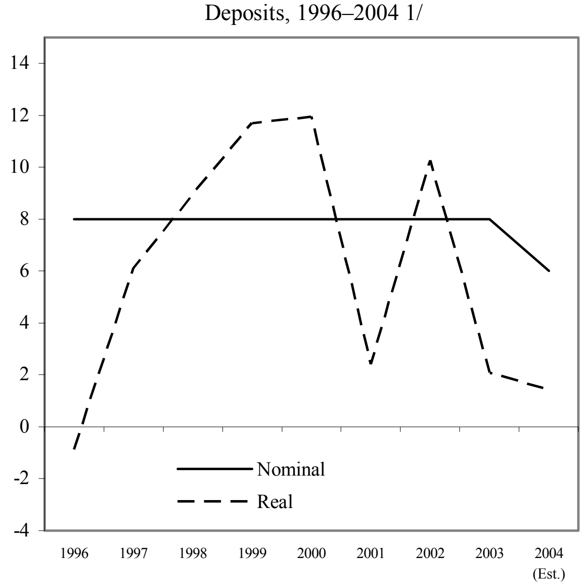


1/ In percent of initial stock of M2.

Broad Liquidity, Net Foreign Assets and Credit to the Private Sector, 1996–2004
(Billions of Syrian Pounds)

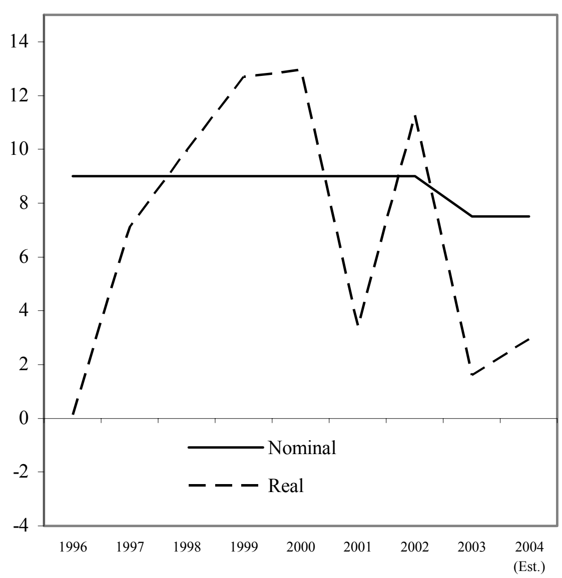


Real and Nominal Interest Rate on Savings Deposits, 1996–2004 1/



1/ Interest rate on 1 year deposits.

Real and Nominal Lending Rate, 1996–2004 1/

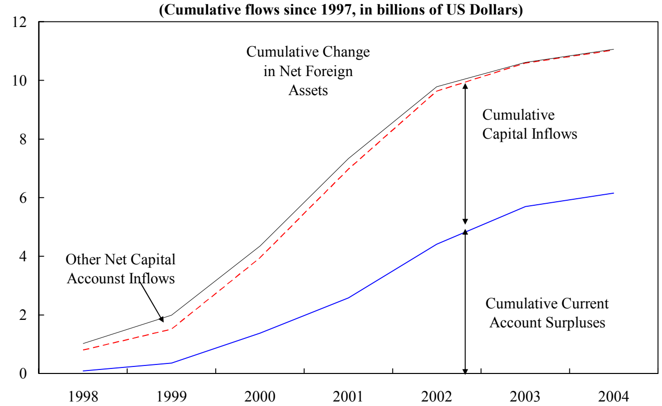


1/ Average interest rate.

Sources: Syrian authorities and Fund staff estimates.

10. **Following substantial balance of payments surpluses in the early 2000s, the external position weakened in 2003–04,** as the oil balance and unidentified inflows have been on a declining trend.[10] The stock of official net foreign assets stood at US$18 billion at end 2004 (equivalent to 3¾ years of imports and 75 percent of GDP).[11]

Factors Explaining the Accumulation of Official Net Foreign Assets
(Cumulative flows since 1997, in billions of US Dollars)



11. **Syria's public and external debt remain relatively manageable.** Following the restructuring of the old Soviet-era government debt to Poland, the Czech republic, Russia and the Slovak Republic in late 2004 and early 2005, Syria's external debt stands at US$6.5 billion (equivalent to about 25 percent of GDP),[12] while total public debt stands at 39 percent of GDP.

12. **Reflecting the generally strong external position, the Syrian pound has remained stable in relation to the U.S. dollar in the parallel market since the early 1990s**.[13] A stable exchange rate, in turn, helped maintain low inflation by stabilizing the price of imports and anchoring inflation expectations. The depreciation of the U.S. dollar since mid-2001 helped correct the real appreciation that had built through 2001 and the real effective exchange rate in the parallel market is back at its 1995 level. Consequently, Syria's price competitiveness vis-à-vis neighboring countries such as Turkey, Lebanon, and Jordan has improved, while it has deteriorated vis-à-vis Egypt and Tunisia, and remained the same vis-à-vis Morocco (Figure 4).

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[10] Unidentified inflows cover a range of activities including shuttle trade with neighboring countries, valuation gains on official foreign assets, unrecorded workers' remittances and deposits of Syrian expatriates in domestic banks.

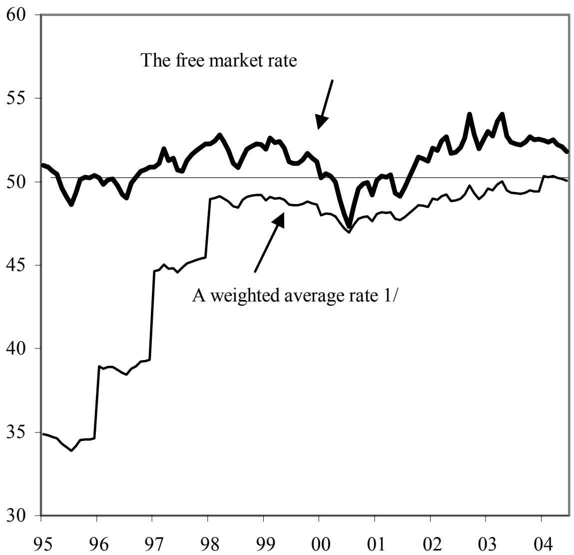
[11] BIS data suggest that the Syrian banking system's assets may be higher (US$24 billion). The reason for the inconsistency is still unclear. Staff will pursue this issue including through TA.

[12] Restructuring led to a reduction of the stock of debt to US$2.6 billion—with the debt relief obtained on the debt to Russia close to 90 percent.

[13] The exchange system in Syria is characterized by multiple exchange rates and a foreign exchange market segmented into a public and private sector pools. The parallel market rate, which applies to most private sector exports and imports, has been hovering around SL47-54 per U.S. dollar since the early 1990s. Official rates, which apply to public sector transactions, have been gradually unified and depreciated in steps (Annex II).

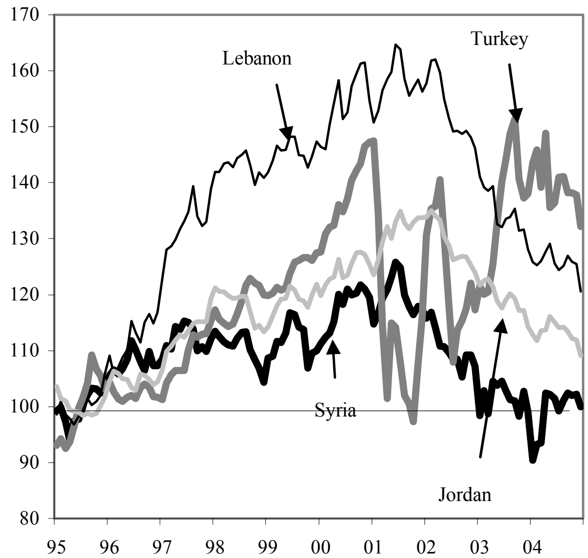
Figure 4. Exchange Rates (Syria and Region), 1995–2004

Exchange Rates
(Syrian pounds per U.S. dollar)



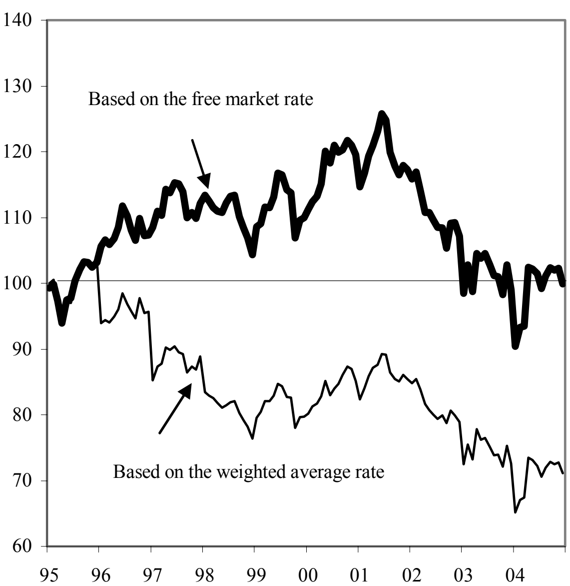
1/ Trade weighted average of official and parallel market rates

REER of Countries Whose Price Competitiveness has
Deteriorated Compared to Syria's 1/
(1995 = 100)

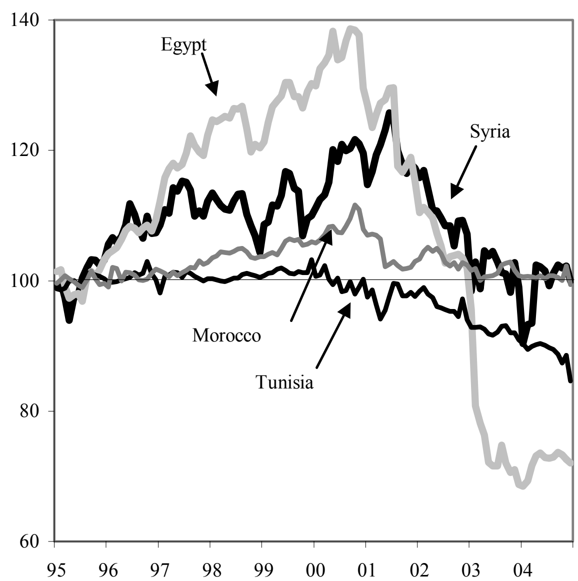


1/ Based on the free market rate

REER
(1995 = 100)



REER of Countries Whose Price Competitiveness has
Improved Compared to Syria's 1/
(1995 = 100)



Sources: Syrian authorities and Fund staff estimates.

1/ Based on the free market rate

B. Prospects for 2005

13. **In spite of the troubled international environment, moderate growth is likely to continue in 2005.** The surge in investment approvals in 2004 and strong tourist arrivals[14] indicate further strengthening of private investment and exports. These factors are expected to fully offset the impact of further decline in oil production and a likely contractionary fiscal impulse (see below). The recent political events in Lebanon seem to have had only a limited impact on domestic investors and consumers' confidence, and on workers' remittances from Lebanon.[15] Notwithstanding the increase in oil prices, the current account would weaken further reflecting the decline in the volume of oil exports, with partial offset from buoyant tourism. Tighter fiscal policies are likely to keep inflation low, with staff projecting a rate of 4 percent (December on December).[16]

14. **Fiscal policies promise to be somewhat tighter in 2005.** With the 2004 tax measures and a planned tightening of investment spending, the 2005 budget aims to lower the budget deficit significantly and staff is projecting a 1 percentage point improvement in the non-oil budget deficit to 17 percent of GDP. The impact on the overall budget deficit would be partly offset by further decline in oil revenues, limiting the improvement in the overall budget balance to some ½ percentage point of GDP.

C. Medium-Term Outlook and Risks

15. **The medium-term outlook is adversely affected by the prospect of declining oil production.** Under WEO-based oil export price assumptions, and based on available information on Syria's proven energy reserves in oil and in natural gas and on the authorities' projections of the profile of extraction activities in both sectors, staff projects that in the absence of new discoveries, Syria is likely to become a net oil importer in 4–6 years and will exhaust its oil reserves towards the late 2020s.[17] This, in turn, would lower government oil revenues from 15¼ percent of GDP in 2003 to 7½ percent by 2010, and to 3 percent by 2020.[18] Meanwhile, net foreign exchange receipts from the oil sector would decline from

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[14] Preliminary first-quarter data show a 25 percent increase in arrivals over the same period of 2004.

[15] With total workers' remittances estimated at 2½ percent of GDP, Syria relies much less on remittances than neighbors such as Jordan and Lebanon.

[16] Staff projects an average inflation of 10 percent in 2005, reflecting the carry forward from the one-off tax-induced adjustment in prices in late 2004.

[17] In the coming five years oil production is expected to decline at an average annual rate of 5½ percent, exerting a contractionary impact on overall GDP of about 1 percent.

[18]Assuming average real economic growth of 4 percent and constant domestic prices in real terms.

14 percent of GDP (US$3.0 billion) in 2003 to nearly zero in 2011 and the energy import bill could reach 8 percent of GDP in 2020 (Figure 5, Annex III).[19]

16. **This outlook underscores the need to accelerate structural reforms to create new sources of growth and foreign exchange earnings and to implement a medium-term fiscal consolidation strategy to preserve fiscal solvency.** Without stepped up structural and fiscal reforms, growth is unlikely to exceed 4–4½ percent—short of what is needed to contain the trend increase in unemployment—while financial stability could only be maintained for few more years by drawing down international reserves. Staff presented the authorities with illustrative scenarios highlighting the risks and the critical trade-offs (see Annex IV).

III. Report on the Discussions

17. **The authorities agreed broadly that the key challenges facing the Syrian economy were low growth and adverse prospects for the energy sector. They stressed their commitment to continuing to push ahead with the reform agenda, while maintaining financial stability.** They emphasized that key measures are being implemented aimed at modernizing the economy, completing the transition to a market economy, and increasing Syria's integration with the rest of the world. The discussions focused on the challenges ahead and how best to address them, in particular on polices to preserve financial stability and promote growth.

A. Policies to Maintain Financial Stability

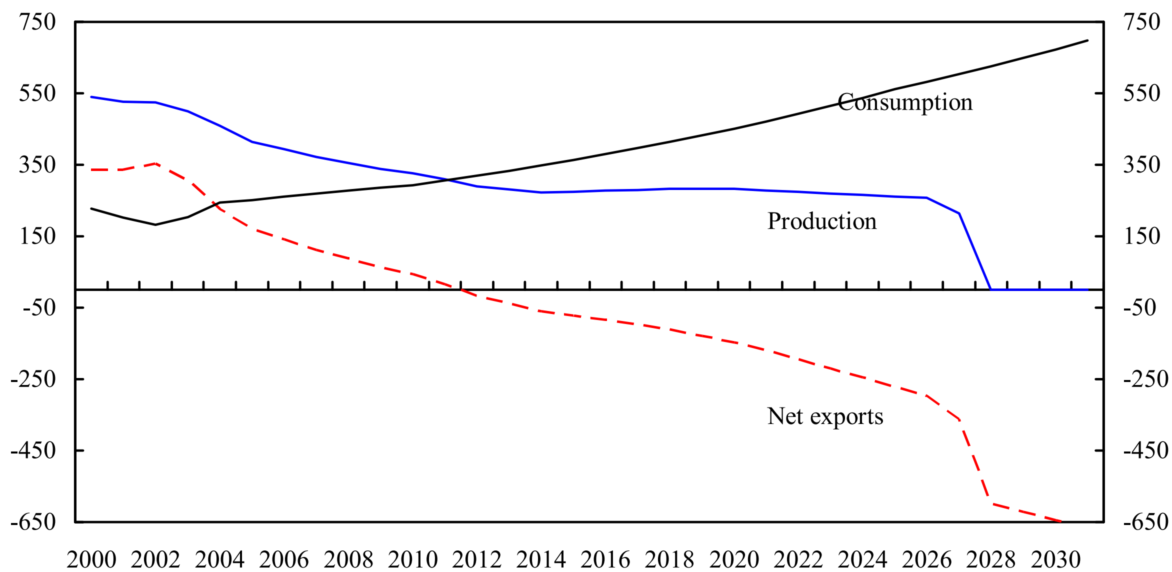
Fiscal consolidation

18. **Staff supported the recent tax and expenditure measures but suggested that these measures should be part of a comprehensive fiscal consolidation strategy within a medium-term fiscal framework (MTFF).** For the reasons explained in Box 4, staff suggested that the MTFF should target a steady improvement in the non-oil balance. Building on the adjustment during 2005, additional yearly adjustments of about 1¼ percentage points of GDP of the non-oil budget deficit would need to be sustained over the next five years to contain the rise in public debt, contributes to the external accounts' adjustment, and strengthen the long-term fiscal outlook. The authorities agreed with the need for further fiscal consolidation, although they did not commit to a specific pace and magnitude of such adjustment or indicate its composition.

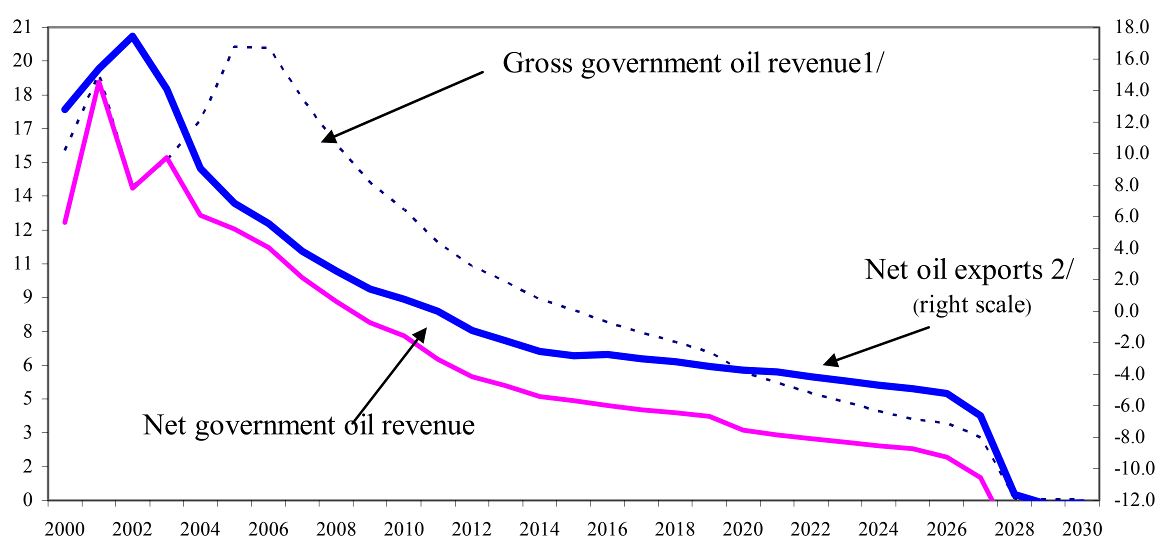
[19] In 2003, non-oil exports, which were equivalent to 15 percent of GDP, barely covered 50 percent of total imports.

Figure 5: Syrian Arab Republic: Oil Production, Use, and Government Revenues, 2000-2030

Oil Production and use (in thousands of barrels per day)



Gross and Net Government Oil Revenue and Net Oil Exports
(in percent of GDP)

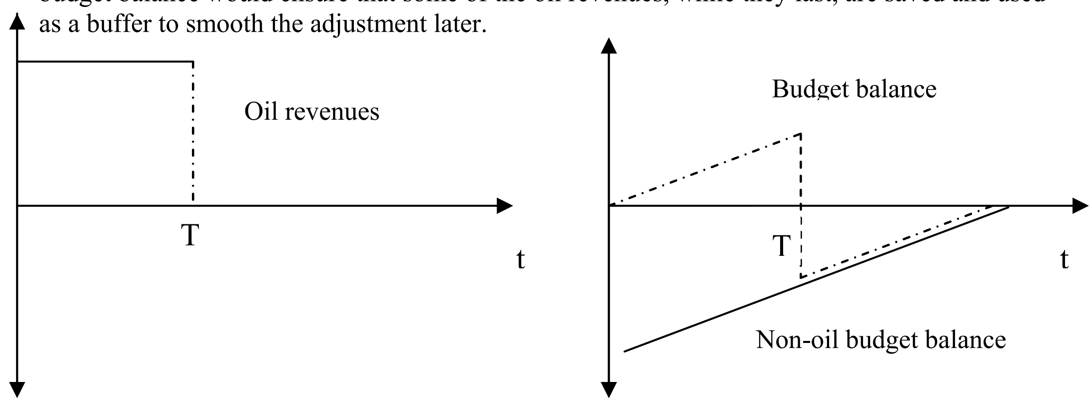


Sources: Syrian authorities, and IMF staff estimates.
1/Revenues which would accrued if domestic prices are equal to international oil prices.
2/Defined as net oil exports minus profits or international oil companies.

Box 4. What Should Be the Main Objective of a Medium-Term Fiscal Framework in Syria?

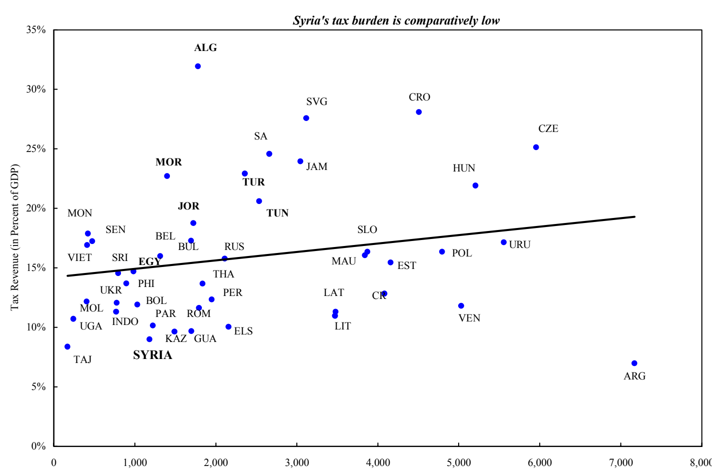
There are two possible *fiscal objectives* for a medium-term framework in Syria: (i) maintaining a budget balance, which is roughly the existent framework, or (ii) achieving a steady improvement in the non-oil budget balance. Fiscal performance under both rules will depend on the exogenous path of oil revenues:

- If oil revenues decline smoothly, the two rules would deliver broadly similar outcomes: a balanced budget would force a steady improvement in the non-oil budget balance as oil revenues decline, and conversely a steady adjustment in the non-oil budget balance will ensure a balanced budget to adjust for the decline in oil revenues.
- If oil revenues are to level off before declining abruptly, then a balanced budget rule will be an inferior anchor as it would postpone adjustment. Targeting a steady improvement in the non-oil budget balance would ensure that some of the oil revenues, while they last, are saved and used as a buffer to smooth the adjustment later.



Given the inherent uncertainty about the expected profile of extraction and international oil prices, a steady improvement in the non-oil budget balance as the objective of the medium-term fiscal framework would stem time-inconsistent and short-sighted policies. It will have the added benefit of preventing volatility in oil prices from contributing to output volatility.

19. **In this context, the authorities and staff agreed that efforts should remain focused on tax reform as a main pillar of fiscal consolidation.** The authorities pointed to the progress achieved in reforming tax policy and tax administration, featuring the comprehensive review and simplification of 80 percent of tax legislation, the far-reaching income-tax reform undertaken in



2003, the introduction of the new consumption tax and recent broadening of its base, as well as the recent measure to reduce stamp duties on financial transactions. Preparatory work is underway to create a large taxpayer unit, a system of a single taxpayer identification number, and procedures for self-assessment in preparation for launching the VAT within 2–3 years.

20. **Regarding public expenditure reform**, the authorities noted the recent strengthening of the budgetary procedures to improve the efficiency of investment spending. The next possible step was a comprehensive review of public expenditure to help identify additional measures, which could contribute durable savings while enhancing the supply side of the economy. The review could focus in particular on: (i) overhauling the existing subsidy system, whose excessive costs suggest the potential for large efficiency gains and fiscal savings (see Annex V); and (ii) reforming the civil service to address overstaffing, low pay, and lack of skills and performance. The authorities stressed that the pace of reform should avoid the disruption and dislocations associated with too rapid changes, and an appropriate level of social protection needs to be maintained to preserve social peace. They are in particular concerned about any layoffs before a pick up in private sector activity improves labor market prospects.

21. **The authorities agreed that PE reform was a critical component of the reform program given the drain PEs exert on public finances.** To this effect a new PE law has been passed in late 2004 granting PEs greater autonomy—including freedom to borrow, contract private management teams, and engage in joint venture with the private sector. In addition, the authorities are aiming to restructure enterprises than can be restructured and develop case-by-case solutions, including liquidation, to deal with the rest, while avoiding adding pressures on the labor market. Staff welcomed this approach and encouraged the authorities to deepen reform in this area, including privatizing selected enterprises, and allowing PEs full flexibility in employment decisions, and in wage and pricing policies.

Monetary policy and a more efficient monetary framework

22. **Regarding credit policy**, the authorities noted that the current stance of monetary policy will be maintained for the time being and state banks encouraged to expand their loans to the private sector further. Staff agreed that the present level of interest rates seems appropriate, as inflation remains subdued and there are no indication of weakening private savings. Staff also agreed that given the low level of private sector credit, the continuation of the current pace of credit expansion would not carry significant inflationary risks. However, staff warned that care should be taken to strengthen risk management capacity at state banks, as a too rapid expansion of credit might lead to an accumulation of bad debts and unprofitable projects being financed by politically-motivated loans.

23. **Regarding the monetary framework**, the authorities indicated that the fact that the Commercial Bank of Syria (CboS)[20] is acting *de facto* as the banker and the fiscal agent of the government complicated the task of policy coordination. To this effect, they plan to reorient the activities of the CBoS towards commercial banking, make the CB act as the fiscal agent, and improve coordination of liquidity and public debt management. In this connection, they planned to move the bulk of foreign assets of the CBoS to the CB. Staff agreed and underscored the importance of moving swiftly on the much delayed agenda of launching a government's securities market, which would be critical for financial sector development and moving towards market-determined interest rates. Dealing with the foreign assets held at the CBoS and the "nonperforming" old "treasuries" currently held by the CB[21] offered an excellent opportunity to introduce tradable government securities—a step that could be followed by regular auctions of new securities. Staff also suggested that to improve liquidity management, the CB could consider introducing new instruments such as short-term certificates of deposits or deposit facilities, and to enforce more strictly and use more actively reserve requirements. The staff offered technical assistance in this area.

B. Accelerating Structural Reforms

24. **The authorities and staff agreed that the sharp decline in private investment was the most immediate cause for the low growth in recent years and that persistent weaknesses in the business climate are the main factors holding up investment.** Indeed, the abundance of domestic savings—as evidenced by significant current account surpluses and large reported holdings of Syrian private assets abroad—suggests that the main constraint to private investment is not the availability of investible funds. Rather, weaknesses in the regulatory environment, in the tax, trade and exchange regimes, in the financial sector, and in public administration, as well as government monopolies and poor governance weigh negatively on returns to private investment, and hence appear to be the main constraints to growth. Accordingly, all agreed that reforms should remain focused on strengthening the incentives of the private sector (both domestic and foreign) to invest—including by moving further on trade and foreign exchange liberalization and on strengthening market institutions—and enhancing the ability of the financial sector to intermediate.

Foreign exchange and trade liberalization

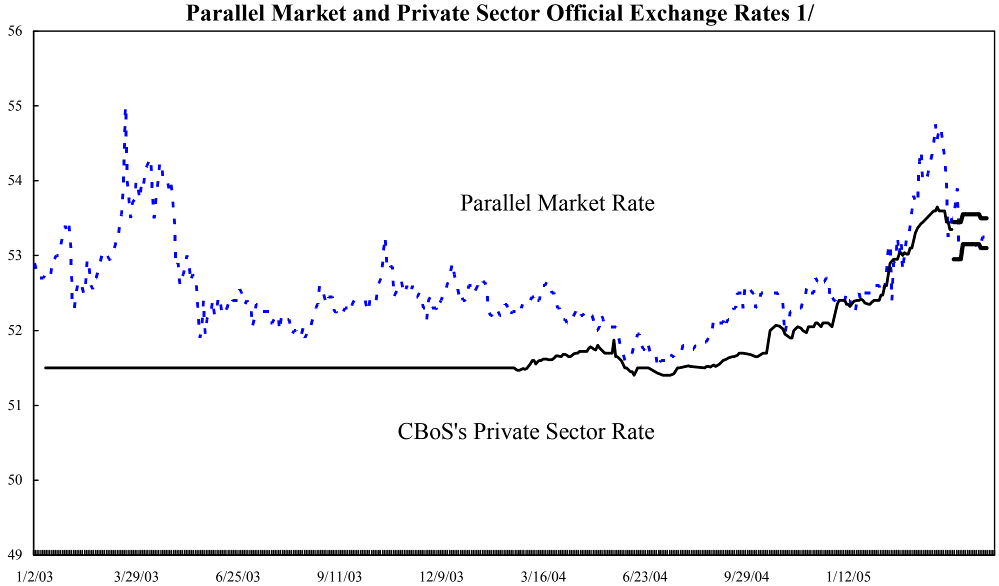
25. **The authorities remain committed to unifying the exchange rate system.** To this end, they have recently taken an important step toward unification by allowing banks to

[20] The largest bank, whose assets represent two-thirds of total financial assets. Three-quarters of its assets represent 70 percent of total official net foreign assets.

[21] Staff suggested a swap operation by which the government would replace the old treasuries held by the central bank with marketable securities, which the central bank could then use to buy the bulk of the CboS's net foreign assets.

finance private sector imports of raw materials and intermediate goods.[22] Subsequently, the CBoS stopped quoting the so called "private sector rate" and the central bank started to quote a band within which the newly allowed transactions will take place. Furthermore, starting in January 2005, the use of the most appreciated official rate has been limited to debt service payments under certain bilateral payments agreements, and the remaining most appreciated rate has been adjusted to within 3–4 percent of the parallel market rate.

Parallel Market and Private Sector Official Exchange Rates 1/



1/ Starting May 6, the CBoS stopped quoting a rate for the private sector transactions and the central bank started quoting an exchange rate band with which banks would finance all private sector imports of raw materials and intermediate goods

26. **The staff welcomed the recent steps and encouraged the authorities to move swiftly toward full unification and current account convertibility.** Given the narrow spread between the official rate and the free market rate, the attendant risks appear limited. The authorities agreed on the need to accelerate the process of unification, but felt that the present climate of political uncertainty prevents a bolder move at the moment.

27. **The authorities announced that after unification a managed float will be adopted.** They agreed with staff that flexibility within a relatively narrow band would be desirable initially, to allow the exchange rate to continue to serve as a nominal anchor. Progress in developing a deep and liquid foreign exchange market, in firming up an intervention policy, in developing an alternative nominal anchor and in setting the proper regulation to supervise banks' exposure to exchange rate risk could pave the way toward greater flexibility, at a later stage. Meanwhile, staff suggested that the CB should define and

[22] Previously, limited amounts for medical, education, and travel purposes could be bought from the official market.

clarify the modalities of its intervention in the foreign exchange market in support of the exchange rate band it has started to quote.

28. **Trade liberalization remains a key element of the authorities' reform agenda.** To this effect further progress has been made in the past year in reducing tariff rates, compressing the negative list, and streamlining customs procedures.[23] A breakthrough has been achieved in September 2004 with the initialization of the Syria/EU Association Agreement. A free-trade agreement has been signed with Turkey, while the provisions of the trade agreement under the Greater Arab Free Trade Area have been fully phased in as scheduled in early 2005. The authorities also indicated that a new Customs Law and a new tariff structure, which envisages a reduction of the maximum tariff rate from 230 percent to 50 percent and the number of tariff bands from 10 to 5, will be adopted shortly. Staff suggested that the tariff reduction in the context of recent bilateral and regional trade agreements may have limited growth benefits and a limited impact on growth, unless it is accompanied by other measures aimed at reducing non-tariff barriers (NTBs), which remain widespread.[24]

Financial sector development

29. **Nurturing further development of the financial sector remains a key component of the authorities' reform program.** Following a successful first year, the three private banks that started operations in 2004 are planning further expansion. Three additional private banks have been licensed and will start operations before the end of this year. A law has been passed opening the insurance industry to the private sector and a private insurance company—the first since 1960—has already started operation. Other legislative decrees were issued allowing Islamic banking and greater flexibility in the operations of state banks. Regulations on bank accounting, liquidity management, and internal audits were adopted, and CB's supervision capacity strengthened, although poor accounting standards for banks continue to impair the ability of proper supervision.

30. **Staff encouraged the authorities to develop a more comprehensive state-bank restructuring strategy.** The restructuring of the loans of the agricultural bank raised concerns about the health of all state banks and underscores the need to develop individual strategies to improve the structure, operations, and performance of each bank and to strengthen their credit-risk assessment capacity. Staff also suggested that plans to encourage the Savings Bank to step-up its lending activities be reconsidered, as this institution has traditionally focused on deposit mobilization to finance the government and does not have expertise in commercial banking.

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[23] Thirteen separate documents were merged into a single declaration form.

[24] According to a recent trade study by the World Bank, NTBs raise the price of imported goods by 19 percent on average, against only 8 percent for tariffs, while other trade-related barriers add 15 percent to the cost of both exports and imports.

Institutional reforms

31. **Beyond these traditional areas, the authorities outlined the main components of a broader agenda of institutional reforms aimed at strengthening competition, good governance, property rights, and the rule of law.** Judiciary reform would aim at strengthening the independence of the judiciary branch and at updating legislation and improving the process and effectiveness of business-related penal cases. Laws are being prepared on trade, corporate code, commercial arbitration, protection of commercial and industrial ownership rights, competition and anti-monopoly, and foreign direct investment. In addition, the 10th congress of the Ba'ath party gave particular prominence to a resolution to fight corruption, marking the first official recognition of this problem.

32. **Staff noted the recent passage of the amended AML/CFT law** and encouraged the authorities to review the recent LEG/MFD technical assistance report on "Measures to Combat Money Laundering and the Financing of Terrorism" (April 2005) as a useful mechanism to guide future efforts on AML/CFT.

Statistical issues

33. **While acknowledging some progress in improving economic statistics, staff encouraged the authorities to give high priority to addressing remaining serious deficiencies in the quality, coverage, and timeliness of NIA, prices, and fiscal data.** In this context, the staff welcomed the authorities' plan to expand the coverage of the CPI to 3,000 items and to launch a new survey of economic activity to improve the quality of the NIA statistics. Staff encouraged the authorities to subscribe to the Generalized Data Dissemination System (GDDS), which would provide an excellent supporting environment for Syria to continue to develop its statistical infrastructure, and to nominate a national coordinator to develop a metadata. Fund technical assistance have been provided in the statistical and other areas, including through METAC.

IV. Staff Appraisal

34. **The authorities have continued to make progress in addressing key structural rigidities and in strengthening the medium-term budgetary outlook.** The main policies—liberalizing prices, trade and foreign exchange, reforming the financial sector including a more active monetary framework, enhancing tax revenues, improving public administration and public enterprises, and promoting a greater role for the private sector—have long been at the core of Article IV recommendations. The progress achieved so far has made a difference in Syria's economic landscape: prices have been largely liberalized, the trade and foreign exchange regimes have been simplified and liberalized, the tax system has been streamlined, and the private sector's field of activity has been broadened to virtually all sectors of the economy, including banking and insurance.

35. **Notwithstanding this progress, the supply response, so far, and the fiscal outlook suggest that the pace and the scope of reforms have been insufficient compared to Syria's medium-term challenges.** Pulled down by a shrinking oil sector, the economy's growth potential has contracted sharply in the past few years, and financial stability challenges have been masked by the increase in international oil prices. If structural reforms and fiscal consolidation are not accelerated, there is a risk that oil reserves will be exhausted before the ongoing reforms have had time to generate new sources of growth and income. If this risk were to materialize, Syria might get locked in a cycle of financial volatility, fiscal deterioration, low growth, rising unemployment, and social unrest.

36. **Therefore, a comprehensive program of fiscal consolidation and accelerated structural reforms is urgently needed.** A strong and credible fiscal consolidation strategy within a transparent MTFF will be key in maintaining financial stability and instilling confidence about Syria's fiscal solvency. Given the high uncertainty about international oil prices, the level of oil reserves, and the extraction path, the MTFF should target a steady improvement in the non-oil budget balance with the government's inter-temporal budget constraint in clear perspective. By strengthening the supply-side of the economy and placing the non-oil budget deficit on a firm, declining path, such a comprehensive program could unleash synergies between confidence, growth and fiscal consolidation. Moreover, the dwindling of the oil rent also calls for a paradigm shift in the use of macroeconomic policies from instruments to redistribute the oil rent to instruments for short-term macroeconomic stabilization and financial stability.

37. **The recent measures taken to start addressing the fiscal challenge are welcome but need to be developed into a more comprehensive fiscal reform package.** Work on revamping tax administration needs to be sustained to prepare for a successful launch of the VAT. Greater efforts at simplifying tax provisions and removing tax exemptions are needed to increase efficiency, lower the compliance costs to taxpayers, and nurture trust in the tax system. Overhauling the price subsidy system could be a major source of efficiency gains and fiscal savings. Regarding wage policy, while it is important to align civil service wages to those in the market to attract the required skills to run a modern public administration, this objective needs to be pursued hand in hand with accelerated reforms to create employment opportunities outside of government to allow redeployment.

38. **The recent law giving PEs greater autonomy is welcome, but a more comprehensive strategy is needed.** The reform should entail anti-trust legislation, equal access to goods markets, including government contracts, removing monopolies, and giving PEs' management the necessary leeway to make independent employment and pricing decisions. While the comprehensive coverage of the operations of PEs in the budgetary accounts is welcome, PEs should be subjected to the discipline of the market and their links to the budget should be severed, once reform of the state banks is firmly underway. Consideration should also be given to privatizing/liquidating selected PEs.

39. **The authorities should monitor credit developments and watch for possible inflationary risks associated with the fast-paced credit expansion.** Credit risk could be high given state-banks' limited lending experience and weak risk management capacity, the lack of a national credit scoring system or other historical tools to assess risk, and the still fragile regulatory and supervision capacity of the CB. While the low stock of outstanding credit limits inflationary risks, those risks would be higher than otherwise if credits mainly finance domestic consumer goods—while enterprises continue to be credit constrained.

40. **The authorities' intention to strengthen the role of the CB in formulating and implementing monetary and foreign exchange policies and to reorient the activities of the CBoS toward traditional commercial banking is welcome.** The authorities are encouraged to implement the decision to move the bulk of foreign assets of the CBoS to the CB and should provide the CBoS with remunerated financial instruments in return. In this context also, the CB and the ministry of finance should work together for a better coordination of liquidity and public debt management. The monetization of government debt raises risks to the medium-term inflation outlook, in view of the limited instruments the CB can use. Launching a government's securities market would be critical for providing an efficient yield curve and a risk-free rate of return, which are essential for the proper pricing of financial assets.

41. **The steady progress toward exchange rate unification is welcome. However, Syria should move more quickly to adopt current account convertibility and full unification.** Full unification would simplify the exchange regime significantly, bring to the official channels a large share of financial transactions, reduce transaction costs for the private sector, and send a strong signal to the markets.

42. **Despite significant steps taken recently, the trade system remains complex and quite restrictive.** Staff encourages the authorities to introduce promptly the new tariff structure, which envisages a reduction of the maximum tariff rate from 235 percent to 50 percent and the number of tariff lines from 10 to 5–6. Staff also encourages the authorities to compress the negative list of importable goods, and tackle trade-related barriers, which hamper the competitiveness of Syrian exports.

43. **Staff welcomes the recent measures to promote an open and competitive financial sector capable of meeting the growing needs of a market economy.** In particular, opening the insurance sector for private initiative is an important sign of the commitment of the authorities to promoting the role of the private sector in the economy, while cuts in taxes on financial intermediation will provide a useful boost to this nascent sector. The introduction of Islamic banking will meet a need among large segments of the population and would bring back to the formal channels a significant share of financial intermediation, which had been diverted into informal, inefficient, and potential unsafe cash credit market. Looking forward, staff encourages the authorities to give top priority to restructuring state-owned banks to stem losses and promote competition, and to continue to work on strengthening bank regulation and supervision and banks' accounting standards and carefully screen entry of new banks.

44. **Staff welcomes the broader agenda of institutional reforms.** In particular, the recent resolution of the governing party to fight corruption and strengthen governance is welcome and should be followed up actively. Work on strengthening the legal framework for a market economy should be stepped up. The authorities are also encouraged to continue their efforts to refine and upgrade their legislative and regulatory framework for AML/CFT to bring it in line with international standards.

45. **There are still important shortcomings in the coverage, timeliness, and consistency of economic data in most sectors,** including financial soundness indicators, which hinder monitoring of economic developments, in-depth economic analysis, and the staff's ability to conduct effective surveillance. In this context, staff is encouraged by the greater willingness of the authorities to share available data on a regular basis and encourages the authorities to participate in the GDDS and to continue to work on addressing the remaining serious data deficiencies.

46. 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 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.

47. 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, 2000–06

	2000	2001	2002	Est. 2003	Est. 2004	Proj. 2005	Proj. 2006
	(Change in percent, unless otherwise indicated)						
National income and prices							
Nominal GDP (LS billions)	903.9	952.0	1,014.4	1,059.3	1,191.2	1,355.7	1,466.6
Nominal GDP ($ billions)	19.0	19.8	20.7	21.4	23.7	26.2	27.4
Real GDP	0.6	3.6	4.1	1.3	3.1	3.8	4.0
Real nonoil GDP	1.6	7.6	7.5	3.6	8.1	6.5	5.5
GDP deflator	9.7	1.7	2.4	3.1	9.1	9.6	4.0
CPI period average	-3.9	5.6	-2.3	5.9	4.6	10.0	5.0
Population (midyear estimate, millions)	16.6	17.0	17.4	17.8	18.2	18.7	19.1
Unemployment rate (in percent)	9.0	10.3	11.7	12.1	...	...	...
Oil sector							
Crude oil production ('000 barrels/day)	540	527	525	500	460	414	394
Oil exports ('000 barrels/day)	364	470	495	406	276	211	183
Oil export price ($ per barrel)	26.1	22.2	23.1	26.6	34.6	46.7	48.8
	(In percent of GDP, unless otherwise indicated)						
Public finances 1/							
Revenue and grants	27.2	32.1	29.8	30.4	27.9	28.2	27.4
Oil-related revenue	12.3	18.6	13.9	15.2	12.7	12.0	11.2
Nonoil revenue	14.9	13.6	15.9	15.2	15.2	16.1	16.1
Expenditure	28.7	29.7	31.4	33.1	33.2	33.0	33.2
Current expenditure	18.2	18.1	18.0	18.7	19.1	20.0	20.2
Development expenditure	10.5	11.6	13.4	14.4	14.1	13.0	13.0
Overall balance	-1.4	2.4	-1.6	-2.7	-5.3	-4.8	-5.9
Nonoil fiscal balance	-13.8	-16.1	-15.4	-17.9	-18.0	-16.9	-17.1
Gross debt 2/	23.3	26.1	29.8	30.6	31.8	41.4	45.0
Domestic	2.6	7.4	11.0	11.3	11.0	15.4	20.6
External 2/	20.6	18.6	18.8	19.3	20.7	26.0	24.3
	(Change in percent of beginning period money stock)						
Money and quasi-money	19.0	23.5	18.5	7.7	10.3	11.4	9.4
Net foreign assets 3/	29.1	21.0	12.2	3.1	5.4	-0.8	-0.9
Net domestic assets 3/	-10.2	2.6	6.3	4.6	4.9	12.2	10.3
Credit to government	-5.7	6.6	4.4	0.5	4.2	7.0	7.5
Credit to public enterprises	1.6	0.7	-4.2	1.9	0.1	0.9	0.9
Credit to private sector	0.3	0.4	0.7	3.1	3.8	4.3	1.9
Credit to private sector (change in percent)	1.7	2.8	6.6	30.3	31.1	29.5	11.4
Reserve money (change in percent)	15.2	16.9	16.0	10.2	25.2	11.4	9.4
	(In billions of U.S. dollars, unless otherwise indicated)						
Balance of payments							
Balance of goods and services	0.3	0.4	1.0	0.1	-0.9	-1.2	-1.6
Oil balance 4/	2.4	3.0	3.6	3.0	2.2	1.8	1.5
(in percent of GDP)	12.8	15.4	17.4	14.1	9.1	6.8	5.5
Non-oil exports of goods and services	2.9	3.0	3.6	3.2	4.2	4.9	5.1
(change in percent)	-8.3	5.6	17.9	-10.2	32.6	16.4	3.5
Non-oil imports of goods and services	5.0	5.7	6.2	6.1	7.2	8.0	8.2
(change in percent)	24.0	13.3	8.8	-1.3	19.3	9.9	3.3
Current account (including official transfers)	1.0	1.2	1.8	1.3	0.5	0.0	-0.3
(in percent of GDP)	5.4	6.1	8.9	6.0	1.9	0.2	-1.1
Overall balance	2.4	3.0	2.4	0.8	0.4	0.0	-0.2
Net foreign assets							
Central bank NFA in convertible currencies	2.4	3.1	3.9	4.2	4.4	4.4	4.3
(in months of imports of GNFS)	7.6	8.2	9.3	10.2	8.6	8.1	7.5
Official net foreign assets of the banking system	11.4	14.3	16.8	17.6	18.1	18.1	17.9
Debt							
External debt (percent of GDP) 2/	20.6	18.6	18.8	19.3	20.7	26.0	24.3
Debt service-to-exports ratio	20.9	19.5	16.3	15.5	13.4	16.9	14.5
Exchange rates LS/$ (period average)							
Official transaction rate 5/	46.5	46.5	46.5	46.5	48.7	50.0	…
Parallel market rate (Beirut/Amman)	49.4	50.4	52.4	52.8	52.3	...	...
Weighted average nominal exchange rate 6/	47.7	48.1	49.1	49.4	50.2	...	...

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/ Officially acknowledged debt; from 2005, this includes debt to the Russian Federation, Poland, the Slovak Republic, and the Czech Republic, which was renegotiated in 2004 and 2005.

3/ Net of valuation adjustment in 2005.

4/ Including repatriation of profits by international oil companies.

5/ Budget accounting rate and commercial rate. From 2004 onward: public sector rate.

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

Table 2. Syrian Arab Republic: Main Components of Aggregate Demand at Constant Prices, 2000–06

	2000	2001	2002	Est. 2003	Est. 2004	Proj. 2005	Proj. 2006
				(Annual growth rate)			
1. Consumption	0.2	-3.3	3.9	5.1	9.6	5.5	5.4
Public	19.1	2.0	4.9	12.0	10.3	-2.7	2.1
Private	-2.9	-4.4	3.7	3.7	9.5	7.5	6.1
2. Gross capital formation	-2.3	25.9	0.0	13.7	10.6	3.5	6.3
Public	4.4	16.6	4.5	21.5	3.1	-3.7	3.5
Private	-12.2	42.2	-6.5	1.3	25.0	15.0	10.0
3. Domestic expenditure	-0.3	2.1	3.0	7.1	9.9	5.1	5.6
4. Net exports of oil	-8.9	35.6	9.5	-22.5	-39.8	-30.2	-16.6
5. Exports of non-oil goods and services	15.0	-8.5	9.3	-19.1	19.5	21.1	2.4
Tourism	31.9	-9.1	-23.5	-9.3	32.7	24.9	6.4
Others	7.1	-8.2	28.2	-22.5	14.3	19.4	0.4
6. Import of non-oil goods and services	-0.6	10.5	7.6	-10.1	6.4	5.1	3.4
Public	-11.1	-0.1	41.3	-29.8	-14.3	2.7	0.5
Private	2.2	13.0	0.5	-5.5	11.0	5.5	3.9
7. GDP (market prices)	0.6	3.6	4.1	1.3	3.1	3.8	4.0
Oil GDP	-1.8	-6.9	-6.3	-6.6	-16.4	-9.6	-4.5
Non-oil GDP	1.6	7.6	7.5	3.6	8.1	6.5	5.5
of which: agriculture	9.2	8.1	7.9	-2.8	6.5	6.0	6.0
				(Contribution to GDP growth, in percentage points)			
1. Consumption	0.1	-2.5	2.7	3.7	7.1	4.3	4.3
Public	2.0	0.2	0.6	1.5	1.4	-0.4	0.3
Private	-1.9	-2.8	2.2	2.2	5.7	4.7	4.0
2. Gross capital formation	-0.4	4.5	0.0	2.8	2.4	0.9	1.5
Public	0.5	1.8	0.6	2.7	0.5	-0.5	0.5
Private	-0.9	2.6	-0.6	0.1	1.9	1.4	1.0
3. Domestic expenditure (1+2)	-0.3	1.9	2.7	6.4	9.5	5.2	5.8
4. Net exports of goods and services	0.9	1.7	1.3	-5.1	-6.4	-1.4	-1.7
Oil trade	-1.7	6.1	2.1	-5.4	-7.2	-3.2	-1.2
Non-oil exports	2.4	-1.5	1.5	-3.2	2.6	3.3	0.4
Non-oil imports	0.2	-3.0	-2.3	3.4	-1.8	-1.4	-1.0
Public	0.7	0.0	-2.2	2.1	0.7	-0.1	0.0
Private	-0.5	-3.0	-0.1	1.3	-2.5	-1.3	-1.0
5. GDP (market prices) (3+4)	0.6	3.6	4.1	1.3	3.1	3.8	4.0
				Savings/Investment Balance (in percent of GDP)			
National savings	22.7	26.9	29.2	29.0	26.1	24.1	23.5
Public	9.1	14.0	11.8	11.7	8.8	8.2	7.1
Private	13.6	12.9	17.4	17.3	17.3	15.9	16.4
Domestic investment	17.3	20.8	20.4	23.0	24.1	23.9	24.6
Public	11.0	12.3	12.3	15.1	14.8	13.6	13.6
Private	6.3	8.5	8.0	7.9	9.3	10.3	10.9
Savings/investment balance	5.4	6.1	8.9	6.0	1.9	0.2	-1.1

Sources: Syrian authorities, and staff estimates.

Table 3. Syrian Arab Republic: Summary of Fiscal Operations, 2000–06 1/
(In billions of Syrian pounds)

					Budget	Est	Budget	Proj.	Proj.
	2000	2001	2002	2003	2004		2005		2006
Revenue	246.3	306.0	302.4	321.7	307.5	332.4	357.9	381.7	401.1
Oil-related proceeds	111.5	176.7	140.6	161.1	120.9	150.9	122.5	163.3	164.7
Profit tax on Syrian Petroleum Corp.	50.5	94.8	73.3	84.6	54.0	67.4	31.1	41.5	41.8
Royalties	26.8	31.1	27.7	31.3	25.4	31.7	23.6	31.5	31.7
Petroleum products surcharges	3.1	6.1	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Surplus from SPC	31.1	44.7	37.3	45.2	41.5	51.8	67.8	90.4	91.2
Non-oil tax revenue	88.8	92.1	116.0	117.6	125.2	133.2	155.8	162.3	174.7
Income and profits	43.9	34.3	42.1	38.7	63.0	43.0	90.0	50.2	56.8
Excises	12.6	14.4	17.4	13.4	13.6	14.9	8.5	17.2	18.9
International trade	14.7	20.4	25.3	28.8	22.6	34.5	22.9	38.5	36.9
Other	17.6	22.8	31.1	36.7	26.0	40.8	34.5	56.5	62.1
Non-oil non-tax revenue	45.3	36.5	45.0	42.2	59.9	46.9	77.8	54.3	59.8
Public enterprise surpluses	41.9	32.3	40.5	36.9	50.7	40.9	67.4	47.4	…
Other non-tax revenue	3.4	4.2	4.5	5.4	9.2	6.0	10.4	6.9	…
PSF revenue	0.7	0.7	0.7	0.7	1.5	1.5	1.8	1.8	1.9
Expenditure	259.2	282.7	318.4	350.6	441.3	395.9	453.8	447.5	487.4
Current expenditure	164.3	172.7	182.7	197.7	224.3	227.9	273.8	271.1	296.6
Defense	49.9	47.6	47.9	59.0	62.0	63.0	65.6	65.6	71.0
Wages and salaries	35.3	45.0	52.7	59.2	63.0	75.4	74.3	81.9	88.6
Goods and services	15.5	16.8	17.6	19.0	17.9	19.9	19.9	21.9	22.1
Interest payments	5.9	6.3	6.8	7.5	11.0	11.0	18.2	18.1	23.6
Subsidies	37.1	34.8	33.3	29.6	32.8	31.8	50.0	50.0	55.1
PSF expenditure	34.3	32.1	31.2	27.9	27.0	27.0	29.6	29.6	32.6
Other subsidies	2.8	2.8	2.0	1.7	5.8	4.8	20.4	20.4	22.5
Transfers	20.5	22.2	24.3	23.4	37.4	26.8	45.8	33.6	36.3
Pensions and social assistance	6.1	8.0	8.8	11.2	14.4	12.7	17.4	17.4	18.8
Transfers to public enterprises	14.3	14.1	15.6	12.2	23.0	14.0	28.4	16.1	17.5
Development expenditure	94.9	110.1	135.7	152.9	217.0	168.1	180.0	176.4	190.8
Overall balance	**-12.9**	**23.3**	**-16.0**	**-28.9**	**-133.8**	**-63.5**	**-95.9**	**-65.7**	**-86.2**
***of which:* non-oil balance**	**-124.4**	**-153.5**	**-156.7**	**-190.0**	**-254.7**	**-214.4**	**-218.4**	**-229.0**	**-251.0**
Identified financing	-24.2	31.5	27.7	0.7	10.1	38.6	5.2	65.7	86.2
External	-7.3	-4.0	-6.1	0.1	10.1	-9.4	5.2	-13.1	-7.1
Domestic bank financing	-26.8	37.4	30.7	4.3	...	37.6	...	68.8	81.5
Central bank	-36.8	7.8	3.4	-16.6	…	71.1	…	…	…
Commercial banks	9.9	29.7	27.3	20.9	…	-33.5	…	…	…
Non-bank financing (investment certificates held by non-banks)	10.0	-1.9	3.1	-3.7	...	10.4	...	10.0	11.8
Unidentified financing	37.1	-54.8	-11.7	28.2	123.7	24.9	90.7	0.0	0.0
Memorandum items:									
Government debt 2/	200.1	226.6	273.8	288.1	...	378.4	...	561.4	659.7
Domestic	13.5	49.1	82.9	83.5	...	131.6	...	209.4	302.8
External 2/	186.6	177.5	190.9	204.6	...	246.7	...	352.0	356.9

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.

Table 4. Syrian Arab Republic: Summary of Fiscal Operations, 2000–06
(In percent of GDP)

	2000	2001	2002	2003	Budget 2004	Est 2004	Budget 2005	Proj. 2005	Proj. 2006
Revenue	27.2	32.1	29.8	30.4	25.8	27.9	26.4	28.2	27.4
Oil-related proceeds	12.3	18.6	13.9	15.2	10.1	12.7	9.0	12.0	11.2
Profit tax on Syrian Petroleum Corp.	5.6	10.0	7.2	8.0	4.5	5.7	2.3	3.1	2.9
Royalties	3.0	3.3	2.7	3.0	2.1	2.7	1.7	2.3	2.2
Petroleum products surcharges	0.3	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Surplus from SPC	3.4	4.7	3.7	4.3	3.5	4.3	5.0	6.7	6.2
Non-oil tax revenue	9.8	9.7	11.4	11.1	10.5	11.2	11.5	12.0	11.9
Income and profits	4.9	3.6	4.2	3.7	5.3	3.6	6.6	3.7	3.9
Excises	1.4	1.5	1.7	1.3	1.1	1.2	0.6	1.3	1.3
International trade	1.6	2.1	2.5	2.7	1.9	2.9	1.7	2.8	2.5
Other	1.9	2.4	3.1	3.5	2.2	3.4	2.5	4.2	4.2
Non-oil non-tax revenue	5.0	3.8	4.4	4.0	5.0	3.9	5.7	4.0	4.1
PSF revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure	28.7	29.7	31.4	33.1	37.0	33.2	33.5	33.0	33.2
Current expenditure	18.2	18.1	18.0	18.7	18.8	19.1	20.2	20.0	20.2
Defense	5.5	5.0	4.7	5.6	5.2	5.3	4.8	4.8	4.8
Wages and salaries	3.9	4.7	5.2	5.6	5.3	6.3	5.5	6.0	6.0
Goods and services	1.7	1.8	1.7	1.8	1.5	1.7	1.5	1.6	1.5
Interest payments	0.7	0.7	0.7	0.7	0.9	0.9	1.3	1.3	1.6
Subsidies	4.1	3.7	3.3	2.8	2.8	2.7	3.7	3.7	3.8
PSF expenditure	3.8	3.4	3.1	2.6	2.3	2.3	2.2	2.2	2.2
Other subsidies	0.3	0.3	0.2	0.2	0.5	0.4	1.5	1.5	1.5
Transfers	2.3	2.3	2.4	2.2	3.1	2.2	3.4	2.5	2.5
Pensions and Social Assistance	0.7	0.8	0.9	1.1	1.2	1.1	1.3	1.3	1.3
Transfers to Public Enterprises	1.6	1.5	1.5	1.2	1.9	1.2	2.1	1.2	1.2
Development expenditure	10.5	11.6	13.4	14.4	18.2	14.1	13.3	13.0	13.0
Overall balance	**-1.4**	**2.4**	**-1.6**	**-2.7**	**-11.2**	**-5.3**	**-7.1**	**-4.8**	**-5.9**
Non-oil balance	**-13.8**	**-16.1**	**-15.4**	**-17.9**	**-21.4**	**-18.0**	**-16.1**	**-16.9**	**-17.1**
Identified financing	-2.7	3.3	2.7	0.1	0.8	3.2	0.4	4.8	5.9
External	-0.8	-0.4	-0.6	0.0	0.8	-0.8	...	-1.0	-0.5
Domestic bank financing	-3.0	3.9	3.7	0.4	...	3.2	...	5.1	5.6
Investment certificates	1.1	-0.2	0.3	-0.3	...	0.9	...	0.7	0.8
Unidentified financing	4.1	-5.8	-1.2	2.7	10.4	1.6	6.7	0.0	0.0
Memorandum items:									
Primary expenditure	28.0	29.0	30.7	32.4	36.1	32.3	32.1	31.7	31.6
Government debt 2/	22.1	23.8	27.0	27.2	...	31.8	...	41.4	45.0
Domestic	1.5	5.2	8.2	7.9	...	11.0	...	15.4	20.6
External 2/	20.6	18.6	18.8	19.3	...	20.7	...	26.0	24.3
Non-oil balance (percent of non-oil GDP)	-19.0	-20.2	-19.1	-22.2	-26.8	-22.6	…	-20.8	-20.7

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

1/ General government budget and Price Stabilization Fund (PSF).
2/ Valued at a weighted average exchange rates.

Table 5. Syrian Arab Republic: Monetary Survey, 2000–06

	2000	2001	2002	2003	2004	Proj. 2005	Proj. 2006
	(In billions of Syrian pounds; end of period)						
Money and quasi-money (M2)	563	696	825	889	980	1,092	1,194
Money (M1)	369	420	495	541	597	673	751
Currency outside banks	204	229	258	285	333	375	419
Demand deposits	165	191	236	256	264	298	332
of which: public enterprises	114	132	169	183	...	...	...
Quasi-money	195	276	330	347	383	418	443
Foreign assets (net)	473	592	677	702	750	937	959
Central bank	79	93	106	124	136	280	285
Commercial banks	394	498	571	578	614	656	674
Domestic assets (net)	90	104	148	186	230	155	235
Domestic credit	247	290	297	342	415	535	647
Claims on public sector	170	211	213	233	271	349	440
Claims on central government (net)	-17	20	51	55	93	162	243
Claims on public enterprises	187	191	162	178	178	187	197
Claims on private sector	77	79	84	109	143	186	207
Other items (net)	-157	-186	-148	-156	-185	-380	-412
Import and restricted deposits	-28	-41	-50	-73	-99	-99	-99
Capital accounts	-97	-104	-109	-109	-131	-131	-131
Valuation adjustment (net)	-68	-67	-47	-47	-57	-252	284
Other	36	26	59	74	102	102	102
	(Change in percent of beginning stock of broad money stock)						
Money and quasi-money	19.0	23.5	18.5	7.7	10.3	11.4	9.4
Foreign assets (net) 1/	29.1	21.0	12.2	3.1	5.4	19.1	2.0
Domestic assets (net)	-10.2	2.6	6.3	4.6	4.9	-7.7	7.4
Domestic credit	-3.8	7.7	0.9	5.5	8.1	12.2	10.3
Claims on central government (net)	-5.7	6.6	4.4	0.5	4.2	7.0	7.5
Claims on public enterprises	1.6	0.7	-4.2	1.9	0.1	0.9	0.9
Claims on private sector	0.3	0.4	0.7	3.1	3.8	4.3	1.9
Other items (net)	-6.4	-5.1	5.4	-0.9	-3.2	-19.9	-2.9
	(Annual change in percent)						
Money (M1)	17.7	13.9	17.8	9.4	10.2	12.8	11.5
Currency outside banks	12.0	12.5	12.7	10.3	16.8	12.8	11.5
Demand deposits	25.7	15.7	24.0	8.5	2.9	12.8	11.5
Quasi-money	21.5	41.8	19.6	5.2	10.3	9.2	6.0
Claims on public sector	-10.1	24.2	0.6	9.5	16.4	28.7	26.0
Claims on government (net)	-281.8	-216.4	152.5	8.5	68.2	74.2	50.4
Claims on public enterprises	4.3	2.0	-15.4	9.8	0.4	5.0	5.0
Claims on private sector	1.7	2.8	6.6	30.3	31.1	29.5	11.4
	(In percent of GDP)						
Broad money (M2) (in percent of GDP)	62.3	73.1	81.3	83.9	82.3	80.5	81.4
Credit to private sector (in percent of GDP)	8.5	8.3	8.3	10.3	12.0	13.7	14.1
Credit to public sector (in percent of GDP)	20.7	20.1	15.9	16.8	15.0	13.8	13.4

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

1/ Assume a revaluation of central bank foreign assets at SL 51.8 per U.S. dollar at end 2005. The average implicit exchange rate at which CB foreign assets were valued at end 2004 was LS 24 per U.S. dollar.

Table 6. Syrian Arab Republic: Central Bank Balance Sheet, 2000–06

	2000	2001	2002	2003	2004	Proj 2005	Proj 2006
				(In billions of Syrian pounds)			
Net foreign assets 1/	**79**	**93**	**106**	**124**	**136**	**280**	**285**
[in million of U.S. dollars]	2,875	3,622	4,510	5,182	5,399	5,418	5,329
Net domestic assets	**173**	**202**	**237**	**254**	**337**	**246**	**282**
Net domestic credit	81	84	79	89	129	193	238
Net credit to government	-81	-73	-70	-86	***-15***	***32***	***65***
Credit to the government	275	301	322	306	310	394	454
Government deposits	356	374	392	392	325	362	390
Credit to public enterprises	0	0	0	0	0	0	0
Credit to banks	162	157	149	175	144	161	173
Credit to the private sector	0	0	0	0	0	0	0
Other items (net)	93	118	158	165	208	53	44
of which: valuation adj	63	82	91	93	111	-43	-52
Reserve money	**253**	**295**	**343**	**378**	**473**	**527**	**567**
Currency issued	211	237	267	294	344	383	413
of which: in banks' vaults	7	7	9	9	11	13	14
Deposits of public enterprises	11	14	13	13	22	25	27
Deposits of banks	29	45	61	70	106	118	127
Other non-gov't., non-bank deposits	2	0	0	0	0	0	0
				(In percent of beginning period reserve money stock)			
Net foreign assets	**11.3**	**5.5**	**4.3**	**5.3**	**3.1**	**30.6**	**0.9**
Net domestic assets	**3.9**	**11.3**	**11.7**	**4.9**	**22.1**	**-19.2**	**6.7**
Net domestic credit	-18.3	1.3	-1.7	2.8	10.8	13.4	8.6
Net credit to government	-16.8	3.1	1.2	-4.8	18.8	9.9	6.2
Credit to public enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to banks	-1.6	-1.7	-2.9	7.6	-8.0	3.5	2.3
Credit to the private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	22.2	10.0	13.4	2.1	11.3	-32.6	-1.8
of which: valuation adj	2.7	7.5	3.1	0.4	4.9	-32.6	-1.8
Reserve money	**15.2**	**16.9**	**16.0**	**10.2**	**25.2**	**11.4**	**7.6**
Of which: currency	10.4	10.2	10.4	14.8	13.2	8.3	5.6
banks' deposits	3.2	6.3	5.6	7.5	9.5	2.5	1.7
Memorandum item:							
Implicit exchange rate	24.0	23.3	21.9	22.7	23.2	51.8	53.5

Sources: Central Bank of Syria, and staff estimates

1/ Assume a revaluation of central bank foreign assets at SL 51.8 per U.S. dollar at end 2005. The average implicit exchange rate at which CB foreign assets were valued at end 2004 was LE 24 per U.S. dollar.

Table 7. Syrian Arab Republic: Balance of Payments, 2000–06
(In millions of U.S. dollars; unless otherwise indicated)

	2000	2001	2002	2003	*Est* 2004	*Proj* 2005	*Proj.* 2006
Current account balance	**1,024**	**1,199**	**1,834**	**1,287**	**461**	**49**	**-292**
(in percent of GDP)	*5.4*	*6.1*	*8.9*	*6.0*	*1.9*	*0.2*	*-1.1*
Oil balance	**2,425**	**3,042**	**3,600**	**3,020**	**2,152**	**1,792**	**1,518**
(in percent of GDP)	*12.8*	*15.4*	*17.4*	*14.1*	*9.1*	*6.8*	*5.5*
Exports, f.o.b.	3,543	4,050	4,558	4,111	3,250	3,084	2,717
Imports, f.o.b.	-186	-171	-143	-167	-167	-180	-188
Repatriation of profits of oil and gas companies	-932	-837	-815	-924	-931	-1,113	-1,012
Non-oil goods and services balance	**-2,133**	**-2,635**	**-2,594**	**-2,874**	**-3,005**	**-3,029**	**-3,119**
(in percent of GDP)	*-11.3*	*-13.3*	*-12.5*	*-13.4*	*-12.7*	*-11.6*	*-11.4*
Trade balance	**-2,165**	**-2,722**	**-2,270**	**-2,612**	**-3,166**	**-3,276**	**-3,399**
Exports, f.o.b.	1,157	1,236	1,998	1,651	2,110	2,574	2,638
Public	348	342	451	455	733	784	802
Private	809	894	1,547	1,196	1,377	1,790	1,836
Imports, f.o.b.	-3,322	-3,958	-4,268	-4,263	-5,276	-5,850	-6,037
Public	-668	-716	-1,113	-871	-855	-936	-936
Private	-2,654	-3,242	-3,155	-3,392	-4,421	-4,914	-5,101
Balance of services	**32**	**87**	**-324**	**-262**	**161**	**247**	**280**
Receipts	1,699	1,781	1,559	1,544	2,125	2,357	2,466
of which: travel and tourism	1,082	1,150	970	986	1,380	1,650	1,739
Payments	-1,667	-1,694	-1,883	-1,806	-1,964	-2,110	-2,186
Income (net)	**97**	**159**	**249**	**496**	**563**	**502**	**492**
Credit	360	454	574	671	705	723	724
Investment earnings	165	209	115	136	220	220	220
Debit	-263	-295	-325	-175	-142	-221	-233
Transfers (net)	**636**	**633**	**579**	**645**	**751**	**784**	**818**
Credit	675	682	634	700	802	837	873
of which: Workers' remittances	476	483	475	530	647	679	713
Debit	-39	-49	-55	-55	-51	-53	-55
Capital and financial account balance	**-76**	**-26**	**-230**	**-118**	**6**	**-10**	**113**
(in percent of GDP)	*-0.4*	*-0.1*	*-1.1*	*-0.6*	*0.0*	*0.0*	*0.4*
Capital account (migrants' transfers)	63	17	20	20	18	20	22
Direct investment	270	110	115	160	275	224	224
Long-term debt (net)	-154	-83	-125	2	-187	-254	-133
Receipts	261	257	195	224	215	386	400
Payments	-415	-340	-320	-222	-402	-640	-533
Short-term loans (net)	-255	-70	-240	-300	-100	0	0
Errors and omissions	**1,413**	**1,816**	**838**	**-332**	**-19**	**0**	**0**
(in percent of GDP)	*7.5*	*9.2*	*4.1*	*-1.5*	*-0.1*	*0.0*	*0.0*
Overall balance	**2,361**	**2,989**	**2,441**	**837**	**447**	**39**	**-179**
(in percent of GDP)	*12.5*	*15.1*	*11.8*	*3.9*	*1.9*	*0.1*	*-0.7*
Financing: net change in reserves (increase = -)	**-2,361**	**-2,989**	**-2,441**	**-837**	**-447**	**-39**	**179**
Convertible	-2,319	-2,943	-2,334	-496	-449	-39	179
Central bank	-531	-701	-781	-331	-219	-19	89
Commercial bank	-1,788	-2,242	-1,553	-165	-230	-19	89
Nonconvertible (Central bank)	-42	-46	-107	-341	2	0	0
Memorandum items:							
Non-oil exports of GNFS (in percent of GDP)	15.1	15.2	17.2	14.9	17.8	18.8	18.6
Non-oil imports of GNFS (in percent of GDP)	26.3	28.5	29.8	28.3	30.5	30.4	30.0
Oil export price ($ per barrel))	26.6	22.2	23.1	26.6	34.6	46.7	48.8
Volume of oil exports ('000 barrels/day)	364	470	495	406	276	211	183
Central bank reserves	2,776	3,462	4,221	4,559	4,934	4,953	4,864
(in months of imports of GNFS)	6.4	7.1	8.0	8.8	8.0	7.3	6.9
NFA of the banking system	11,350	14,339	16,780	17,617	18,065	18,104	17,925
(in months of imports of GNFS)	26.3	29.5	32.0	33.9	29.3	26.7	25.6
External debt 1/	3,912	3,692	3,890	4,137	4,918	6,803	6,670
(in percent of GDP)	20.6	18.6	18.8	19.3	20.7	26.0	24.3
Debt service (in percent of exports of non-oil G&S)	20.9	19.5	16.3	15.5	13.4	16.9	14.5
Weighted average nominal exchange rate (LS/$)	47.7	48.1	49.1	49.4	50.2	51.8	53.5
GDP ($ billion) 2/	19.0	19.8	20.7	21.4	23.7	26.2	27.4

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

1/ Officially acknowledged debt; from 2005, this includes debt to the Russian Federation, Poland, the Slovak Republic, and the Czech Republic, which was renegotiated in 2004 and 2005.

2/ Calculated using the trade-weighted average exchange rates.

Reforms Since the Last Board Meeting

Fiscal

- A new consumption tax was introduced replacing the 1987 consumption tax, broadening its base and changing its rate structure, and repealing various fees and levies (Decree 61 of October, 2004). The base was further broadened to few additional items in May 2005 (Decree 41).
- The domestic price for diesel oil, which used to be only 20 percent of international prices, was increased by 450 percent (to LS 6,000 per ton (about $115), October 2004.
- Stamp duties were reduced significantly, in some cases by up to 75 percent such as the duty on promissory notes, which was lowered to 1.5 per thousand.(Decree No. 44, May, 2005).
- An environmental protection tax on vehicles was introduced in May 2005 (Decree No. 42).

Monetary and Financial

- Licenses were issued for three private banks (Bank Audi, Lebanon, the Arab Bank, Jordan, and Byblos Bank).
- A legislation was issued in May 2005 opening the insurance market to the private sector (Decree 43). Prior to, that a private insurance firm was granted a license to operate in the Damascus free trade zone.
- Creation of the Securities and Financial Markets Authorities which has been tasked to launch a stock exchange (Law No 22 of June 19, 2005).
- Laws have been passed in May 2005 giving greater managerial autonomy to four of the six state banks and allowing them to enlarge the scope of their activities (Decree No 29, Savings bank, Decree No 30, Agricultural Bank; Decree No 31, Real Estate Bank, and Decree No 32, Popular Bank).
- A law has been promulgated in May 2005 allowing Islamic banking.
- Reduction in required reserves to 5 percent of total deposits on time and savings deposits, (Decree No 72, September 2004).
- Credit and Monetary Council (CMC) reduce the concentration of credit risks by providing limits to lending, (Decree No 101, January 2005).
- The term-structure of deposit interest rates is altered to encourage a lengthening of deposits.(Decree No. 119).
- The AML/CFT legislation has been amended in May 2005 (Decree No. 33).

Exchange Rate and Trade

- Private sector imports of raw material and intermediate goods were given access to the official foreign exchange market (Decree No 865, March, 2005).
- The use of the most appreciated official exchange rate has been restricted to debt service payments under certain bilateral payments agreements. (Decree No. 25, June 2004), while the public sector official rate has been depreciated from SL 48.5 per U.S. dollars to SL 50 per U.S. dollar starting January 1, 2005.
- Starting in May 2005, the CboS stopped quoting a rate for the official private sector rate and the central bank began quoting a band.
- A single Customs Administrative Form requiring only 4 signatures was introduced in October 2004, replacing 13 documents which used to require 35 signatures.
- Tariff rates for some inputs were reduced to bring them in line with other inputs whose rates were reduced in 2002–03, while rates on cars were brought down significantly (from 255 to 60 for large cars, and from 145 percent to 40 percent for small ones) (Decree 197 of May, 2005).
- The Syria/EU Association Agreement was initialed (October, 2004).
- A free trade agreement has been signed with Turkey.

Reforms "in the pipeline" include:

- Further revision to the tariff schedule to reduce the maximum rates from 230 to 50 percent and the number of bands from 10 to 5–6.
- Further regulation to strengthen the banking regulatory framework, including a regulations on capital adequacy and foreign exchange open position.
- Ongoing work on a new Customs law, a commercial and corporate code.
- Preparation to launch a treasury bills market and a stock exchange.

Syrian Arab Republic: Summary of the Exchange Rate System
(as of April 2005)

Exchange Rate 1/		Type of Transaction	
Until December 2004	From January 2005	Receipts	Payments
I. Official Rates			
Legally designated official rate (LS/$11.20/11.25)	Legally designated official rate (LS/$11.20/11.25)		• Law 25 of 6/16/2004 abolishes the use of this rate for all transactions except service of debt under some bilateral payment agreement.
Public sector transactions rate (LS/$48.50-48.65)	Public sector transactions rate (LS/$50)	• Public sector exports of crude oil and petroleum • Exports of public sector enterprises 2/ • Public sector remittances abroad • Earnings of staff of UN and diplomatic missions in Syria • Domestic expenses of foreign oil companies • External loans and grants	• Public sector imports, including essential subsidized goods and invisibles. • Repayment of public loans and interest not related to bilateral payments agreements • Payments by the public sector approved by the Committee for Foreign Exchange • Public sector enterprises' foreign exchange transactions.
Private sector transactions rate (LS/$51.50-51.65)	Private sector transactions rate. Used to be quoted by the CBoS. Starting May 2005, the CB started	• Private exports • Private sector remittances and service receipts	• Private sector purchases of foreign exchange for noncommercial transactions, including medical, student, religious, and travel expenses for limited amounts. • A few public sector invisible transactions. • Decree No. 865 of March 2005 (to be implemented) extended transactions at this rate to private imports of raw materials and intermediate goods.
II. Unofficial Rate			
Parallel market rate 3/ (About LS/$52.61 as of end December 2004)	Parallel market rate 3/ (About LS/$54.85 as of 4-18-2005)	• Private unrecorded exports (including from suitcase travel) • Private sector remittances and service receipts • Private capital inflows	• Private sector import payments (except for those listed above). • All private sector service payments.

1/ Buying/selling rates.

2/ 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, or they may sell the proceeds to other public enterprises at the official rate.

3/ Average of daily rates for the Syrian pound in Amman and Beirut.

Medium- to Long-Term Prospects for the Energy Sector and Their Fiscal and Balance of Payments Implications

Projections about energy production in the medium term are fraught with uncertainty stemming from whether ongoing investments in exploration will lead to new discoveries. Given this high uncertainty, policies should be based on the level of proven reserves, treating as an upside risk the possibility of new discoveries.

According to the latest information, Syria's proven oil reserves vary between 2.3–2.5 billion barrels, while its proven natural gas reserves vary between 240 to 500 billion cubic meters of natural gas.[25] Regarding oil, production reached 600 thousands barrel per day in 1996, and had declined since then to about 460 thousand barrel per day in 2004. According to the ministry of petroleum and mineral resources, oil production is expected to continue to decline until 2016 (at an average annual rate of 5 percent) as some of the mature oil fields reach exhaustion. From 2012 on, oil production would level off at about 275 thousands per day until exhaustion around 2025. Regarding natural gas, Syria has started to invest in the natural gas sector since the late eighties and the level of production has increased steadily to 4.8 billion of cubic meters in 2004. This level is projected to continue to rise to some 10.5 billion cubic meters by 2010 and to 11.8 billions by 2015. If it were to stabilize at that level, reserves will last another 10 to 15 years, depending on the level of reserves.

One of the strategies pursued in the past few years to face the challenge from rapidly declining oil reserves has been to substitute natural gas to oil. The greatest potential for that is in electricity generation but some potential is also being exploited in public transportation. In electricity generation, the share of natural gas has increased from 40 percent in 2002 to 55 percent now. The aim is to increase this share to 75 percent by 2011.

Given the ongoing substitution from oil to natural gas, projections about the future path of net oil exports and growth of value added in mining were based on a consolidated picture of the energy sector. The baseline scenario is based on the following assumptions: (i) an income elasticity of energy demand of 1.2, comparable to the average in developing countries, (ii) an average growth rate of non-oil GDP, as a proxy for incomes, of 5 percent, and (iii) a rate of extraction of natural gas equal to the growth rate of domestic demand (for final use and for electricity generation), as prospects for natural gas exports are still uncertain.

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[25] Data compiled by the Energy Information Administration (EIA) as of November 2004, based on the BP Statistical Review, the Oil & Gas Journal, and the World Oil, and the International Association for Natural Gas (CEDIGAS). According to the EIA, there is a 90 percent probability that additional oil reserves, amounting to about ½ billion barrels, could be discovered in the near future.

Implication for the balance of payments

Based on the above assumptions, net exports of oil (including profit repatriation of international oil companies) would decline from US$3 billions in 2003 (equivalent to 14 percent of GDP) to zero by 2011. Syria would then become a net oil importer and by 2020, imports would need to cover 35 percent of domestic consumption. The corresponding energy bill would amount to about 3.5 percent of GDP (Figure 4).

Implication for government revenues from oil

Government revenues from the oil sector are a function of the domestic and international sales of oil and of their respective prices.[26] Up until 1999, the domestic sales prices of petroleum products were on average higher than international prices and hence net revenues accruing to the government were equal to the revenues that would have accrued to the government if all production had been sold at international prices, plus net taxes.[27] Starting in 2000, as a result of the surge in international oil prices that was not fully passed through to domestic prices, the domestic consumption of petroleum products has become increasingly subsidized. Net subsidies are estimated at 3.7 percent of GDP in 2004.

Assuming constant domestic prices in real terms, a constant real exchange rate, and the WEO assumptions about the international oil prices, staff projections show that (Figure 5):

- Oil price subsidies would decline from a projected 6½ percent of GDP in 2005 to 1¾ percent in 2010 and to less than ½ percent in 2015, driven by the decline in the spread between international and domestic prices as a result of the projected decline in international oil price over this period.

- The cost of the price subsidy combined with the decline in oil production and the projected decline in international oil prices would drive net government revenues from an estimated 15 percent of GDP in 2003 to 8 percent by 2010 and to less than 5 percent by 2020.

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[26] So far the government has not derived any revenues from its natural gas resources. Gas is sold to the final consumers as well as to power plants at cost, i.e., about US$65 per metric ton. Only a very limited export infrastructure has been developed so far to export natural gas to Lebanon, hence the opportunity costs is hard to assess. Nonetheless the export weighted average price of European, Japanese and U.S. natural gas reported in the World Economic Outlook provide, which is currently equal to US$170 per metric ton, provides an order of magnitude.

[27] These revenues are net of production costs and the share that accrues to international oil companies operating some of Syria's oil fields.

Illustrative Medium-Term Scenarios

The impact of the prospective balance of payments and fiscal shock on growth and macroeconomic stability in the medium-term will depend on government's policy response.

If the actual pace and depth of reforms is maintained, non-oil exports are likely to expand only moderately, while foreign direct investment and other capital flows are likely to remain modest. In this case, policymakers will be confronted with one main policy issue, namely the extent to which foreign reserves are used to contain the impact of the decline in oil exports. Two polar options highlight the critical trade-offs:

- At one extreme the authorities might target constant foreign assets. In this case: (i) the decline in oil exports will constrain the volume of imports, and hence growth, and put pressures on the real exchange rate, and (ii) the decline in budgetary oil revenues will force greater monetary financing of the widening budget deficit. The confluence of both factors will lead to an **inflation-cum-currency depreciation spiral** in a low-growth environment. Government debt would rise rapidly, driven by the widening budget deficit and the impact of the real depreciation on the stock of external debt (Figure 6, Table 8).

- At the other extreme, the authorities might target stable nominal exchange rate. In this case, the demand for imports would increase to support an overall GDP growth of 4-4½ percent. Together with the decline in oil exports, this would widen the current account deficit and lead to accelerating foreign assets losses. By 2010, the cumulative loss could reach nearly US$10 billion, and it would take only another 3–4 years before all foreign assets are exhausted (Figure 7).[28] Once foreign assets are depleted, the inflation-cum-depreciation spiral would become the only option.

If, on the other hand, structural reforms are accelerated and fiscal adjustment stepped up, investment prospects would improve, which would unleash robust capital accumulation and productivity gains. Higher productivity would boost non-oil exports, and an enhanced business climate would attract foreign direct investment. Together with some support from the comfortable cushion of international reserves, these would allow the expansion of imports that would be needed to sustain higher growth. Fiscal consolidation will keep the borrowing needs of the budget within reasonable limits, preventing undue pressure on interest rates and keeping inflation at bay (Figure 8).

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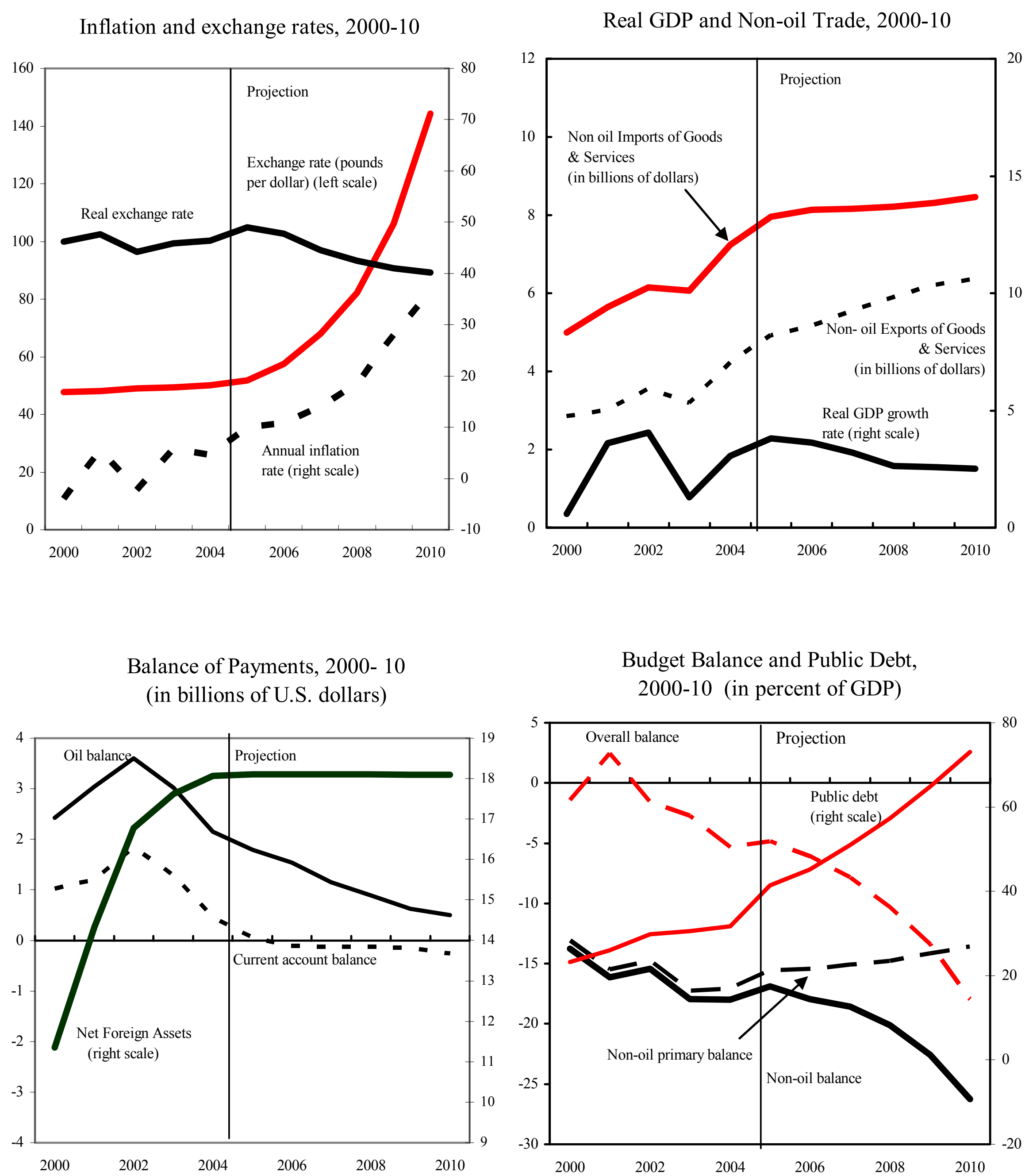
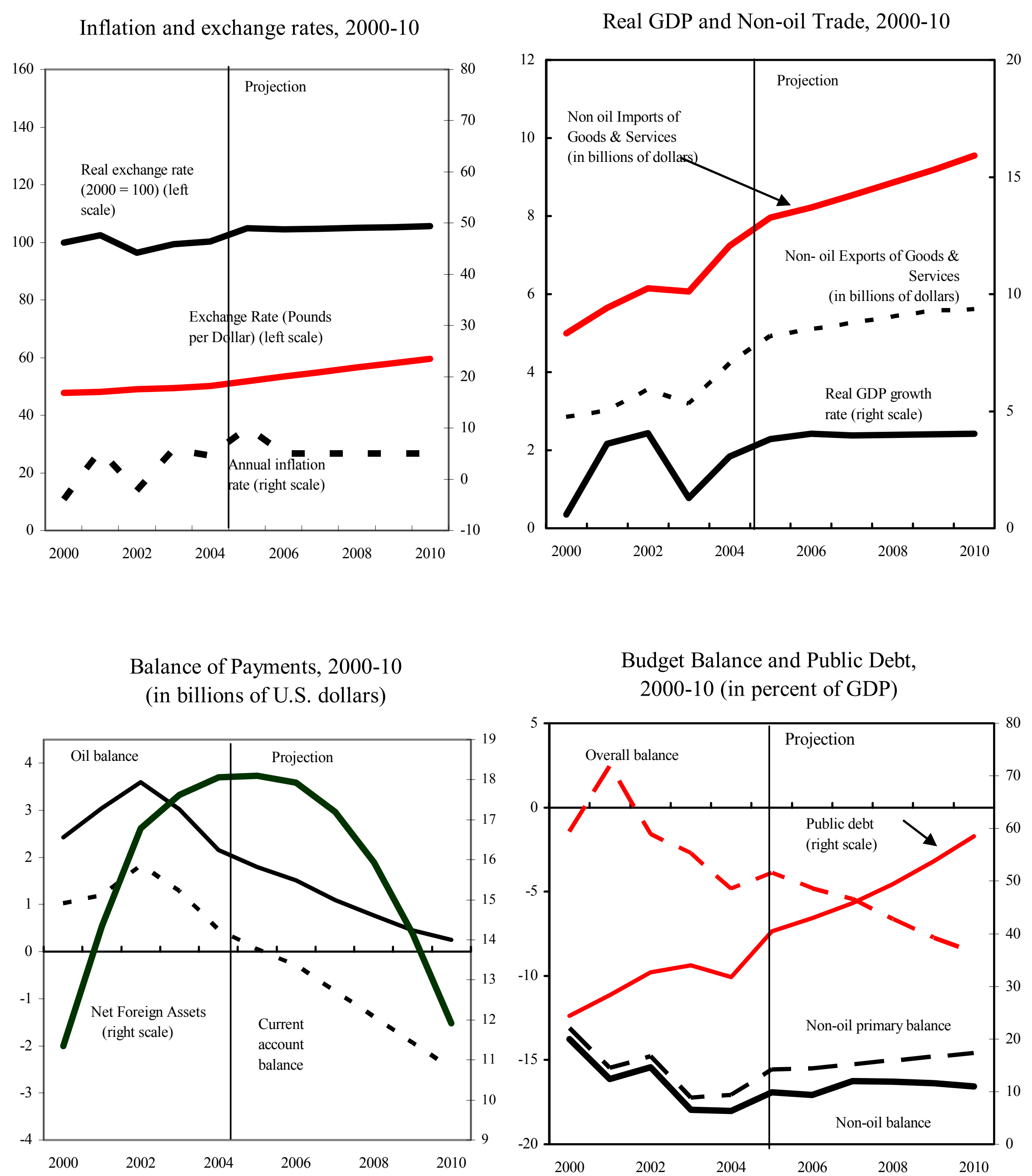
[28]Tables 9 and 10 present sensitivity analysis on the debt dynamics around this medium-term scenario. In particular, sensitivity analysis, presented in Table 8, shows relatively small sensitivity of the debt dynamics to international oil prices, as more than 65 percent of oil production is now consumed domestically.

Figure 6. Syrian Arab Republic: Medium-Term Outlook
under Current Policies with No change in Net Foreign Assets



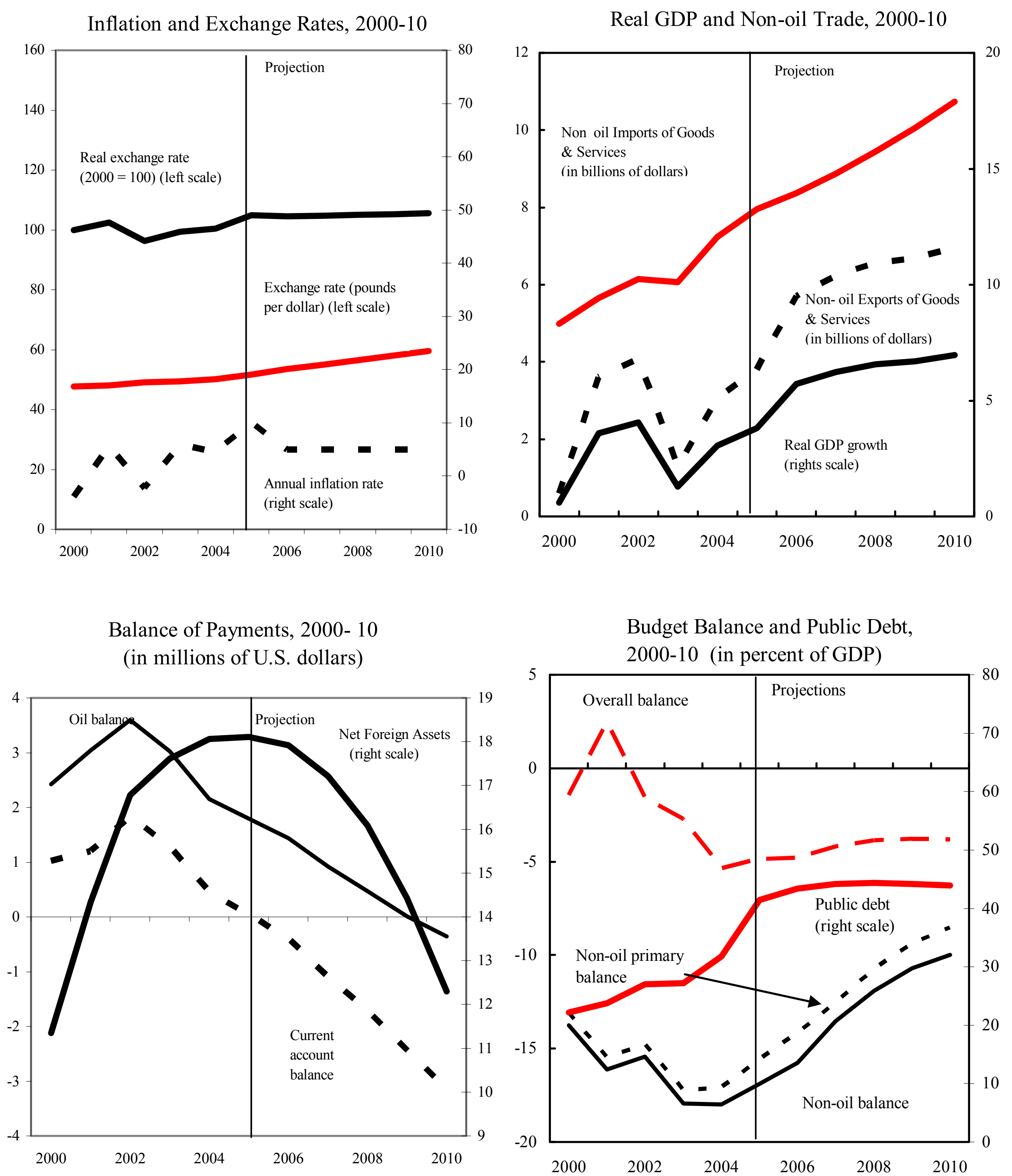
Sources: Syrian authorities; and Fund staff estimates and projections.

Figure 7. Syrian Arab Republic: Medium-Term Outlook under Current Policies with Constant Real Exchange Rate



Sources: Syrian authorities; and Fund staff estimates and projections.

Figure 8. Syrian Arab Republic: Medium-Term Outlook
with Fiscal Adjustment and Structural Reforms.



Sources: Syrian authorities; and Fund staff estimates and projections.

Table 8: Syria: Medium-term Outlook

	2005	2006	2007	2008	2009	2010
Crude oil production						
(in thousands of barrels per day)	414	394	372	355	338	326
Export price of crude oil						
(in U.S. dollar per barrel)	46.7	48.8	47.7	46.3	47.6	47.1
	Under Current Policies					
Targeting foreign assets						
GDP growth	3.8	3.6	3.2	2.6	2.6	2.5
CPI inflation	10.0	10.8	14.0	18.5	28.0	36.5
Nominal exchange rate (Syrian pound/U.S. dollar)	51.8	57.5	68.1	82.2	106.2	144.3
Real effective exchange rate (decline=depreciation)	100	97.9	92.4	88.9	86.3	85.1
Net foreign assets (in billion of U.S. dollar)	18.1	18.1	18.1	18.1	18.1	18.1
Non-oil primary balance	-15.6	-15.5	-15.1	-14.8	-14.2	-13.6
Government debt (in percent of GDP)	41.4	45.2	51.0	57.4	64.8	73.1
Targeting the nominal exchange rate						
GDP growth	3.8	4.0	4.0	4.0	4.0	4.0
CPI inflation	10.0	5.0	5.0	5.0	5.0	5.0
Nominal exchange rate (Syrian pound/U.S. dollar)	51.8	53.5	55.0	56.5	58.0	59.5
Real effective exchange rate (decline=depreciation)	100.0	99.7	99.8	100.1	100.3	100.7
Net foreign assets (in billion of US$)	18.1	17.9	17.2	15.9	14.2	11.9
Non-oil primary balance	-15.6	-15.4	-15.1	-14.9	-14.7	-14.5
Government debt (in percent of GDP)	41.4	45.0	48.6	52.9	57.8	63.1
Memorandum items:						
Assuming oil prices are US$10 lower	46.7	38.8	37.7	36.3	37.6	37.1
Net foreign assets (in billions of U.S. dollars)	18.1	17.6	16.6	15.2	13.3	10.9
Government debt (in percent of GDP)	41.4	46.0	49.9	54.2	58.9	63.8
	Under Accelerated Structural Reforms and Fiscal Consolidation					
GDP growth	3.8	5.7	6.2	6.6	6.7	7.0
CPI inflation	10.0	5.0	5.0	5.0	5.0	5.0
Nominal exchange rate (Syrian pound/U.S. dollar)	51.8	53.5	55.0	56.5	58.0	59.5
Real effective exchange rate (decline=depreciation)	100.0	99.7	99.8	100.1	100.3	100.7
Net foreign assets (in billion of US$)	18.1	17.9	17.2	16.1	14.4	12.3
Non-oil primary balance	-15.6	-14.2	-12.5	-10.7	-9.4	-8.5
Government debt (in percent of GDP)	41.4	43.4	44.2	44.3	44.2	43.9

Sources: Syrian authorities, and Fund staff estimates and projections.

Table 9. Syria: Public Sector Debt Sustainability Framework, 2000-2010
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2000	2001	2002	2003	2004			2005	2006	2007	2008	2009	2010	
								I. Baseline Projections						**Debt-stabilizing primary balance 11/**
1 **Public sector debt 1/**	23.3	26.0	29.8	30.8	31.8			**41.4**	**45.0**	**48.6**	**52.9**	**57.8**	**63.1**	**-2.3**
o/w foreign-currency denominated	20.6	18.6	18.8	19.4	20.7			26.0	24.3	22.7	21.0	19.6	18.5	
2 Change in public sector debt	-4.8	2.7	3.8	0.9	1.0			9.7	3.6	3.6	4.3	4.9	5.2	
3 Identified debt-creating flows (4+7+12)	-1.7	-3.5	0.3	1.6	2.2			1.0	2.7	3.0	3.7	4.4	4.8	
4 Primary deficit	0.8	-3.1	0.9	2.0	4.4			3.5	4.3	5.4	6.2	6.9	7.3	
5 Revenue and grants	27.2	32.1	29.8	30.5	27.9			28.2	27.4	26.3	25.6	24.9	24.6	
6 Primary (noninterest) expenditure	28.0	29.0	30.7	32.6	32.3			31.7	31.6	31.7	31.8	31.8	31.9	
7 Automatic debt dynamics 2/	-2.5	-0.4	-0.6	-0.4	-2.2			-2.5	-1.5	-2.4	-2.4	-2.5	-2.5	
8 Contribution from interest rate/growth differential 3/	-2.0	-0.5	-0.9	-0.6	-2.5			-2.5	-1.5	-2.4	-2.4	-2.5	-2.5	
9 Of which contribution from real interest rate	-1.8	0.3	0.1	-0.2	-1.6			-1.5	0.0	-0.7	-0.7	-0.5	-0.4	
10 Of which contribution from real GDP growth	-0.2	-0.8	-1.0	-0.4	-0.8			-1.1	-1.5	-1.6	-1.8	-2.0	-2.1	
11 Contribution from exchange rate depreciation 4/	-0.5	0.1	0.3	0.1	0.3			...	...	...	...	...	...	
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/	-3.1	6.2	3.5	-0.7	-1.2			8.7	0.8	0.6	0.6	0.5	0.5	
Public sector debt-to-revenue ratio 1/	85.4	81.1	100.1	100.7	113.8			147.1	164.4	184.5	206.8	232.1	256.4	
Gross financing need 6/	4.4	1.7	7.1	8.3	11.3			12.4	15.0	17.8	21.3	24.7	27.6	
in billions of U.S. dollars	0.8	0.3	1.5	1.8	2.7			3.2	4.1	5.1	6.5	8.0	9.4	
Key Macroeconomic and Fiscal Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	0.6	3.6	4.1	1.3	3.1	3.8	3.8	3.8	4.0	4.0	4.0	4.0	4.0	4.0
Average nominal interest rate on public debt (in percent) 7/	2.6	3.0	2.7	2.5	3.4	2.3	0.7	4.8	4.2	2.5	3.0	3.5	4.1	3.7
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-7.1	1.4	0.3	-0.6	-5.7	-2.8	3.9	-4.9	0.2	-1.6	-1.3	-0.9	-0.5	-1.5
Nominal appreciation (increase in US dollar value of local currency, in percent)	2.0	-0.8	-2.1	-0.8	-1.4	-3.9	5.3	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.7	1.7	2.4	3.1	9.1	5.1	3.8	9.6	4.0	4.1	4.3	4.4	4.6	5.2
Growth of real primary spending (deflated by GDP deflator, in percent)	3.0	7.4	10.1	6.8	2.8	4.7	4.7	1.7	3.9	4.2	4.2	4.2	4.2	3.7
Primary deficit	0.8	-3.1	0.9	2.0	4.4	1.4	2.0	3.5	4.3	5.4	6.2	6.9	7.3	5.6
								II. Stress Tests for Public Debt Ratio						**Debt-stabilizing primary balance 11/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2005-09 8/								**41.4**	**41.1**	**40.5**	**39.9**	**39.3**	**38.6**	**-2.1**
A2. No policy change (constant primary balance) in 2005-09								**41.4**	**44.2**	**46.0**	**47.8**	**49.5**	**51.3**	**-1.9**
A3. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 9/								**41.4**	**45.0**	**48.6**	**52.9**	**57.8**	**63.0**	**-2.3**
A4. Selected variables are consistent with market forecast in 2005-09								**41.4**	**45.0**	**48.6**	**52.9**	**57.8**	**63.1**	**-2.3**
B. Bound Tests														
B1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006								**41.4**	**46.9**	**53.3**	**57.4**	**62.2**	**67.2**	**-2.4**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**41.4**	**50.8**	**63.5**	**72.5**	**82.1**	**91.8**	**-3.3**
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006								**41.4**	**46.1**	**49.8**	**54.0**	**58.9**	**64.1**	**-2.3**
B4. Combination of B1-B3 using one standard deviation shocks								**41.4**	**46.2**	**50.8**	**55.0**	**59.9**	**65.0**	**-2.4**
B5. One time 30 percent real depreciation in 2005 10/								**41.4**	**55.2**	**58.4**	**62.3**	**66.9**	**71.8**	**-2.6**
B6. 10 percent of GDP increase in other debt-creating flows in 2005								**41.4**	**55.0**	**58.2**	**62.1**	**66.7**	**71.6**	**-2.6**

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 $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = 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 $\alpha\varepsilon(1+r)$.
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/ Derived as nominal interest expenditure divided by previous period debt stock.
8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
9/ The implied change in other key variables under this scenario is discussed in the text.
10/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
11/ 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 10. Syria: External Debt Sustainability Framework, 2000-2010

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2000	2001	2002	2003	2004			2005	2006	2007	2008	2009	2010	
								I. Baseline Projections						**Debt-stabilizing non-interest current account 7/**
1 **External debt**	20.6	18.6	18.8	19.3	20.7			**26.0**	**24.3**	**22.7**	**21.0**	**19.6**	**18.5**	**-0.9**
2 Change in external debt	-3.7	-2.0	0.2	0.5	1.4			5.3	-1.6	-1.7	-1.6	-1.5	-1.1	
3 Identified external debt-creating flows (4+8+9)	-9.6	-7.5	-10.2	-7.4	-5.0			-1.8	-0.8	1.2	3.0	4.5	5.9	
4 Current account deficit, excluding interest payments	-6.4	-7.3	-10.1	-7.3	-2.6			-0.9	0.3	2.2	3.7	5.2	6.5	
5 Deficit in balance of goods and services	-6.5	-6.3	-8.8	-5.0	-0.3			0.5	2.2	4.6	6.4	8.0	9.3	
6 Exports	33.8	35.7	39.3	34.1	31.5			30.6	28.5	25.6	23.2	21.1	19.1	
7 Imports	27.3	29.4	30.4	29.1	31.2			31.1	30.7	30.2	29.6	29.1	28.4	
8 Net non-debt creating capital inflows (negative)	-1.4	-0.6	-0.6	-0.7	-1.2			-0.9	-0.8	-0.8	-0.7	-0.7	-0.6	
9 Automatic debt dynamics 1/	-1.8	0.4	0.5	0.6	-1.2			0.0	-0.2	-0.2	0.0	0.0	0.0	
10 Contribution from nominal interest rate	1.0	1.3	1.3	1.3	0.7			0.7	0.8	0.7	0.9	0.8	0.8	
11 Contribution from real GDP growth	-0.1	-0.7	-0.7	-0.2	-0.5			-0.7	-1.0	-0.9	-0.9	-0.8	-0.7	
12 Contribution from price and exchange rate changes 2/	-2.6	-0.2	-0.1	-0.4	-1.4			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	5.8	5.5	10.4	7.9	6.4			7.0	-0.9	-2.9	-4.6	-6.0	-7.0	
External debt-to-exports ratio (in percent)	61.1	52.2	47.9	56.6	65.7			84.9	85.3	88.4	90.6	92.8	97.0	
Gross external financing need (in billions of US dollars) 4/	-0.6	-0.9	-1.5	-1.1	-0.1			0.6	0.8	1.4	1.9	2.5	2.9	
in percent of GDP	-3.2	-4.3	-7.3	-5.0	-0.2			2.3	3.0	4.8	6.3	7.6	8.5	
Key Macroeconomic Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	0.6	3.6	4.1	1.3	3.1	3.9	6.3	3.8	4.0	4.0	4.0	4.0	4.0	4.0
GDP deflator in US dollars (change in percent)	11.9	0.9	0.3	2.3	7.5	1.1	7.3	6.3	0.6	1.3	1.5	1.7	2.0	2.2
Nominal external interest rate (in percent)	4.5	6.3	7.1	7.0	4.0	4.5	1.7	4.0	3.0	3.2	4.0	4.1	4.3	3.8
Growth of exports (US dollar terms, in percent)	17.3	10.4	14.8	-10.0	2.5	4.5	11.5	7.1	-2.4	-5.5	-4.3	-4.0	-4.0	-2.2
Growth of imports (US dollar terms, in percent)	-0.5	12.5	8.1	-0.9	18.8	4.7	15.5	9.9	3.3	3.6	3.6	3.7	3.8	4.7
Current account balance, excluding interest payments	6.4	7.3	10.1	7.3	2.6	4.5	3.0	0.9	-0.3	-2.2	-3.7	-5.2	-6.5	-2.8
Net non-debt creating capital inflows	1.4	0.6	0.6	0.7	1.2	0.8	0.4	0.9	0.8	0.8	0.7	0.7	0.6	0.7
								II. Stress Tests for External Debt Ratio						**Debt-stabilizing non-interest current account 7/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2005-09 5/								**26.0**	**19.8**	**11.8**	**2.1**	**-8.9**	**-21.0**	**-0.7**
A2. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 6/								**26.0**	**24.3**	**22.7**	**21.0**	**19.6**	**18.5**	**-0.9**
A3. Selected variables are consistent with market forecast in 2005-09								**26.0**	**24.3**	**22.7**	**21.0**	**19.6**	**18.5**	**-0.9**
B. Bound Tests														
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006								**26.0**	**25.6**	**25.0**	**23.4**	**21.9**	**20.8**	**-0.9**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**26.0**	**27.7**	**28.7**	**25.5**	**22.1**	**18.9**	**-1.1**
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006								**26.0**	**28.2**	**30.0**	**26.4**	**22.6**	**18.9**	**-1.1**
B4. Non-interest current account is at historical average minus two standard deviations in 2005 and 2006								**26.0**	**25.6**	**23.3**	**21.7**	**20.2**	**19.1**	**-0.9**
B5. Combination of B1-B4 using one standard deviation shocks								**26.0**	**26.9**	**25.3**	**23.2**	**21.4**	**20.1**	**-1.1**
B6. One time 30 percent nominal depreciation in 2005								**26.0**	**33.5**	**32.3**	**30.2**	**28.5**	**27.0**	**-1.1**

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = 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/ The implied change in other key variables under this scenario is discussed in the text.

7/ 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

The Fiscal Cost of Price Subsidies

Despite attempts at simplification and reform, the price subsidy system remains complex and costly. The web of price subsidies comprises explicit subsidies on cereals, electricity, water, cotton, rice and sugar, implicit subsidies on energy products, and additional implicit subsides for cereals and cotton. The exchange-rate related implicit subsidies have been largely phased out with the narrowing of the spreads between official rate and parallel market rates.

The cost of explicit subsidies amounted to 4 percent of GDP in 2003, i.e., one-fifth of the current budget. The price subsidy for cereals—which is the largest item—provides support to consumers, producers, and exports. The subsidy on electricity, sugar, and rice is a subsidy to consumers. The bulk of subsidy on water is for irrigation and therefore provides an indirect subsidy to consumers in the form of cheap prices for foodstuffs. Price subsidy on cotton—which is small—covers subsidy to exports of surplus production. Most of the cost of the producer price support policy for cotton is born by local consumers and garment exports–whose competitiveness is hurt by the high domestic cost of cotton. For all six commodities, budgetary costs also cover the cost of redundant labor in the public enterprises producing and marketing these commodities.

The cost of the implicit subsidies on energy products is estimated at 5.8 percent in 2003. These subsidies stem from domestic prices set at levels below opportunity costs and are born by the budget in the form of lost revenues. In 2003, implicit subsidies on diesel and gas oil are estimated at 2.8 percent of GDP (including the implicit subsidy for electricity generation), with domestic prices equal to 20 and 75 percent of international prices respectively. The implicit subsidy on natural gas is estimated at 3 percent of GDP (including the implicit subsidy for electricity generation), with domestic sales prices equal to some 40 percent of average international prices.[1/] While the recent increase in the price of diesel has brought it at a level close to 90 percent of international price in 2004, lack of adjustment in the price of gas oil together with the increase in international oil price is projected to widen the wedge between the two from 25 percent in 2003 to 60 percent in 2005. All in all, subsidies on gas and diesel oil could reach 5 percent of GDP, in 2005, in the absence of further adjustment in domestic prices.

The cost of additional implicit subsidies for cotton and cereals is born by state banks. The two main public institutions in charge of marketing these commodities have been relying on borrowing from state banks to cover any remaining losses which are not covered by budgetary transfers. The cost has varied depending on surplus production, accumulation and drawdown on stocks.

[1/]Average international prices do not reflect true opportunity costs to the extent that export infrastructure is very limited.

The fiscal cost of price subsidies

	2000	2001	2002	2003	2004
	(in billion of Syrian Pounds)				
Explicit Subsidies	**51.5**	**49.0**	**48.8**	**41.8**	**45.8**
Covered by the Price Stabilization Fund	34.3	32.1	31.2	27.9	27.0
Wheat	27.1	29.0	26.1	22.9	22.2
Other (sugar, rice, etc...)	7.2	3.1	5.1	5.0	4.9
Covered by direct budgetary transfers 2/	2.8	2.8	2.0	1.7	4.8
Current transfers to PEs 1/	14.3	14.1	15.6	12.2	14.0
Implicit Energy Subsidies	**95.0**	**48.6**	**42.8**	**61.4**	**128.2**
Petroleum products	45.4	23.2	20.4	29.3	61.3
Gas oil	19.5	11.4	11.9	16.3	58.7
Fuel oil	26.0	11.8	8.6	13.0	2.6
Natural gas	49.6	25.4	22.3	32.0	66.9
Implicit Subsidies on Wheat and Cotton 3/	**6.1**	**-2.3**	**-26.1**	**19.6**	**0.8**
Wheat	0.7	-12.0	-20.8	11.8	5.6
Cotton	5.4	9.7	-5.4	7.8	-4.9
Total Price Subsidy	**152.6**	**95.2**	**65.5**	**122.8**	**174.8**
	(in percent of GDP)				
Explicit Subsidies	**5.7**	**5.1**	**4.8**	**3.9**	**3.8**
Covered by the PSF	3.8	3.4	3.1	2.6	2.3
Wheat	3.0	3.0	2.6	2.2	1.9
Other (sugar, rice, etc...)	0.8	0.3	0.5	0.5	0.4
Covered by direct budgetary transfers 2/	0.3	0.3	0.2	0.2	0.4
Current transfers to PEs 1/	1.6	1.5	1.5	1.2	1.2
Implicit Energy Subsidies	**10.5**	**5.1**	**4.2**	**5.8**	**10.8**
Petroleum products	5.0	2.4	2.0	2.8	5.1
Gas oil	2.2	1.2	1.2	1.5	4.9
Fuel oil	2.9	1.2	0.8	1.2	0.2
Natural gas	5.5	2.7	2.2	3.4	3.5
Implicit Subsidies on Wheat and Cotton 3/	**0.7**	**-0.2**	**-2.6**	**1.9**	**0.1**
Wheat	0.1	-1.3	-2.0	1.1	0.5
Cotton	0.6	1.0	-0.5	0.7	-0.4
Total Price Subsidy	**16.9**	**10.0**	**6.5**	**11.6**	**14.7**
Memorandum item:					
Banks' claims on:					
General organization for cereal trade and production	90.5	78.5	57.7	69.5	75.1
General organization for cotton ginning and marketing	79.4	89.0	83.7	91.5	86.6
CBoS	77.0	60.1	41.5	31.2	32.5
Agricultural Bank	2.3	28.9	42.2	60.3	54.1

Source: Syrian authorities.

1/ Mainly covering subsidies on consumption of electricity and water.

2/ Mainly subsidies on cotton exports

3/ Negative subsidies mainly reflect recouping some of the losses of previous years by drawing down stocks.

Syrian Arab Republic: Fund Relations
(As of end June, 2005)

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

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota[29]	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 (to be updated)				
	2004	2005	2006	2007	2008
Charges/Interest	0.58	0.57	0.57	0.57	0.58
Total	0.58	0.57	0.57	0.57	0.58

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

[29] Under the Eleventh General Review.

other countries in the region averaged about LS/$52.8 in 2003 and about LS/$52.3 in 2004. 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 January 2004 and was completed on April 30, 2004.

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 on a lapse-of-time basis the decision No. 13241on April 30, 2004.

> 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 2004 Article XIV consultation with the Syrian Arab Republic, in the light of the 2004 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. In addition, the Syrian Arab Republic maintains measures subject to approval under Article VIII. The Fund encourages the authorities 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
STA	Price statistics	October 2005 (planned)
MFD	Long-term advisor on securities market	September 2005 (planned)
MFD	Transfer of foreign assets from CboS to CB	August 2005 (planned)
METAC	National income accounts	Ongoing
	Band 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

Syrian Arab Republic: Relations with the World Bank Group
(end June, 2005)

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 Minster 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.

Syrian Arab Republic: Statistical Issues

1. Significant weaknesses exist in Syria's statistical base in terms of coverage, consistency, periodicity, and timeliness, which have hampered the staff's ability to conduct economic analysis and effective surveillance. Efforts to address the weaknesses in the statistical base should cover a wide range of sectors, including national accounts, government finance, monetary accounts, and balance of payments.

2. Statistical issues have been discussed with the Syrian representatives during Article IV consultations. They have acknowledged data deficiencies and indicated that efforts will be made to address them. In this respect Syria's participation in the General Data Dissemination System (GDDS) is strongly recommended. Four compilers of statistics from the Ministry of Finance, Central Bank of Syria, Central Bureau of Statistics, and a manager from the Central Bureau of Statistics have recently participated in the GDDS Workshop in Abu Dhabi (February 27–March 9, 2005) organized by the IMF Statistics Department. Brief metadata for all macroeconomic sectors were prepared during the workshop. To become a GDDS participant the authorities will need to appoint a GDDS coordinator, express their commitment to the GDDS framework, and finalize GDDS metadata.

3. Statistical issues in various sectors of the economy are discussed below.

a. Real sector

4. The Central Bureau of Statistics has made steady progress in implementing the recommendations of the last national accounts statistics mission (December 1995). However the following weaknesses still exist:

- GDP estimates by the production approach suffer from under-coverage of activities, particularly in trade and private services. The base year has been updated to 2000.
- 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 these aggregates.
- The estimates of final expenditures on GDP are incomplete, as household final consumption expenditures are calculated as a residual and include changes in inventories (since the latter is not estimated separately). The authorities have begun 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.

- National accounts figures for 2001 show a surprising boom in investment, which increases by 25 percent in real terms, entirely due to a doubling in private investment in the agricultural sector. Such an increase remains puzzling.

- Consumer price index calculations are fairly unusual. 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.

- The wholesale price index is compiled and reported annually but is not representative, as most prices are those of public sector enterprises.

5. As of June 2005, the latest national accounts figures reported in the *International Finance Statistics* (IFS) were for 2002, although the Central Bureau of Statistics published provisional 2003 accounts in its 2004 Statistical Abstract.

b. Government finance

- Syria's fiscal accounts 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. However, investment expenditure of public enterprises is included in government's capital expenditure. The methodology used for compilation does not follow *GFSM 2001* or even *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 by the budget and the balance of payment accounts.

- However, 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 2005 TA 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 its staff with an updated institutional table showing the current coverage of government and public enterprises, 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, too 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

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 the *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; and (iv) there are disparities between the institutional coverage of public sector in monetary statistics and the government finance statistics.

To address the source data deficiencies, the June 2004 STA mission recommended: (a) the use of a market exchange rate for valuing all foreign currency denominated positions at all banks, including the CB, or as an intermediate step, the use of a single rate closest to the market rate for valuing all foreign currency positions at the CB and at the other banks, (b) valuation of financial positions based on market prices or market price equivalents; and (c) 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.

6. Monthly monetary data for the *IFS* are reported with a variable lag, which currently (end-June 2005) stands at 14 months.

d. Balance of payments

7. The balance of payments (BOP) is compiled annually by the CBS on a provisional basis with about an eight-month lag. As of June 2005, the latest BOP figures reported in the *IFS* refer to 2003. Trade data are compiled monthly by the Customs Department and reported quarterly by the Central Bureau of Statistics in LS 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 MS. In particular, the Net Foreign Assets (NFA) of the banking system are much higher in the monetary survey (MS) than in the international liquidity table derived from the balance of payments.

- 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. Also, it recommended the dissemination of international reserves and external debt data—neither of which is currently disseminated for reasons of confidentiality.

SYRIAN ARAB REPUBLIC: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF JUNE 29, 2005

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Feb. 2005	Mar. 2005	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec., 2004	Apr. 2005	M	…	M
Reserve/Base Money	Dec 2004	Apr, 2005	M	...	M
Broad Money	Dec 2004	Apri2005	M	...	.M
Central Bank Balance Sheet	Dec 2004	Apr , 2005	M	...	M
Consolidated Balance Sheet of the Banking System	Dec 2004	Apr. 2005	M	...	M
Interest Rates[2]	Mar 2005	Ap. 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

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Syrian Arab Republic: Tentative Work Program for 2005 Article IV

Mission	April 18–May 2, 2005
Staff Report and Statistical Appendix Issued to the Board	July 18, 2005
Board Meeting	August 31, 2005

Technical Assistance

MFD/LEG	Feb/March 2005
FAD (tax administration)	March 2005
MFD (central bank re-organization)	May 2005
MFD (reserve management)	August 2005
STA (consumer price index)	October 2005
METAC	Various visits on tax administration, VAT, national income accounts, banking supervision and regulation

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 05/138
FOR IMMEDIATE RELEASE
October 3, 2005

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

IMF Executive Board Concludes 2005 Article IV Consultation with the Syrian Arab Republic

On August 31, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Syrian Arab Republic.[1]

Background

Following a slowdown in 2003, a mild recovery seems to have started since early 2004. The slowdown in 2003 reflected declining oil production and the impact of the conflict in Iraq on exports and investment. An expansionary fiscal stance cushioned the impact of these shocks and helped limit the slowdown in economic activity to 1¼ percent. The recovery in 2004 has been aided by a strong rebound in exports, especially tourism, and by a surge in private investment—reflecting the ongoing reforms. A 20 percent increase in public sector wages together with a good harvest contributed to the upturn. Inflation remains subdued for the moment, despite expansionary fiscal policies and the easing of credit. The external position is weakening as a result of a downward trend in oil exports and in unidentified inflows.

The recovery is likely to continue in 2005 supported by a further strengthening of private investment and exports. Notwithstanding the increase in oil prices, the current account is expected to weaken further, reflecting a decline in the volume of oil exports with a partial offset

[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.

from tourism. Fiscal policies promise to be somewhat tighter in 2005, reflecting the introduction of the consumption tax, some adjustment in petroleum prices, and a planned curb on inefficient public investment. This, together with moderate credit expansion, would help keep inflation in check.

The medium-term prospects are worrisome given that oil, which presently contributes 20 percent of GDP, two-thirds of exports (about 14 percent of GDP), and half of government revenues (about 15 percent of GDP), is likely to be exhausted in the late 2020s and Syria may become a net oil importer within a few years.

The authorities have continued to make progress in addressing key structural rigidities to boost growth, and in strengthening the medium-term budgetary outlook to face the prospective decline in oil revenues. However, the supply response, so far, and the fiscal prospects suggest that the pace and the scope of reforms have fallen short of Syria's medium-term growth and employment challenges. If structural reforms and fiscal consolidation are not accelerated, there is a risk that oil reserves will be exhausted before the ongoing reforms have had time to generate new sources of growth and income. If this risk were to materialize, Syria may get locked in a cycle of financial volatility, fiscal deterioration, low growth, and rising unemployment.

Executive Board Assessment

Directors were encouraged by Syria's favorable performance in 2004 as reflected by the strong non-oil growth and the stable macroeconomic environment. They commended the Syrian authorities for the steady progress in pushing forward the structural reform agenda, notably the steps taken to further liberalize the trade and foreign exchange regimes, simplify and broaden the base of the tax system, strengthen budgetary procedures to improve the efficiency of public spending, grant greater autonomy and flexibility to public enterprises including public banks, and open the insurance industry to the private sector. However, noting the worrisome medium-term prospects for the oil sector, Directors expressed concern that the pace and the scope of reforms may be falling short of the daunting challenges posed by the prospective depletion of oil reserves and the high demographic pressures on the labor market.

Against this background, Directors agreed that structural reforms aimed at furthering the transition to a market economy, strengthening the incentive system for domestic and foreign investors, and improving price signals need to be further accelerated and broadened to create new sources of growth and foreign exchange earnings to replace the dwindling oil resources. They welcomed the authorities' intention to implement institutional reforms to strengthen competition, governance, property rights, and the rule of law.

Directors considered that a strong and credible fiscal consolidation strategy within a transparent medium-term fiscal framework (MTFF) will be key to maintaining financial stability and instilling confidence in Syria's fiscal solvency. Given the high uncertainty surrounding oil prices, reserves, and extraction rates, Directors agreed that the MTFF should target a steady improvement in the non-oil budget balance, keeping the government's inter-temporal budget constraint in clear perspective, and moderating distributive demands fueled by higher oil prices.

Directors welcomed the authorities' commitment to fiscal consolidation as reflected in the tax and expenditure measures adopted in the 2005 budget, and their sustained effort to increase efficiency and broaden the tax base, while strengthening tax administration. Directors called on the authorities to build on this progress and develop a comprehensive fiscal reform package aimed at further simplifying tax provisions and removing tax exemptions. Efforts to revamp tax administration, including the creation of a large taxpayer unit, should be sustained to prepare for a successful launch of the VAT. A comprehensive review of public expenditure could help identify measures to raise fiscal savings and enhance the supply side of the economy. Overhauling the price subsidy system, while at the same time strengthening social safety nets, could be an important source of savings and efficiency gains. Civil service reform—in a manner that does not create social disruptions—is also needed to address overstaffing, low pay, and lack of skills. Directors urged the authorities to contain the accumulation of new debt, with a few suggesting that windfall revenues be used to pay down the debt.

Directors welcomed the recent laws to allow greater autonomy and flexibility to public enterprises and public banks in order to improve their financial position, stem their drain on public finances, and ensure a level playing field for private sector enterprises. Directors called on the authorities to elaborate and implement their plan to restructure those enterprises that can be salvaged, and to develop case-by-case solutions, including liquidation, to deal with the rest. Directors encouraged the authorities to envisage the privatization of selected enterprises.

On monetary policy, Directors agreed that the present level of interest rates is appropriate and that a continuation of the current pace of credit expansion carries limited inflationary risks, given the still low stock of bank loans. However, given state banks' weak risk management capacity and their limited lending experience, Directors recommended close monitoring of credit developments to contain credit risk and the adoption of a modern credit scoring system. They welcomed the authorities' intention to strengthen the role of the central bank in formulating and implementing monetary and exchange rate policies, and to re-orient the activities of the Commercial Bank of Syria toward traditional commercial banking. Directors urged the authorities to move swiftly on the much delayed agenda of launching a government securities market, which is critical for moving toward a more efficient monetary framework and market-determined interest rates, and for financial sector development. Directors welcomed the authorities' plan to establish a Securities Commission.

Directors stressed that liberalization and increased competition brought about by the entry of private banks need to be complemented by a more comprehensive state-bank restructuring strategy and sustained efforts to strengthen bank regulation and supervision. Directors noted the passage of the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) law and encouraged the authorities to continue to strengthen the AML/CFT framework and develop its implementing rules and regulations.

Directors welcomed the steps taken in the past year toward exchange rate unification and current account convertibility, in particular the decision to allow the financing of private sector

imports of raw material and intermediate goods through the official market. Given the significant narrowing of the spread between the official and free market rates, Directors saw that attendant risks to unification are limited and, hence, urged the authorities to move swiftly to unify the foreign exchange market and adopt current account convertibility.
Directors welcomed the authorities' plan to move to a managed float system after completing the necessary preparatory work. With regard to the trade system, while acknowledging the positive steps in this area, Directors encouraged the authorities to introduce promptly the new tariff structure, eliminate non-tariff barriers, and tackle other trade-related barriers.

Directors urged the authorities to improve the coverage, timeliness, periodicity, and quality of economic and financial data to allow in-depth economic analysis and policy formulation. They urged the authorities to participate in the Fund's General Data Dissemination System.

Syrian Arab Republic: Selected Economic Indicators

	2000	2001	2002	Est. 2003	Est. 2004	Proj. 2005
	(Change in percent, unless otherwise indicated)					
Real sector						
Real GDP	0.6	3.6	4.1	1.3	3.1	3.8
CPI period average	-3.9	5.6	-2.3	5.9	4.6	10.0
Crude oil production ('000 barrels/day)	540	527	525	500	460	414
Oil exports (including refined products, '000 barrels/day)	364	470	495	406	276	211
Oil export price ($ per barrel)	26.1	22.2	23.1	26.6	34.6	46.7
	(In percent of GDP, unless otherwise indicated)					
Public finances 1/						
Revenue	27.2	32.1	29.8	30.4	27.9	28.2
Oil-related revenue	12.3	18.6	13.9	15.2	12.7	12.0
Nonoil revenue	14.9	13.6	15.9	15.2	15.2	16.1
Expenditure	28.7	29.7	31.4	33.1	33.2	33.0
Current expenditure	18.2	18.1	18.0	18.7	19.1	20.0
Development expenditure	10.5	11.6	13.4	14.4	14.1	13.0
Overall balance	-1.4	2.4	-1.6	-2.7	-5.3	-4.8
Nonoil budget balance	-13.8	-16.1	-15.4	-17.9	-18.0	-16.9
Gross debt 2/	23.3	26.1	29.8	30.6	31.8	41.4
Money and credit	(Change in percent of beginning period money stock)					
Money and quasi-money	19.0	23.5	18.5	7.7	10.3	11.4
Net foreign assets	29.1	21.0	12.2	3.1	5.4	-0.8
Net domestic assets	-10.2	2.6	6.3	4.6	4.9	12.2
Credit to private sector (change in percent)	1.7	2.8	6.6	30.3	31.1	29.5
Reserve money (change in percent)	15.2	16.9	16.0	10.2	25.2	11.4
	(In billions of U.S. dollars, unless otherwise indicated)					
Balance of payments						
Balance of goods and services	0.3	0.4	1.0	0.1	-0.9	-1.2
Oil balance 3/	2.4	3.0	3.6	3.0	2.2	1.8
(in percent of GDP)	*12.8*	*15.4*	*17.4*	*14.1*	*9.1*	*6.8*
Non-oil exports of goods and services	2.9	3.0	3.6	3.2	4.2	4.9
Non-oil imports of goods and services	5.0	5.7	6.2	6.1	7.2	8.0
Current account (including official transfers)	1.0	1.2	1.8	1.3	0.5	0.0
(in percent of GDP)	*5.4*	*6.1*	*8.9*	*6.0*	*1.9*	*0.2*
Overall balance	2.4	3.0	2.4	0.8	0.4	0.0
Official net foreign assets of the banking system	11.4	14.3	16.8	17.6	18.1	18.1
(in months of imports of GNFS)	26.3	29.5	32.0	33.9	29.3	26.7
Debt						
External debt (percent of GDP) 2/	20.6	18.6	18.8	19.3	20.7	26.0
Debt service-to-exports ratio	20.9	19.5	16.3	15.5	13.4	16.9
Exchange rates LS/$ (period average)						
Official transaction rate	46.5	46.5	46.5	46.5	48.7	50.0
Parallel market rate (Beirut/Amman)	49.4	50.4	52.4	52.8	52.3	...
Weighted average nominal exchange rate 4/	47.7	48.1	49.1	49.4	50.2	...
Real effective exchange rate (change in percent)	3.0	2.5	-5.8	-8.1	-5.0	...

Sources: Syrian authorities; and Fund staff estimates and projections.

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

2/ Officially acknowledged debt; from 2005, this includes debt to the Russian Federation, Poland, the Slovak Republic, and the Czech Republic, which was renegotiated in 2004 and 2005.

3/ Including repatriation of profits by international oil companies.

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