

## **Syrian Arab Republic: 2007 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 2007 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 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 30, 2007 with the officials of the Syrian Arab Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 13, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 30, 2007 discussion of the staff report that concluded the Article IV consultation.

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INTERNATIONAL MONETARY FUND

SYRIAN ARAB REPUBLIC

**Staff Report for the 2007 Article IV Consultation**

Prepared by the Staff Representatives for the 2007 Consultation  
with the Syrian Arab Republic

Approved by Juan Carlos Di Tata and Anthony Boote

July 13, 2007

- **The 2007 Article IV discussions were held in Damascus during April 29–May 16, 2007.** The staff team met with Minister of Finance Al-Hussein, Deputy Prime Minister Dardari, Central Bank Governor Mayaleh, Minister of Tourism Al-Kalaa and representatives of financial institutions and the donor community. The mission comprised Mrs. Moalla-Fetini (head), Messrs. Dridi and Hasan (all MCD), Mr. Saker (MCM), Mr. Beddies (PDR), and Ms. Winkler (research assistant). Mr. Shaalan, Executive Director for Syria, joined the policy discussions.
- **Significant progress toward exchange rate unification was made on January 1, 2007 with the abolition of the official “budget” rate; a substantial liberalization of import financing has also been achieved.** The authorities have announced their intention to tightly manage the value of the Syrian pound (SP), and to switch the reference currency from the U.S. dollar to the SDR in the coming months. Syria continues to avail itself of the transitional provisions of Article XIV, and maintains exchange restrictions that are subject to Fund approval under Article VIII.
- The authorities have requested an FSAP, with missions tentatively scheduled for late 2007 and early 2008.
- **Significant data weaknesses continue to hamper the staff’s ability to conduct effective surveillance and monitor the economy’s response to ongoing reforms.** The weak statistical infrastructure has been unable to cope with the acceleration of structural reforms, and the inherent difficulties in recording the flows of people, goods, and money from and into Iraq have added to this challenge.
- **The authorities released the mission’s concluding statement.**

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## EXECUTIVE SUMMARY

### Focus of the report

Discussions focused on the macroeconomic and structural policy adjustments that would be needed to continue to deal with the decline in oil revenues, rebalance the sources of growth toward investment and durable gains in external markets, expand and diversify the production base of the economy, and boost job creation to absorb a growing number of entrants to the labor market.

### Background

Over the past three years, Syria has rebounded from a half decade of weak growth, despite an unsettled regional environment and a sharp drop in oil production. The economic recovery underway since 2004 has gained momentum, benefiting from inflows from Iraqi refugees and abundant liquidity in the Gulf region. Private investment has strengthened, reflecting an improved business climate, and exports have made strong gains, particularly in some Arab markets, reflecting higher demand and improved access under the Great Arab Free Trade Area. Despite a 10 percentage points of GDP drop in oil proceeds over the past three years, and the large demand shock from the Iraqi refugees, inflationary pressures have been contained owing to the economy's supply responsiveness and a sustained, timely and sizeable fiscal adjustment. Public debt is relatively moderate, and the international reserves cover is comfortable. Barring policy missteps or a deterioration in the regional environment, the near-term outlook for growth and inflation looks favorable.

### Views of the authorities

The authorities were pleased with the economy's performance, but were also well aware of the challenges ahead. They underscored the need to solidify growth which would require persevering with quality fiscal adjustment and accelerating market reforms. In particular, the authorities indicated that they were determined to start the reform of the costly petroleum price subsidies (PPS) before the end of the year, and to put back on track the agenda for an early adoption of the VAT. They also highlighted recent progress in establishing the regulatory framework for the financial sector and strengthening the monetary policy framework, and committed to moving ahead with financial sector reform with input from the upcoming FSAP.

### Staff recommendations

To consolidate the gains achieved in recent years, the staff underscored the need for a steadfast implementation of the reform agenda embedded in the ambitious tenth five-year development plan. As further reliance on cuts in capital spending would start to hamper growth, staff re-iterated the call to move swiftly to phase in the PPS reform and launch the VAT, which are the two key pillars of the fiscal reform strategy discussed during last year's Article IV consultation. The staff also encouraged the authorities to focus on gaining credibility in operating the new managed float exchange rate system, within a tight trading range. The authorities were also encouraged to develop new monetary instruments in order to enhance monetary management, allow further interest rate liberalization, alleviate the costs on banks of managing Syrian pound liquidity, and pave the way toward greater exchange rate flexibility over the medium term. Supervisory-capacity building and state banks' restructuring are paramount to address emerging vulnerabilities and enhance financial sector development. Utmost priority should be given to strengthening the statistical base to enhance economic surveillance and reduce the risk of policy mistakes.

## I. INTRODUCTION

1. **Over the past three years, Syria has rebounded from a half decade of weak growth, despite an unsettled regional environment and a sharp drop in oil production.** The economic recovery underway since 2004 has gained momentum, benefiting from inflows from Iraqi refugees and abundant liquidity in the Gulf region. Private investment has strengthened, reflecting an improved business climate, and exports have made strong gains. Despite a large drop in oil proceeds (10 percentage points of GDP) and the large demand shock from the Iraqi refugees, inflationary pressures have been contained owing to a sustained, timely and sizeable fiscal effort. Public debt is at a relatively moderate level, and the international reserves cover remains comfortable. Barring policy missteps or a deterioration in the regional environment, the near-term outlook for growth and inflation is favorable.

2. **The 2007 Article IV consultation discussions were held prior to the presidential elections.**

3. **The authorities have been responsive to Fund advice.** They have continued to make progress in furthering the comprehensive reform agenda embedded in the 10<sup>th</sup> five-year development plan (FYDP, 2006–10)—which is broadly in line with Fund policy recommendations<sup>1</sup>—and in building institutional and regulatory frameworks for key markets. Appendix I reviews key measures implemented since the last Board meeting.

## II. RECENT ECONOMIC DEVELOPMENTS

4. **Staff estimates growth of non-oil GDP to have picked up to some 6–7 percent in 2006.**<sup>2</sup> Given a 6½ percent drop in oil production, this would be consistent with overall growth of 4½–5 percent (Table 1). Growth was driven in part by the impulse from the influx of Iraqi refugees, which is likely to have had a significant first round impact on aggregate demand, which was amplified by a wealth effect associated with the boom in real estate and rental prices. The Iraqi refugees, whose number grew by 60 percent in 2006, to about 1½ million (8 percent of the Syrian population), are still believed to be living mainly off their savings. A good harvest added to employment gains in boosting the consumption of Syrian households, and the surge in non-oil exports to Iraq and other Arab countries contributed to the strong growth performance. Growth is also likely to have been supported by a pick-up of private investment, given the impressive increase in investment approvals (Box 1).<sup>3</sup>

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<sup>1</sup> See IMF Country Report No. 06/294, Annex I.

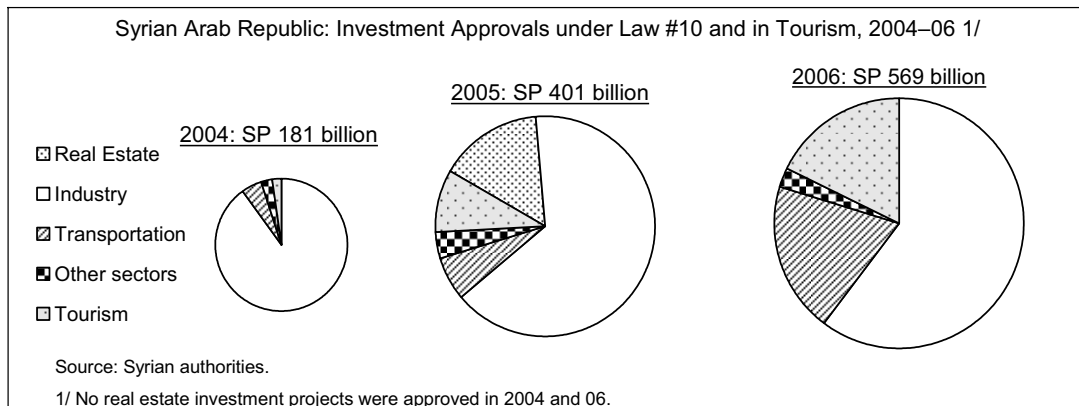
<sup>2</sup> The central bureau of statistics' preliminary estimate of non-oil GDP growth in 2006 is 10 percent, but the reliability of this estimate is compromised by methodological problems and weak data sources.

<sup>3</sup> Data on actual investment are scant, but there are some indications that the boom in investment approvals has not translated yet into a commensurate increase in actual investment. Given the data weaknesses, it is difficult to ascribe relative weights to the various factors that have contributed to growth.

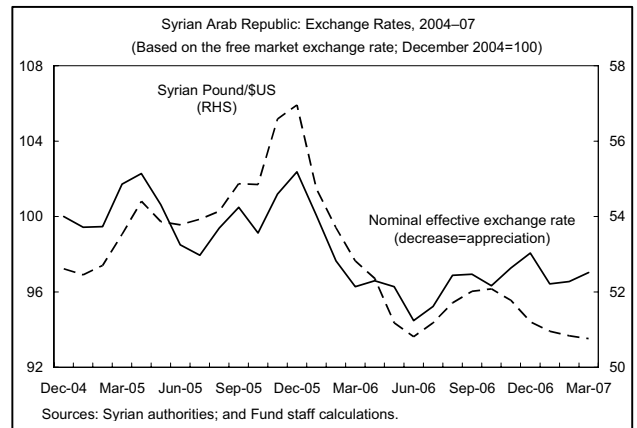
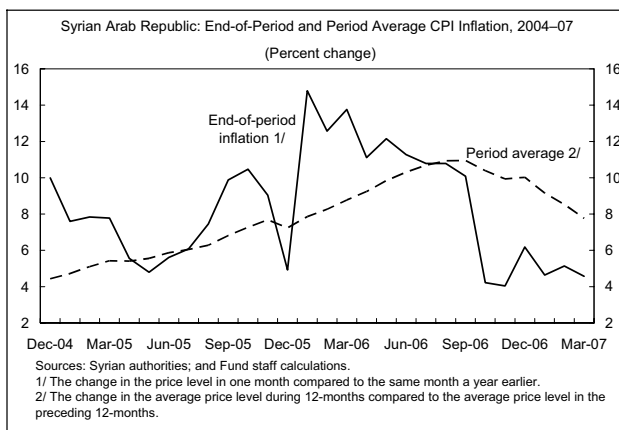
### Box 1. The Surge in Investment Approvals

The past two years have witnessed an impressive growth in the volume of investment approvals across sectors:

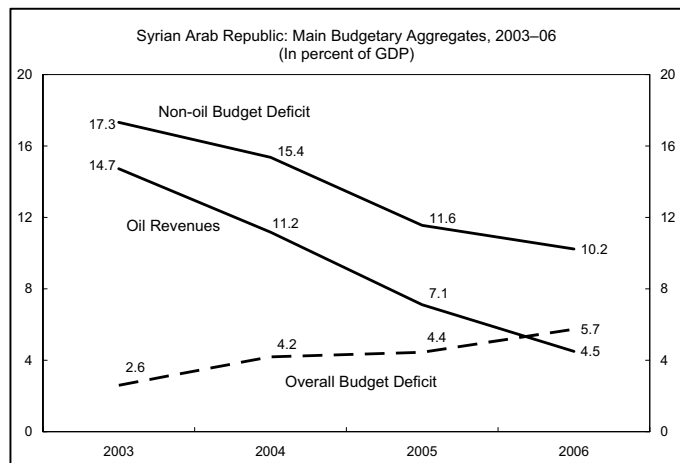
- Under the most important investment law, Law No 10 of 1991, investment approvals reached US\$9.2 billion (26 percent of GDP) in 2006, more than 2½ times the level of 2004. Almost three-fourths of investment is in increasingly diversified industrial projects (including cement, steel, food processing, pharmaceuticals, textiles, and power generation), and another 20 percent is in the transport sector. Investment in the much publicized real estate projects (consisting of commercial, recreational, and other services associated with government housing projects) represented only about 15 percent of the total approved projects in 2005 (SP 60 billion) and their social returns—which are feared to be low in some circles—may actually be quite high if they are part of a well diversified investment strategy. The share of foreign direct investment (FDI) approvals in total approvals is estimated to have remained fairly stable at about 20 percent.
- Investment approvals in other sectors were equally strong. Approvals in tourism reached US\$2 billion in 2006, 25 times higher than in 2004, and the ministry of tourism is now preparing to launch mega projects following the success achieved in attracting investors to smaller projects. Investment in the financial sector grew by 200 percent in 2006 (both banking and insurance), and the trend is expected to remain strong in the coming years.



**5. The build-up of inflationary pressures since mid-2005 seems to have abated in recent months.** While average inflation increased to 10 percent in 2006, end-of-period inflation has been on a downward trend, reaching 4½ percent in March 2007. Half of the increase in inflation in 2006 is attributed to food prices, owing to weather-related shortages and the impact of stronger domestic demand. The increase in the U.S. dollar price of imported non-fuel commodities, together with some pass-through of the exchange rate depreciation at end-2005, may also have played a role.



**6. A timely and significant fiscal adjustment largely offset a sharp decline in oil revenues.** Over the last three years, fiscal policy had to contend with a cumulative loss of oil revenues in excess of 10 percentage points of GDP, owing both to a sharp contraction in oil production and rapid growth in the consumption of subsidized petroleum products (reflecting, in part, increased smuggling and the impact of the Iraqi refugees). A cumulative improvement of 7 percentage points of GDP over 2004–06 narrowed the non-oil budget deficit to about 10 percent of GDP in 2006. The bulk of the adjustment was achieved through rationalization and efficiency gains in investment spending, and higher dividends from buoyant profits of some public enterprises (PEs) mainly in the telecommunications sector.<sup>4</sup> Profit tax rates have been



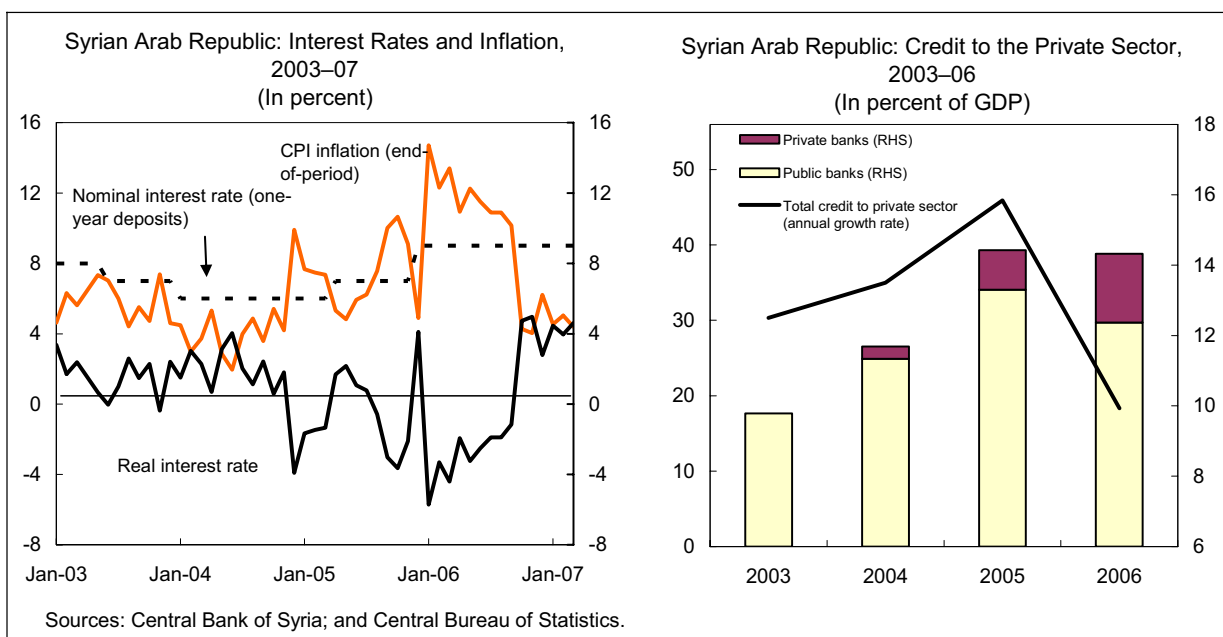
<sup>4</sup> Most PEs are loss making, with budgetary transfers to shore up their finances rising by ½ percent of GDP over the past three years, to about 2 percent of GDP in 2006.

lowered drastically—with the top marginal rate coming down from 65 percent in 2003 to 28 percent in the latest amendment—and import tariffs have been reduced significantly. Tax administration improvements and the strong economic activity fully compensated for the cuts in taxes, providing a small boost to the tax intake (Tables 2 and 3).

Syrian Arab Republic: Summary of Fiscal Operations, 2003–06 (In percent of GDP)					
	2003	2004	2005	Prel. Est. 2006	Cumulative change during 2004–06
<b>Revenue</b>	<b>28.8</b>	<b>27.2</b>	<b>24.0</b>	<b>21.9</b>	<b>-6.9</b>
Oil revenues	14.7	11.2	7.1	4.5	-10.2
Non-oil revenue	14.0	16.0	16.9	17.4	3.3
Non-oil tax revenue	10.5	11.5	10.7	11.2	0.7
Non-oil non-tax revenue	3.4	4.4	6.0	6.2	2.7
<i>Of which: Surplus of PEs</i>	3.0	3.8	5.1	5.5	2.5
<b>Expenditure</b>	<b>31.4</b>	<b>31.4</b>	<b>28.4</b>	<b>27.6</b>	<b>-3.7</b>
Current expenditure	17.7	19.0	18.1	18.7	1.0
Development expenditure	13.7	12.4	10.3	8.9	-4.8
Overall balance	-2.6	-4.2	-4.4	-5.7	-3.1
<b>Non-oil balance</b>	<b>-17.3</b>	<b>-15.4</b>	<b>-11.6</b>	<b>-10.2</b>	<b>7.1</b>

Sources: Syrian authorities; and Fund staff calculations.

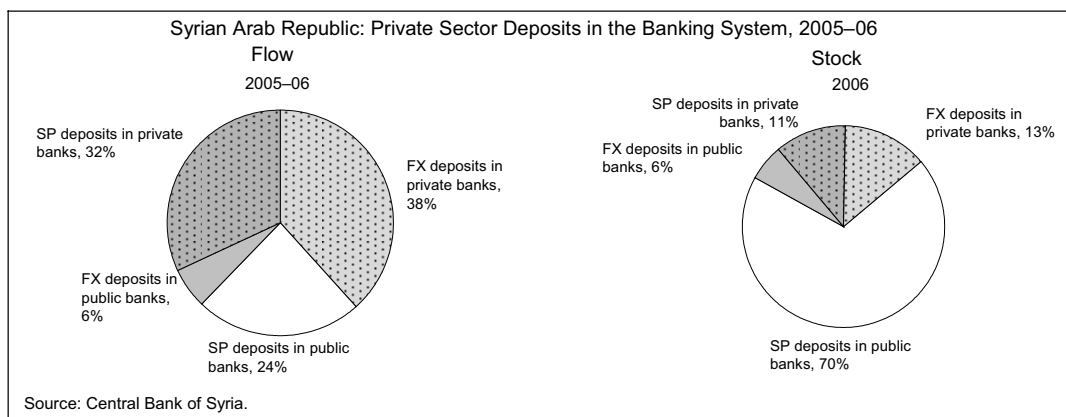
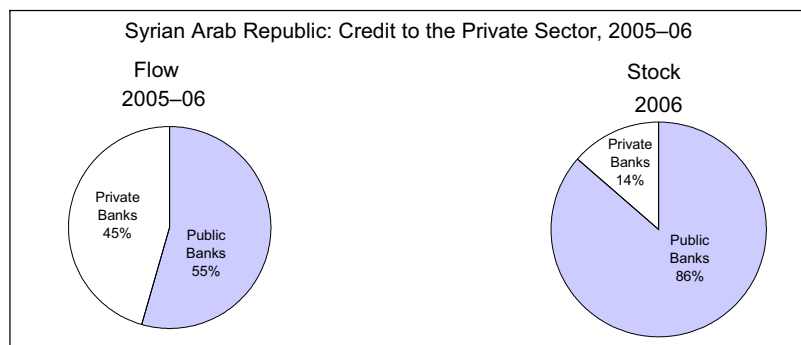
7. **Credit policy played a useful role in controlling domestic demand.** State banks slowed their lending, which helped cool the credit boom experienced in 2004–05 (Tables 4 and 5). Private sector credit growth in 2006 (18½ percent), while still fast, reflects a process of financial re-intermediation with a strong contribution by the nascent private banking sector (Box 2). Net lending to the public sector was the main contributor to money growth. Administered deposit interest rates, which turned negative in real terms during most of 2006, are now positive.



Syrian Arab Republic: Sources of Money Creation				
	2003	2004	2005	2006
	(Change in percent of initial stock of money)			
Net foreign assets	4.2	7.1	2.3	-1.7
Domestic assets (net)	3.5	6.4	9.7	16.3
Domestic credit	4.7	8.8	16.1	13.1
Net claims on the public sector	0.6	3.1	7.2	8.4
Net claims on central government	0.7	3.7	7.9	0.7
Net claims on public enterprises	-0.1	-0.6	-0.7	7.7
Claims on private sector	4.1	5.7	8.9	4.6
Other items (net) 1/	-1.2	-2.5	-6.4	3.3
Money (M2) 2/	7.6	13.5	12.0	14.6
Memorandum items:				
Credit to the private sector (percent change)	30.3	35.0	45.9	18.4
Public banks	30.3	31.0	38.7	10.9
Private banks	...	...	281.7	106.9
Sources: Syrian authorities; and Fund staff estimates.				
1/ In 2006, the increase in other items net reflects, in large part, the use of part of the valuation adjustment account of the CBoS to finance the budget deficit.				
2/ Net of public enterprise deposits.				

## Box 2. The Rapid Growth of Private Banks

**Private banks have made considerable progress in gaining market share and appear well capitalized and managed.** Following the opening of the first three private banks in 2004, four more banks entered the market in the last two years, and several more banks are expected to start operations in 2007, including some Islamic financial institutions. These banks are mainly subsidiaries of regional banks (typically Lebanese or Jordanian based), although majority ownership is held by Syrian investors, who have shown strong interest in the sector, as reflected in large oversubscription of the banks' IPOs. In 2006, private banks captured 70 percent of the increase in private sector deposits and contributed 45 percent of the growth in loans to the private sector. As a result, their share in private sector deposits and loans reached 25 percent and 14 percent, respectively, by end-2006. The private banks have introduced new products contributing to an overall improvement in the quality of financial services by putting competitive pressure on state banks. Although the pace of increase in their loan portfolios slowed down in 2006, it was still above 100 percent. This development start bodes well for the ability of Syria's restructured financial sector to meet the demands of a growing economy.



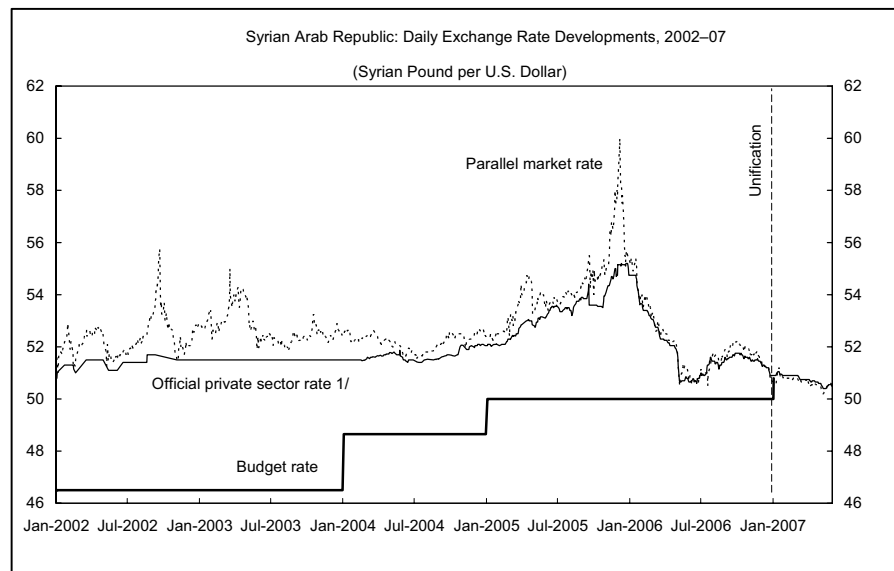
8. **The assessment of external sector developments is complicated by several data weaknesses, and the factors behind the relatively small weakening of the overall BOP during the last three years, despite the sharp decline in net oil exports, are not entirely clear.**<sup>5</sup> Fiscal adjustment, the inflows associated with the Iraqi refugees, and some pickup in FDI seem to have been the main contributing factors that offset, in part, the impact of the decline in net oil exports. The contribution of the oil sector to foreign exchange earnings became almost nil in 2006—down from close to 11 percent of GDP in 2003—and is expected to turn negative in 2007. The non-oil goods and services account is estimated to have narrowed by about 4 percentage points of GDP on the back of strong growth in non-oil exports, particularly to some Arab countries, owing to stronger demand and improved access under the Great Arab Free Trade Area.

Syrian Arab Republic: External Sector Developments (In percent of GDP; unless otherwise indicated)				
	2003	2004	2005	2006
<b>Current account balance</b>	<b>0.8</b>	<b>-3.2</b>	<b>-4.1</b>	<b>-6.1</b>
Oil balance	10.8	5.2	2.0	0.4
Non-oil goods and services balance	-12.7	-12.0	-9.5	-8.8
Factor income and transfers	2.7	3.5	3.4	2.3
<b>Identified capital inflows</b>	<b>0.7</b>	<b>-0.6</b>	<b>-1.7</b>	<b>-1.6</b>
<i>Of which:</i> FDI	0.7	1.1	1.7	1.7
<b>Inflows related to the Iraqis 1/</b>	<b>0.0</b>	<b>1.8</b>	<b>2.8</b>	<b>3.7</b>
Errors and omissions	1.1	2.8	3.1	1.8
<b>Overall balance</b>	<b>2.6</b>	<b>0.8</b>	<b>0.1</b>	<b>-2.2</b>
<b>NFA of the central bank and the CBoS</b>				
(In millions of U.S. dollars)	17,362	17,567	17,585	16,833
(In months of imports of GNFS)	25.4	20.0	16.4	13.4
(In percent of GDP)	76.5	70.2	61.4	48.2
Sources: Central Bank of Syria; and Fund staff estimates.				
1/ Includes inflows to purchase goods and services, assets (such as real estate), and for investment.				

<sup>5</sup> The overall balance of payments swung from a surplus of about 2 percent of GDP in 2003 to a deficit of some 2 percent of GDP in 2006. At the same time, the parallel market rate has depreciated modestly by 6 percent in nominal effective terms.

9. **Amid the shocks that have buffeted the external accounts (including an episode of politically-driven pressures on the currency), steady progress toward exchange rate unification and current account convertibility has been made.** Substantial liberalization of import financing was achieved in September 2006,<sup>6</sup> and with the elimination of the official budget rate in January 2007, the economically significant exchange rates were unified.<sup>7</sup> Since then, the central bank has been managing the value of the currency vis-à-vis the U.S. dollar

within a tight trading range. Given the strong performance of non-oil exports, the Central Bank of Syria (CBS) has intervened occasionally to lean against upward pressures on the exchange rate, waiting to develop a better understanding of the factors behind the strengthening of the BOP. The pick-up of



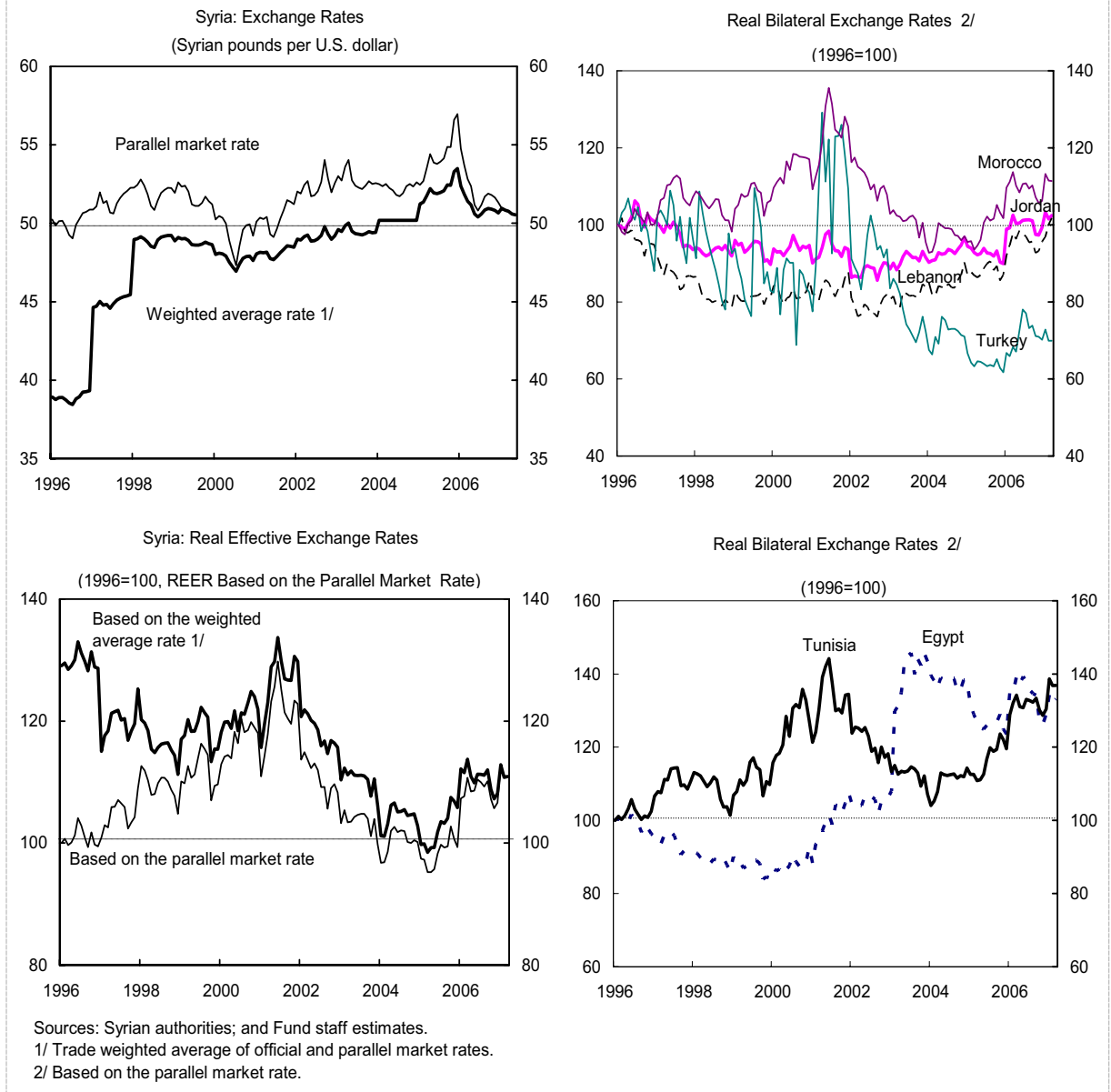
inflation in 2006 led to some real appreciation (7.3 percent for the parallel market rate and 2.2 percent for the weighted average rate). Syria's price competitiveness, as measured by real bilateral exchange rates, has remained comparable or better than that of neighboring countries such as Lebanon, Jordan, Morocco, and Turkey, but it has deteriorated vis-à-vis Egypt and Tunisia (Figure 1).<sup>8</sup>

<sup>6</sup> Remaining restrictions include access to foreign exchange to finance car imports and payments and transfers on the invisibles account. Their removal is likely to have only a minor impact on the foreign exchange market.

<sup>7</sup> Staff are still seeking clarification on multiple currency practices, including those identified in Annex II.

<sup>8</sup> There is some anecdotal evidence of improvements in non-price competitiveness, such as in tourism, where there was a marked improvement in quality with the recent opening of five-star hotels. Also, according to some investors, Syrian products have shed the "bad-quality" label that used to be attached to them when they were mainly used as means to repay the debt to former Soviet Union countries. Their quality, variety, and reliability is responding rapidly to the demanding standards of the new markets in which they are entering.

Figure 1. Syrian Arab Republic and Selected Countries: Exchange Rates, 1996–2007



**10. Broad-based reforms over the past two years have led to significant changes in the economic and financial landscape, but the reform agenda remains substantial.**

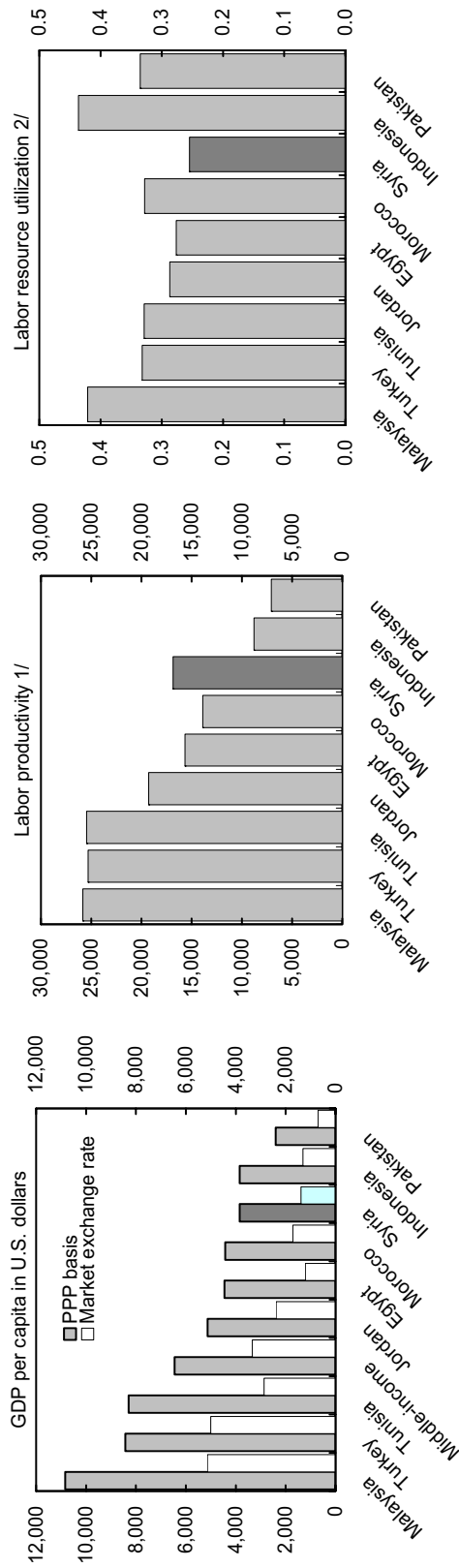
Progress toward exchange rate unification and current account convertibility, investment facilitation under a more liberal investment regime, tax reform, trade and financial liberalization, and the on-going development of appropriate regulatory frameworks in key sectors<sup>9</sup> have all contributed to improving the investment climate. Notwithstanding these achievements, a number of structural rigidities that continue to hamper investment and productivity growth still need to be addressed. Among middle-income countries, Syria's relatively low GDP per capita ( $\frac{2}{3}$  of the group average) reflects both low productivity and low labor force participation (45 percent) (Figure 2). The latter is likely to mirror poor employment opportunities in a still largely constrained business environment.<sup>10</sup>

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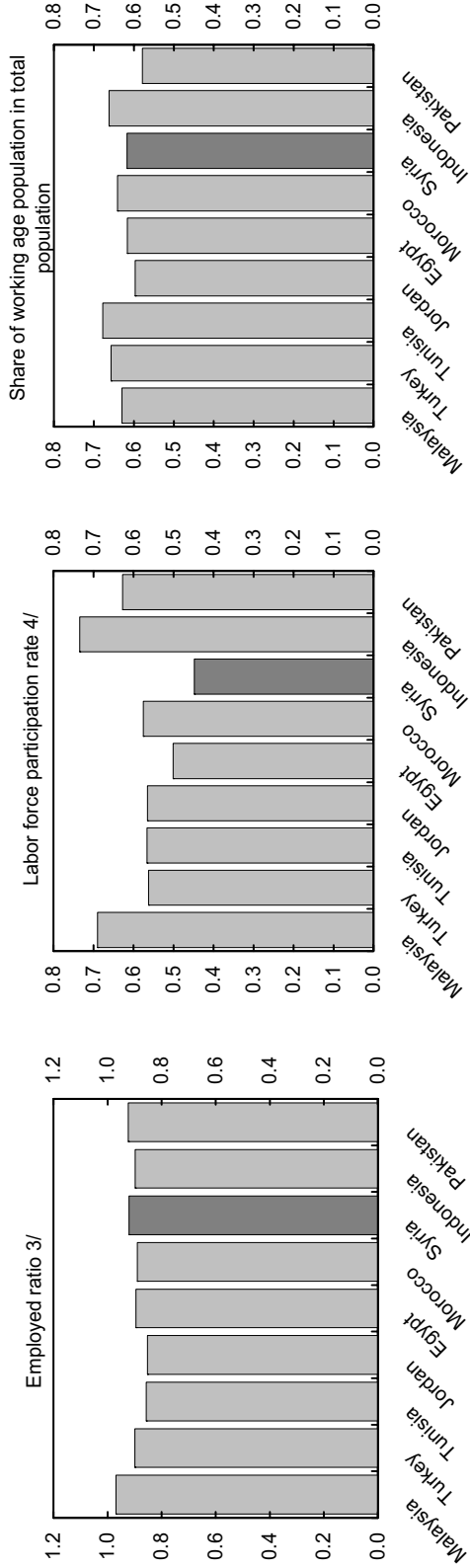
<sup>9</sup> Most notably in banking, insurance and capital markets, and in housing and real estate.

<sup>10</sup> Syria ranks poorly in The World Bank's survey on indicators for the cost of *Doing Business* (130 out of 175 countries). *Doing Business* shows Syria's worst performance to be in enforcing contracts (153 ranking), trading across borders (147 ranking), and starting a business (142 ranking).

Figure 2. Syrian Arab Republic: Sources of Real Income Differences in Selected Middle Income Countries, 2005



Sources of Labor Resources Utilization Differences



Source: Syrian authorities; Fund staff calculations; and World Bank.

1/ Measured as PPP GDP per employee.

2/ Measured as the number of employees divided by total population.

3/ Total employment as a ratio of labor force.

4/ Labor force population as a ratio of working age population.

### III. REPORT ON THE DISCUSSIONS

11. **Overall, the authorities were pleased with the strengthening of the economy, but were also well aware of the challenges ahead.** They drew comfort from the boom in investment approvals, the resilience of the economy to the troubled regional environment and its ability to mitigate the impact of the decline in oil revenues, and the strength of the Syrian pound, which they view as a vote of confidence in their policies. The authorities agreed with the staff that the economic recovery of the past three years was likely to have been to some extent driven by the impulse originating from the influx of Iraqi refugees. They also recognized that for growth to be sustained, it was important to rebalance aggregate demand toward investment, which would require further fiscal consolidation and deeper market reforms. Against this background, discussions focused on the near-term outlook, policies to preserve fiscal solvency, a more explicit monetary policy framework, financial sector development, and key structural reforms.

12. **An overarching prerequisite for the success of reforms *in all areas* is to strengthen domestic capacity by hiring people with the required competencies and offering them competitive salaries.** In particular, the authorities acknowledged that data weaknesses were indeed hampering macroeconomic management and their ability to monitor the economy's response to ongoing reforms. They noted that a first step toward addressing this problem, budget allocations to statistical institutions had been increased substantially, and efforts were being made to revamp accounting standards in public enterprises. Nevertheless, the authorities were afraid it will take time to overcome the skill-deficit in this area.

#### A. Near- and Medium-Term Outlook

13. **The authorities and staff agreed that the growth outlook for 2007 was favorable.** The reforms implemented in recent months, continued stimulus to aggregate demand from the Iraqi presence, and favorable growth prospects globally and in the region are expected to support consumption and non-oil exports, and to encourage higher private investment. These factors would help sustain growth at about the same pace as in 2006, although a deterioration in weather conditions, which recently hit the cereal and cotton crops, may dampen growth somewhat. Given a projected 7 percent decline in oil GDP, this would be consistent with overall growth of about 4 percent in 2007. Downside risks include adverse political developments in the region, and uncertainties that could affect adversely private investment.

14. **To keep inflation in check, macroeconomic policies should remain appropriately tight.** Regarding fiscal policy, the authorities are aiming to reduce the budget deficit to 5 percent of GDP, despite an expected further fall of oil revenues of about  $\frac{3}{4}$  percentage points of GDP. This would require an improvement in the non-oil budget deficit of some  $1\frac{1}{2}$  percent of GDP in 2007, which they plan to achieve through a further rationalization of

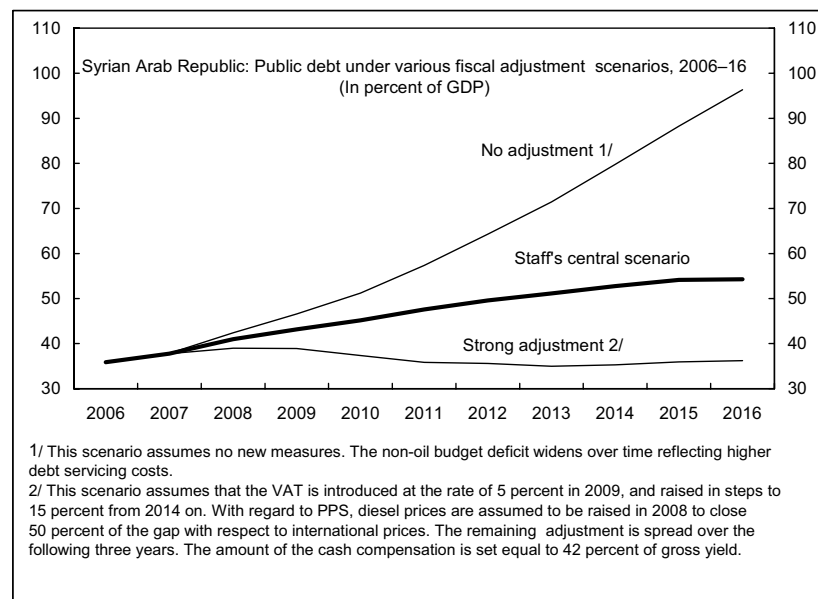
capital spending. The authorities and staff concurred that the current level of benchmark interest rates was appropriate, and that state banks' lending should remain in line with the monetary objectives.

15. **The staff has prepared a central medium-term scenario that occupies a middle ground in the range of possible policy outcomes.** The central scenario assumes a moderate further fiscal adjustment but not enough to offset the decline in oil revenues, leading to a steady rise in public debt.<sup>11</sup> The drying up of inflows from the Iraqi refugees and the rise in the oil import bill as oil reserves continue to dwindle will put pressure on the external position, making it harder to reconcile the competing goals of maintaining both a stable exchange rate—to underpin price stability—and a comfortable international reserves cushion (Table 7). Stress tests on public debt point to added pressures on the debt dynamics from various possible shocks (Tables 8 and 9, and Figures 3 and 4). Additional pressures could also arise from higher health and education spending on the Iraqi refugees.

16. If the reform momentum is strengthened relative to the staff's central scenario to underpin fiscal and external sustainability, positive synergies between fiscal adjustment and growth could put the

economy on a higher growth path, capitalizing on its privileged location, its well established entrepreneurial base, and its cheap labor force. For instance a strong fiscal adjustment scenario (9 percent of GDP until 2012) shows higher medium-term growth, together with a steady reduction in the external current account deficit (Table 10). If, however,

adjustment fatigue blocks further reform, financial pressures would increase, growth would falter, and unemployment would rise, particularly if the labor market has to absorb the Iraqi refugees.



<sup>11</sup> In this scenario, the budget deficit is kept at 5 percent of GDP, which would lead to an increase in the debt to GDP ratio to 50 percent in 2012, from 36 percent in 2006.

## B. Preserving Fiscal Sustainability

17. **The authorities acknowledged that fiscal adjustment so far had been facilitated by the flexibility of capital outlays and that further fiscal consolidation would require difficult measures.** The flexibility in the budget was the result of a conservative approach in which past increases in oil revenues were not used to create permanent entitlements, but rather to finance public infrastructure. As oil receipts started to decline, rationalization and re-prioritization of development spending made it possible to adjust to the lower revenues. However, at 8 percent of GDP in 2007, development expenditures are approaching a level where further cuts may start to hurt growth.

18. **At the same time, the authorities agreed that a strong further fiscal effort was needed to address the secular decline in oil revenues and preserve fiscal and external sustainability.** To this end, they concurred with the need to move swiftly to phase in the petroleum price subsidy (PPS) reform and launch the VAT, which are two key pillars of the proposed fiscal reform discussed during the 2006 Article IV consultation.<sup>12</sup>

- Regarding PPS, the authorities recognized that such reform was a must, as its cost was untenable, exceeding 10 percent of GDP in 2006. Preparations have moved into a higher gear, and the authorities are hoping to start the reform before the end of the summer. The speed of price adjustment and the amount of compensation to be provided to households<sup>13</sup> involve two main trade-offs: (i) the risk of destabilizing inflation expectations associated with a sharp increase in prices versus adjustment fatigue from a drawn-out process, and (ii) less fiscal savings versus more political palatability. The table below quantifies some of these tradeoffs and provides estimates of the annual yield of this measure under various options.

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<sup>12</sup> See IMF Country Report No. 06/295 for a background study on the reform agenda for fiscal consolidation.

<sup>13</sup> Initially, and in the absence of means-testing mechanisms, the reform envisages a return to all households of a certain share of the gross fiscal gains in the form of a flat per person cash compensation, which would already imply a more equitable targeting. This system could be implemented easily by piggy-backing on the existing coupon system for rice and sugar.

Syrian Arab Republic: Impact of the Petroleum Price Subsidy Reform			
	Increase in the Price of Diesel (In percent)		
	100 1/	150 2/	200 3/
<b>Impact on the CPI (in percent)</b>			
Total effect	4.2	6.2	8.3
of which: direct effect	2.7	4.0	5.3
<b>Impact on government revenues in 2008 (in percent of GDP) 4/</b>			
Net impact 5/	1.9	2.7	3.6
Gross fiscal savings	3.2	4.7	6.1
minus compensation	1.3	2.0	2.5
Net impact 6/	2.2	3.2	4.1
Gross fiscal savings	3.2	4.7	6.1
minus compensation	1.0	1.5	2.0
1/ Closes 35 percent of the gap vis-à-vis international prices.			
2/ Closes 53 percent of the gap vis-à-vis international prices.			
3/ Closes 70 percent of the gap vis-à-vis international prices.			
4/ Assuming the reform starts on January 1, 2008.			
5/ Returning 42 percent of gross fiscal savings to households would make 50 percent of the population better off.			
6/ Returning 33 percent of gross fiscal savings to households would make the three poorest population deciles better off.			

- Regarding the VAT, major delays have been experienced in implementing key prerequisite tax administration measures, including the adoption of a tax procedures code and an integrated IT system. Moreover, a decision has yet to be made regarding the design of the VAT, as the authorities are still examining various options to mitigate its regressivity. The authorities committed to accelerating preparatory work and hope to be able to introduce the VAT by early 2009.
- Deepening PE reform and undertaking a review of public expenditures could contribute to further fiscal savings and improve the effectiveness of government spending. The authorities noted that they were working on developing an agenda for PE reform, which favors public private partnerships. Liquidations or outright sales not currently under consideration.

19. **The authorities did not exclude the possibility of raising civil servants wages, particularly in light of the start of the PPS reform.** Increasing wages to mitigate the impact of PPS reform would not be advisable as it would introduce a rigidity in the budget, put pressure on private sector wages, and would not alleviate the burden on other deserving segments of society.

### C. Strengthening the Monetary/Exchange Rate Policy Framework

20. **In the context of the current transition in Syria's exchange rate arrangement, a key policy decision is whether the central bank should adopt a fixed exchange rate or allow some upfront flexibility.** The authorities and staff recognized that some limited flexibility was already built into the system prior to unification; such limited flexibility had served Syria well, as it allowed the exchange rate to respond to market forces, while providing a fairly solid nominal anchor. Volatility of the parallel market rate, at which the bulk of private sector transactions used to take place, and the associated transaction costs, had no obvious negative impact on trade expansion.

21. **The authorities were of the view that the exchange rate should remain the main nominal anchor of the monetary policy framework.** With only rudimentary monetary instruments, the exchange rate was the only variable the central bank could target effectively for the moment. Moreover, Syria's ample international reserves provided a comfortable cushion to deal with temporary shocks. At the same time, however, the authorities thought that pegging the unified exchange rate (either de jure or de facto) would not be advisable. In this regard, the authorities emphasized prevailing uncertainties about the equilibrium rate. These uncertainties, even if BOP data were to improve, are likely to persist far into the future as the economy's fundamentals continue to be impacted by the ongoing depletion of oil reserves, further trade liberalization, and the transition to a market economy. Also, fear-of-floating effects, which are small for the moment, could develop rapidly under a peg, given the high level of deposit dollarization of the nascent private banking sector (see below and Box 2).

22. **In this context, the authorities noted that the challenge for the CBS in the next 12 months was to establish credibility in operating a managed float within a tight trading range.** This would require: (i) speeding the process of licensing the foreign exchange bureaus;<sup>14</sup> (ii) creating a unified interbank foreign exchange market in which the CBS could establish itself as a credible market maker; (iii) gaining sole control over exchange rate management by transferring the remaining international reserves owned by the Commercial Bank of Syria (CBoS) (60 percent of total reserves) to the CBS in exchange for market-based remunerated government securities;<sup>15</sup> (iv) working with the ministry of finance to establish the long-delayed government securities market and improving public debt management; (v) establishing mechanisms to control liquidity, including by promoting an interbank market; and (vi) addressing the weaknesses in the BOP statistics to develop reliable

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<sup>14</sup> Only five foreign exchange bureaus have been licensed so far; 117 pending requests for licensing are being processed.

<sup>15</sup> With the CBoS's open exchange position equal to 7 times its capital, the risk is high of uncompetitive behavior in the FX market; in addition, day-to-day transactions of the CBoS could hinder the objectives of the CBS and lead to incoherent policies.

indicators on exchange rate misalignment. Moreover, the credibility of the regime in maintaining price stability and avoiding an erosion of external competitiveness will hinge critically on supportive fiscal and incomes policies.

23. **The authorities have announced that they plan to switch the referencing of the SP from the U.S. dollar to the SDR under the managed float regime.** Once the CBS gains credibility in operating the new regime and a better understanding of BOP developments, such a move would be appropriate. Referencing to a basket ensures greater stability of the nominal effective exchange rate, and therefore minimizes the macroeconomic disturbances induced by fluctuations in the cross-rates between the major currencies. It would also be a useful intermediate step in moving toward greater flexibility. These benefits are likely to outweigh any costs of moving away from targeting a single currency, including some weakening of the role of the exchange rate as a nominal anchor. This is due to Syria's limited reliance on the U.S. dollar in wage negotiations and other contracts.

24. **The staff estimates suggest that Syria's external current account deficit has increased significantly in recent years owing to the sharp drop in oil exports.** Looking forward, however, the authorities' intentions to implement a further strong fiscal adjustment and deepen structural reforms are consistent with promoting external stability and achieving a sustainable current account deficit. The authorities were of the view that the level of the exchange rate was broadly appropriate, given the strong performance of non-oil exports and the absence of protracted losses of reserves. In light of the lack of adequate BOP data, it was not possible for staff to compute CGER indicators.

25. **The authorities expressed their intention to move quickly toward removing all the remaining foreign exchange restrictions and multiple currency practices and hoped to be in a position to accept the obligations under Article VIII before the end of the year.**<sup>16</sup> The staff encouraged the authorities to provide a legal basis to the ongoing current account liberalization by adopting a new foreign exchange law. The staff noted that the Fund stands ready to assist them on the preparatory steps for Article VIII acceptance.

#### **D. Financial Sector Development**

26. **Notwithstanding the commendable efforts made to develop the financial sector, there are still numerous impediments and several sources of vulnerabilities:**

- The development of a competitive banking sector is constrained by the slow progress in state banks' restructuring. The unreformed public banks, characterized by high

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<sup>16</sup> The mission left a note with the authorities detailing its preliminary assessment of the remaining restrictions that would need to be removed. Ahead of the formal acceptance of Article VIII obligations, further joint work by LEG/MCM would be necessary to verify that all appropriate steps have been taken.

non-performing loans, low profitability and undercapitalization will likely hinder further reforms, for fear of a loss of market share and a decline in profitability.

- Banks incur heavy costs in managing SP liquidity owing to administered deposit interest rates and slow progress in developing market-based instruments to manage liquidity. These costs might increase further with the CBS policy of raising the minimum capital requirement in an environment of limited lending opportunities and increased competition, which may lead to excessive risk taking or encourage further dollarization (currently, 55 percent of private banks deposits are denominated in U.S. dollars).<sup>17</sup> Although lending in U.S. dollars is not generally allowed, except for trade financing, banks are likely to be blurring the distinction between lending for trade and project financing, which increases their exposure to credit risk of poorly hedged borrowers.
- Progress in building up regulatory and supervisory capacity has not kept pace with financial liberalization, which is particularly worrisome in light of private banks' fast-paced credit expansion (Box 2). The ability of bank supervision to assess the adequacy of banks' internal controls and their risk management practices is limited, and the CBS compiles only a restricted set of financial soundness indicators to monitor the health of the banking system (Table 11). Regulatory forbearance, the existence of other regulatory agencies, and weak operational independence undermine the supervisory process. Under these circumstances, systemic risks could go undetected, and excessive risk taking by some banks, including country risk associated with their placement abroad, could threaten their solvency.
- Lastly, slow progress in developing the payments system imposes large costs on banks. Additional costs arise from difficulties in registering and enforcing collaterals.

27. **The authorities agreed on giving priority to building supervisory capacity and restructuring the state banks.** They indicated that their request for an FSAP was motivated by the need to make a thorough assessment of the progress achieved so far and lay a road map for reforms in the next 2–3 years. They also noted that with technical assistance from the Fund and other donors the CBS is progressively addressing existing capacity constraints, most notably in the areas of bank supervision (staff of the supervision department has been tripled to about 70 in the past few years), research, accounting, and reserve management. The authorities are also seeking to build broad support for the adoption of a draft central bank law that would give the CBS greater autonomy and strengthen its supervisory authority.

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<sup>17</sup> For the moment, this largely reflects a transfer to the new private banks of Syrian deposits that were held aboard.

### E. Trade Liberalization and other Structural Reforms

28. **Further efforts on trade liberalization and improving the business climate are key elements of the authorities' reform agenda.** The authorities noted the progress made in the past year in forging ahead with the ambitious agenda under the FYDP. Major highlights include the new investment law, which put foreign and domestic investors at par; the new amendments to the income tax law, which lowered tax rates and unified tax incentives; the adoption of a new Basic Finance law, which unified the current and investment budget and severed the links between PEs and the budget; and the completion of the round of tariff reduction started three years ago, which resulted in lowering the average tariff rate from 20 percent in 2003 to 14½ percent in 2006. The authorities were also optimistic about the benefits of the free trade agreement with Turkey and regarded the integration in the Great Arab Free Trade Area as having been generally successful. In addition, they indicated that passage of the draft laws on the central bank and public debt management was a top priority for the coming months, and committed to accelerating the process of adopting the competition and company laws.

### IV. STAFF APPRAISAL

29. **Syria's overall economic performance continued to be strong in 2006, and the outlook for 2007 is positive.** Notwithstanding an unsettled regional environment and the impact of a sharp decline in oil proceeds, the economic recovery that started in 2004 remains on track. Non-oil GDP grew at a brisk pace in 2006, benefiting from sizeable inflows from the Iraqi refugees and abundant liquidity in the Gulf region. Strong gains in non-oil exports and a pick up of private investment contributed to growth. The economy's supply responsiveness, a tighter credit policy, and fiscal discipline helped contain inflationary pressures, despite the large demand shock from the Iraqi influx. Also, the boom in investment approvals bodes well for the country's medium-term growth prospects.

30. **Looking forward, steadfast implementation of the ambitious 10<sup>th</sup> FYDP is essential to consolidate these gains.** Rebalancing growth toward investment and achieving durable gains in external markets require maintaining financial stability and deepening structural reforms. More competition in product markets, a friendlier and more transparent business environment, greater exposure to international competition, and further financial liberalization are necessary to close the reform-gap with other countries in the region and position Syria to take advantage of regional and global integration.

31. **The size and quality of the fiscal adjustment achieved in the past three years is commendable and has contributed to a significant strengthening of Syria's medium-term fiscal prospects.** However, given the prospective further decline in oil revenue, and the possible need to accommodate significant costs of bank restructuring, an additional strong fiscal effort is needed over the medium term. As further cuts in capital spending would start to hamper growth, the authorities are encouraged to move ahead with

the two key pillars of a credible fiscal consolidation strategy, namely the PPS reform and the introduction of a VAT with a single rate and few exemptions. Concerns about social equity would be best addressed by excises on luxury goods and well targeted spending programs, or by enhancing the progressivity of income taxes. A restrained wage policy is also essential to support the needed fiscal adjustment and protect competitiveness. In addition, the pace of tax administration reforms need to be accelerated to support the introduction of the VAT.

32. **Deepening PE reform could go a long way in improving efficiency and stopping the drain on the public finances.** The provision in the new public finance law to sever the links between PEs and the budget is a step in the right direction. However, for this reform to bear fruit, it is essential that PEs be subjected to the discipline of the market to avoid shifting their losses from the budget to the state banks and that all quasi-fiscal activities be reflected transparently in the budget. The authorities are also encouraged to restructure the public enterprises that are deemed viable, select those to be privatized, and develop case-by-case solutions, including liquidation, to deal with the rest. Allowing restructured PEs further flexibility in employment decisions, and in wage and pricing policies, will be essential for their future viability.

33. **Progress toward exchange rate unification and current account convertibility are important and welcome steps.** The enactment of a new foreign exchange law would send a strong signal about the irreversibility of these reforms and the authorities' commitment to re-entry into the global economy. The new legislation should abrogate the existing complex set of foreign exchange laws and regulations and enshrine full current account convertibility, a unified exchange rate, and repatriation of profits from FDI.

34. **In the current context, the central bank is encouraged to ensure a consistent implementation of a managed float within a tight trading range.** Such a regime strikes the right balance between the need to continue to use the exchange rate as the main nominal anchor while allowing some flexibility. In the future, greater flexibility will facilitate adjustment to the likely changes in the equilibrium real exchange rate arising from the ongoing depletion of oil reserves, trade liberalization, and the transition to a market economy.

35. **To maintain external stability over the medium term, Syria needs to continue with strong fiscal adjustment, accelerate structural reforms, and allow greater exchange rate flexibility.** Although it is difficult to come to a definitive conclusion in the absence of adequate BOP data, there are no indications that the exchange rate is significantly misaligned. This seems to be confirmed by the strong performance of non-oil exports, and the lack of protracted loss of international reserves or unsustainable official or quasi-official borrowing. Nonetheless, the staff believes that the impact of the recent real appreciation on external competitiveness should continue to be monitored carefully, particularly in light of the depletion of oil reserves, and the large uncertainties about the level of the current account deficit and the sources of its financing. Looking ahead, priority should be given to improving

the BOP statistics to provide a basis for developing indicators to assess exchange rate misalignment.

36. **The new monetary/exchange rate policy framework needs to be supported by the prompt introduction of market-based instruments of monetary control.** This is important to enhance monetary management, facilitate interest rate liberalization, alleviate the costs on banks of managing Syrian pound liquidity, and pave the way toward greater exchange rate flexibility in the medium term. The authorities are encouraged to move swiftly on the much delayed agenda of launching a government securities market and improving public debt management.

37. **The rapid take-off of private banking, although promising, illustrates potential pitfalls in the sequencing of reforms.** In this regard, it is essential that the strengthening of the regulatory and supervisory capacity keeps pace with financial liberalization. Vigorous action is required to restructure the state banks to stem the accumulation of additional nonperforming loans and encourage greater competition. Moreover, quick progress in developing market-based instruments of monetary control is also needed to reduce excessive risk taking and discourage dollarization. The central bank should also play a catalytic role in setting up a credit registry.

38. **A new central bank law is essential to strengthen the monetary policy framework, improve bank supervision, and modernize the CBS.** The law should enshrine price stability as the main objective of monetary policy and grant the CBS operational independence in monetary and exchange rate management. It should also give full supervisory authority to the CBS over all banking institutions, and grant the CBS the autonomy required to set its own budget within agreed guidelines with the government. These improvements are necessary if the central bank is to manage successfully the more complex monetary and financial system that is emerging.

39. **A challenging task ahead is to implement the legislation adopted in recent years in an effective manner.** This will require an infusion of new technical expertise in the public administration. The cost of paying competitive wages to attract skilled personnel pales in comparison to its potential benefits. The authorities are encouraged to introduce a special fast-track scheme to attract highly skilled managers and to provide intensive training to newly hired young graduates, while continuing to work toward a far-reaching civil service reform.

40. **The progress made in furthering market reforms is welcome, but the remaining structural reform agenda is substantial.** The authorities are encouraged to further streamline the list of prohibited imports, abolish the system of industrial quotas, reduce the number of tariff bands, and eliminate nontariff barriers. Removing barriers to competition in product markets and tackling the high costs of contract enforcement, starting a business, and property registration can also have a large payoff in increasing labor productivity and

promoting Syria's export potential. Moreover, the authorities are encouraged to speed up the process of adopting the new competition and company laws.

41. **The quality of Syria's data is not fully adequate for surveillance purposes and could lead to policy mistakes.** Utmost priority should be given to mobilizing the needed expertise to upgrade the statistical system, particularly in the areas of the BOP and the national accounts and price statistics. It is also important to develop short-term indicators of economic activity to monitor the state of the economy on a timely basis.

42. Syria continues to maintain exchange restrictions under Article XIV, Section 2 (Appendix I). It 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 for their retention. The staff urges the authorities to eliminate remaining restrictions and multiple currency practices without delay.

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

## **Appendix I. Syrian Arab Republic: Reforms Since the Last Article IV Consultation**

### **Fiscal**

- A draft public debt management law has been submitted to the Cabinet and is expected to be approved soon.
- A new Basic Finance Law was approved in October, 2006, replacing a 1967 law. The law revamps public finance management rules and unifies the budget by bringing the investment budget under the purview of the ministry of finance. It also sets new rules for arms' length relationship with PEs, allowing them to retain their after-tax profits and to decide on their investment programs, provided they can secure financing from the markets. The new law will take effect with the 2008 budget.
- The 2003 income tax law was amended a second time, lowering further the top marginal corporate rate from 35 to 28 percent (and to 14 percent for shareholding companies). (Decree No. 51 of October 1, 2006). Furthermore, the amendment provides uniform tax incentives to projects under the new investment law in order to encourage labor intensive activities and investment in rural areas (see below).
- The tax rate on real estate sales and rentals was reduced further, and the tax structure simplified (Decrees No. 52 and 53 of October 2, 2006).
- The first large taxpayers unit was opened in September, 2006, a landmark in the modernization of tax administration to prepare for the adoption of the VAT.

### **Monetary and financial**

- In August 2006, the Money and Credit Council issued several decisions aimed at liberalizing and reforming the interest rate structure. In particular, lending rates for state banks were liberalized; interest rates on current account deposits were unified at one percent, and banks' deposits at the CBS in excess of the statutory reserve requirement started to be remunerated at a rate of one percent.
- Seven foreign exchange bureaus and companies which used to operate in the parallel market have been licensed, and over 100 applications are being processed.
- Four new private banks and, for the first time, eight private insurance companies started operations in 2006.<sup>18</sup> Three Islamic banks and one Islamic insurance company were licensed in 2007.

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<sup>18</sup> The Law is not clear as to limits on foreign ownership in private insurance companies.

- The minimum capital requirement for private banks is expected to be raised soon from US\$30 million to US\$100 million.
- Decree No 55 issued on October 1, 2006, established the Damascus Securities Exchange (DSE). The DSE is expected to start operations early in 2008, with 46 companies expected to trade initially.
- Decree No 15 of February 19, 2007 allowed the licensing of financial institutions for micro credit with a minimum capital of US\$5 million.

### **Exchange rate, trade, and market regulation**

- Licensed banks have been authorized to finance all permitted imports (Decree No. 5204, September 2006).
- The official budget rate was abolished on January 1, 2007. One single market reference rate is now quoted by the CBS.
- The Free Trade Agreement with Turkey went into effect in January 2007.
- A new customs law adopted in October 2006 allowed for further automation and streamlining of customs procedures, including implementation of ASYCUDA.
- In August 2006, the authorities published, for the first time, the list of prohibited imports.
- A new law (Decree No 8 of January 27, 2007) ended all tax exemptions that used to be offered under investment law No. 10 of 1991 (mainly a tax holiday for the first five years of operation of a project, plus two additional years if at least half of the value added was destined for foreign markets).<sup>19</sup> The exemption from customs duties on all imported equipment was maintained. The new law also allows full annual repatriation of profits—the previous law allowed repatriation of profits derived from export activities only—and ownership of land. The new law covers all sectors with the exception of tourism, financial services, and real estate.

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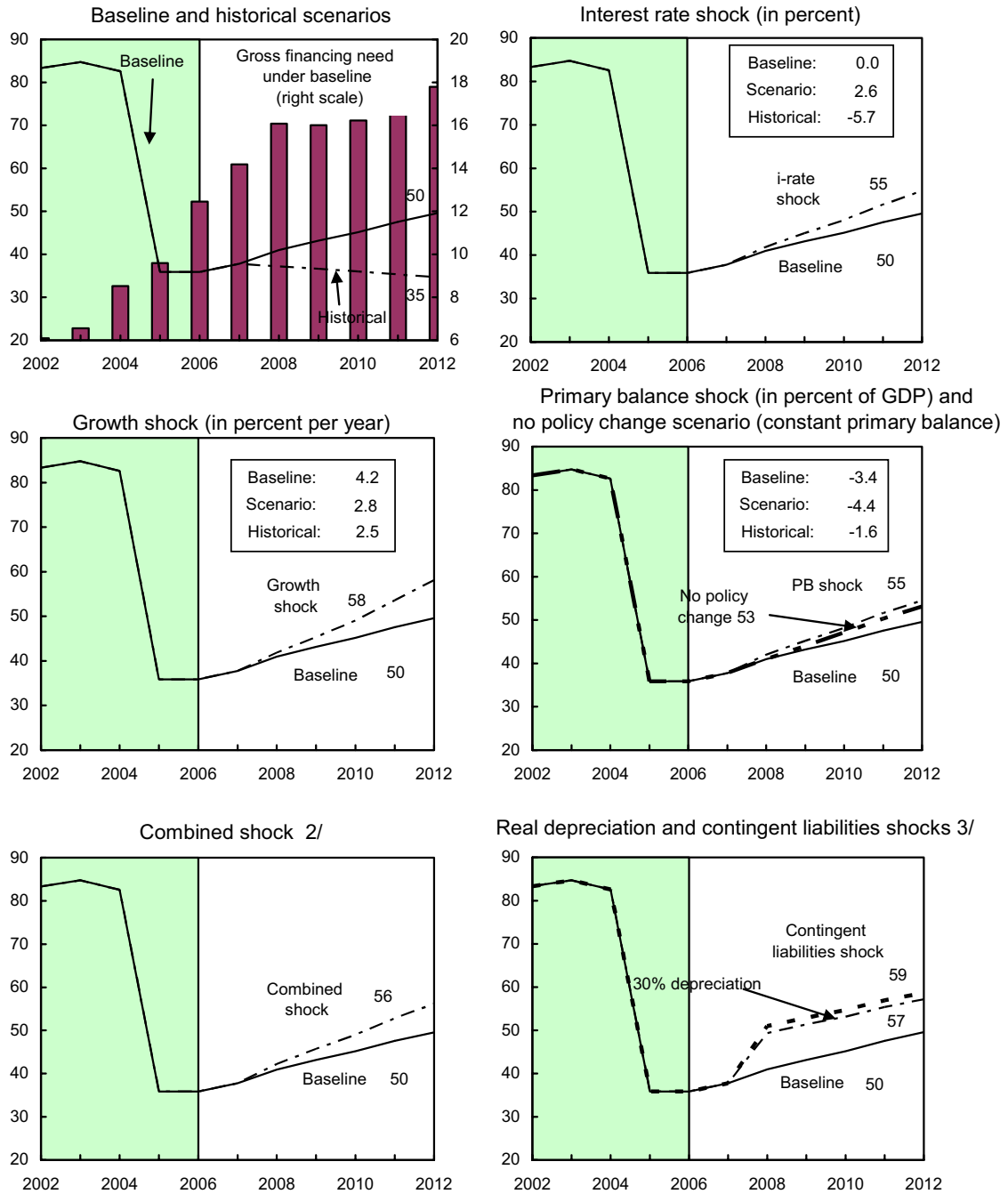
<sup>19</sup> For investment in tourism, which is governed by another law, the previous exemptions included a tax holiday for seven years, plus 50 percent discount on the profit tax thereafter. The discount has been phased out.

- Decree No 9 of January 27, 2007 established a new Investment Authority in charge of regulating investment, overseeing the improvement of the investment climate, and promoting investment in Syria. The SIA will operate a one-stop-shop service to facilitate business start ups.
- Consumer protection and food safety laws were passed in late 2006.

#### **Reforms “in the pipeline”**

- The draft company and competition laws have been approved by the Cabinet and submitted to Parliament.
- Two laws on real estate development and mortgage lending have already been drafted and are expected to be adopted soon.
- A draft Central Bank Law would be adopted in late 2007–early 2008.
- The 49 percent limit on foreign ownership in banks is expected to be raised in 2007/08, which will allow full branching by international banks.
- A credit registry is expected to become operational in late 2007/early 2008.
- A law is being drafted to pave the way toward incorporating the Syrian Telecommunications Company and creating an independent regulatory body.
- A draft law has been submitted to the Cabinet, which will encourage family run businesses to turn into private shareholding companies. It will also encourage greater transparency in business’s books by eliminating punitive taxation and antiquated FX accounting rules.

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



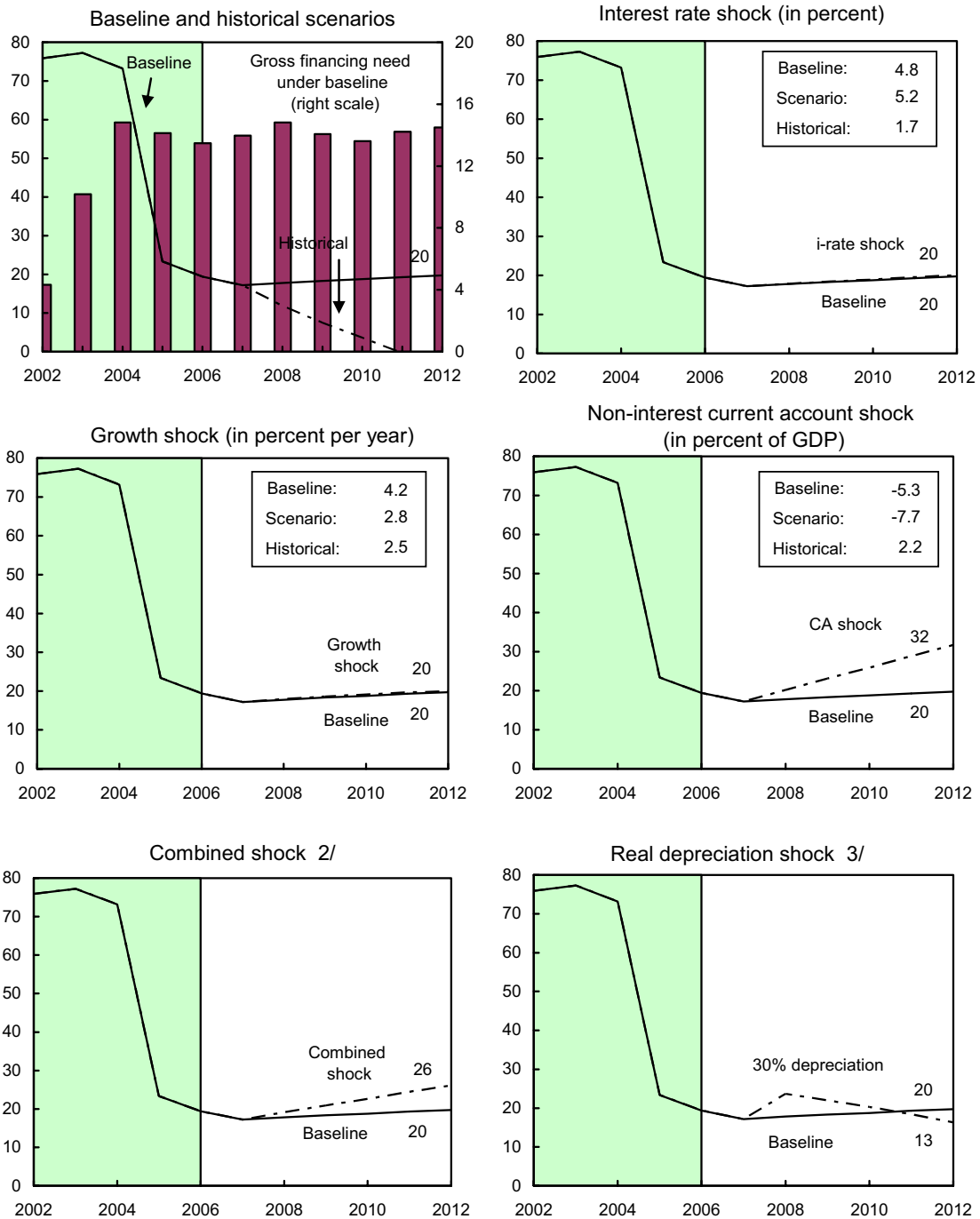
Sources: International Monetary Fund, country desk data, and staff estimates.

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

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

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

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



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

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

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

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

3/ One-time real depreciation of 30 percent occurs in 2008.

Table 1. Syrian Arab Republic: Selected Economic Indicators, 2003–07

	2003	2004	2005	Prel. 2006	Proj. 2007
<b>(Change in percent, unless otherwise indicated)</b>					
<b>National income and prices</b>					
Nominal GDP (LS billions)	1,118.0	1,263.8	1,493.6	1,780.9	1,920.7
Oil GDP	228.8	264.3	362.2	421.0	379.5
Non-oil GDP	889.2	999.5	1,131.4	1,359.9	1,541.3
Nominal GDP (\$ billions)	22.7	25.0	28.6	34.9	36.9
Real GDP	1.1	2.8	3.3	4.4	3.9
Real non-oil GDP	2.5	5.0	6.0	6.5	5.8
GDP deflator	-1.1	10.0	14.4	14.2	3.8
CPI period average	5.8	4.4	7.2	10.0	7.0
Total population (millions)	17.8	18.8	19.3	20.4	20.8
Syrian population (midyear estimate, millions)	17.6	18.0	18.4	18.9	19.3
Iraqi Immigrants (millions)	0.3	0.8	0.9	1.5	1.5
Total population growth	2.4	5.5	2.9	5.4	2.3
<b>Oil sector</b>					
Crude oil production ('000 barrels/day)	477	462	431	400	370
Net oil exports (crude and refined, '000 barrels/day)	282	187	130	70	56
Oil export price (\$ per barrel)	26.9	33.4	48.3	57.9	57.4
<b>(In percent of GDP, unless otherwise indicated)</b>					
<b>Government finances 1/</b>					
Revenue	28.8	27.2	24.0	21.9	22.0
Oil-related revenue	14.7	11.2	7.1	4.5	3.8
Non-oil revenue	14.0	16.0	16.9	17.4	18.2
Expenditure	31.4	31.4	28.4	27.6	27.0
Current expenditure	17.7	19.0	18.1	18.7	18.4
Development expenditure	13.7	12.4	10.3	8.9	8.6
Overall balance	-2.6	-4.2	-4.4	-5.7	-5.0
Non-oil budget balance	-17.3	-15.4	-11.6	-10.2	-8.9
Gross debt 2/	84.7	82.6	35.9	35.9	37.8
Domestic	7.5	9.4	12.5	16.5	20.6
External 2/	77.3	73.2	23.3	19.4	17.2
<b>(Changes in percent of initial stock of money excluding PE deposits)</b>					
<b>Money and quasi-money</b>					
	7.6	13.5	12.0	14.6	15.5
Net foreign assets 3/	4.2	7.1	2.3	-1.7	4.0
Net domestic assets 3/	3.5	6.4	9.7	16.3	11.5
Credit to government	0.7	3.7	7.9	0.7	10.5
Credit to public enterprises	-0.1	-0.6	-0.7	7.7	0.5
Credit to private sector	4.1	5.7	8.9	4.6	5.0
Credit to private sector (change in percent)	30.3	35.0	45.9	18.4	19.2
Credit to private sector (in percent of GDP)	9.8	11.7	14.4	14.3	15.8
Reserve money (change in percent)	10.2	25.2	7.7	9.7	13.3
Money and quasi-money (in percent of GDP)	59.9	60.2	57.0	54.8	58.7
<b>(In billions of U.S. dollars, unless otherwise indicated)</b>					
<b>Balance of payments</b>					
Oil Balance	2.4	1.3	0.6	0.1	-0.1
(in percent of GDP)	10.8	5.2	2.0	0.4	-0.1
Non-oil exports of goods and services	4.6	6.4	7.7	8.4	10.1
(change in percent)	15.9	38.9	20.4	9.5	20.8
(in percent of GDP)	20.2	25.4	26.8	24.0	27.5
Non-oil imports of goods and services	-7.5	-9.4	-10.4	-12.2	-13.1
(change in percent)	21.2	25.6	10.8	17.2	7.6
(in percent of GDP)	-32.8	-37.4	-36.2	-34.8	-35.5
Non-oil goods and services balance	-2.9	-3.0	-2.7	-3.1	-2.9
(in percent of GDP)	-12.7	-12.0	-9.5	-8.8	-8.0
Current account balance	0.2	-0.8	-1.2	-2.1	-2.2
(in percent of GDP)	0.8	-3.2	-4.1	-6.1	-5.8
Foreign direct investment (in percent of GDP)	0.7	1.1	1.7	1.7	3.1
Overall balance	0.6	0.2	0.0	-0.8	-0.6
Official net foreign assets	17.4	17.6	17.6	16.8	16.2
(in months of imports of GNFS)	25.4	20.0	16.4	13.4	12.1
<b>Debt</b>					
External debt (percent of GDP) 2/	77.3	73.2	23.3	19.4	17.2
Debt service-to-exports ratio (payments basis)	10.8	5.9	4.7	5.4	7.3
<b>Exchange rates</b>					
Weighted average nominal exchange rate LS/\$ 4/	49.3	50.5	52.2	51.0	52.1
Real effective exchange rate (1990=100)	58.9	58.8	59.8	66.0	67.9
(change in percent)	3.4	-0.2	1.7	10.3	3.0

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

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

2/ The sharp decline in 2005 reflects the rescheduling of the Russian debt that took place in early 2005.

3/ In 2007 net of valuation adjustments.

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

Table 2. Syrian Arab Republic: Summary of Fiscal Operations, 2003–07 1/  
(In percent of GDP)

	2003	2004	2005	Prel. 2006	Proj. 2007
<b>Revenue</b>	<b>28.8</b>	<b>27.2</b>	<b>24.0</b>	<b>21.9</b>	<b>22.0</b>
Oil-related proceeds	14.7	11.2	7.1	4.5	3.8
Profit tax on Syrian Petroleum Corp.	7.6	4.9	3.2	2.7	1.3
Royalties	2.8	2.0	2.2	2.5	1.2
Surplus from SPC	4.4	4.2	1.7	2.9	1.4
Adjustment to oil revenue 2/	...	...	...	-3.5	...
Non-oil tax revenue	10.5	11.5	10.7	11.2	11.8
Income and profits	3.5	4.7	4.0	3.8	4.0
International trade	2.6	2.5	2.1	1.7	1.9
Other	4.5	4.4	4.7	5.7	6.0
Non-oil non-tax revenue	3.4	4.4	6.0	6.2	6.3
PE surpluses	3.0	3.8	5.1	5.5	5.6
Others	0.5	0.6	0.9	0.7	0.7
PSF revenue	0.1	0.1	0.1	0.0	0.0
<b>Expenditure</b>	<b>31.4</b>	<b>31.4</b>	<b>28.4</b>	<b>27.6</b>	<b>27.0</b>
Current expenditure	17.7	19.0	18.1	18.7	18.4
Defense	5.3	5.9	5.3	5.1	3.9
Wages and salaries	5.3	5.5	5.2	5.4	5.6
Goods and services	1.7	1.5	1.4	1.8	1.9
Interest payments	0.7	0.9	1.2	1.0	0.9
Subsidies	2.6	2.4	2.3	2.3	2.6
PSF expenditure	2.5	2.1	2.0	2.0	2.1
Other subsidies	0.1	0.2	0.3	0.3	0.6
Transfers	2.1	2.8	2.7	3.2	3.4
Pensions and social assistance	1.0	1.1	1.1	1.6	1.9
Transfers to public enterprises	1.1	1.7	1.6	1.6	1.5
Development expenditure	13.7	12.4	10.3	8.9	8.6
<b>Overall balance</b>	<b>-2.6</b>	<b>-4.2</b>	<b>-4.4</b>	<b>-5.7</b>	<b>-5.0</b>
Non-oil balance (percent of non-oil GDP)	-21.8	-19.4	-15.3	-13.4	-11.0
<b>Non-oil balance</b>	<b>-17.3</b>	<b>-15.4</b>	<b>-11.6</b>	<b>-10.2</b>	<b>-8.9</b>
Non-oil balance (in percent of non-oil GDP)	-21.8	-19.4	-15.3	-13.4	-11.0
Non-oil revenue (in percent of non-oil GDP)	17.6	20.3	22.3	22.8	22.6
Expenditure (in percent of non-oil GDP)	39.4	39.7	37.5	36.2	33.7
Identified financing	0.1	2.9	4.8	5.3	5.0
External	0.0	0.1	0.2	0.3	-0.3
Domestic bank financing	0.4	2.0	4.0	5.4	5.3
Investment certificates	-0.3	0.8	0.5	-0.4	0.0
Unidentified financing	2.5	1.3	-0.4	0.5	0.0
<b>Government debt 3/</b>	<b>84.7</b>	<b>82.6</b>	<b>35.9</b>	<b>35.9</b>	<b>37.8</b>
Domestic	7.5	9.4	12.5	16.5	20.6
External 3/	77.3	73.2	23.3	19.4	17.2
<b>Implicit petroleum price subsidies 4/</b>	<b>3.3</b>	<b>6.4</b>	<b>9.6</b>	<b>10.2</b>	<b>10.3</b>

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

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

2/ Adjustment to account for the drawdown on the Syrian Petroleum Company's bank deposits in order to derive an estimate of effective oil revenues.

3/ The sharp decline in 2005 reflects the rescheduling of the Russian debt that took place in early 2005.

4/ Energy price subsidies, which include in addition to petroleum price subsidies, subsidies on natural gas, are estimated at 13.2 percent of GDP in 2007.

Table 3. Syrian Arab Republic: Summary of Fiscal Operations, 2003–07 1/  
(In billions of Syrian pounds)

	2003	2004	2005	<u>Prel.</u> 2006	<u>Proj.</u> 2007
<b>Revenue</b>	<b>321.6</b>	<b>343.9</b>	<b>358.0</b>	<b>389.6</b>	<b>422.5</b>
Oil-related proceeds	164.7	141.2	106.2	80.1	73.4
Profit tax on Syrian Petroleum Corp.	84.6	62.4	48.0	47.9	24.6
Royalties	31.3	25.4	32.9	44.3	22.8
Surplus from SPC	48.8	53.3	25.2	50.8	26.1
Adjustment to oil revenue 2/	...	...	...	-62.9	...
Non-oil tax revenue	117.6	145.4	160.3	198.9	227.4
Income and profits	38.7	59.1	59.3	67.4	76.4
International trade	28.8	31.3	30.7	30.6	36.6
Other	50.1	55.0	70.3	100.9	114.4
Non-oil non-tax revenue	38.5	55.9	89.9	110.2	121.2
Public enterprise surpluses	33.2	48.0	75.9	97.9	107.3
Other non-tax revenue	5.4	7.9	14.0	12.2	13.9
PSF revenue	0.7	1.5	1.8	0.4	0.5
<b>Expenditure</b>	<b>350.6</b>	<b>396.9</b>	<b>424.5</b>	<b>491.8</b>	<b>519.2</b>
Current expenditure	197.7	240.3	270.1	333.4	354.1
Defense	59.0	74.7	78.7	90.5	74.3
Wages and salaries	59.2	69.5	78.3	95.5	108.3
Goods and services	19.0	19.3	21.5	32.3	36.6
Interest payments	7.5	11.0	17.4	17.9	18.1
Subsidies	29.6	29.8	33.6	40.1	50.7
PSF expenditure	27.9	27.0	29.6	35.3	40.0
Other subsidies	1.7	2.8	4.0	4.8	10.7
Transfers	23.4	36.0	40.5	57.1	66.3
Pensions and social assistance	11.2	14.4	16.3	28.2	37.3
Transfers to public enterprises	12.2	21.6	24.3	28.9	28.9
Development expenditure	152.9	156.6	154.4	158.3	165.1
<b>Overall balance</b>	<b>-29.0</b>	<b>-53.0</b>	<b>-66.4</b>	<b>-102.2</b>	<b>-96.7</b>
<i>Of which: Non-oil balance</i>	<b>-193.7</b>	<b>-194.1</b>	<b>-172.6</b>	<b>-182.3</b>	<b>-170.2</b>
Identified financing	0.7	36.6	71.7	93.7	96.7
External	0.1	1.3	3.2	4.8	-5.5
Borrowing	11.0	11.6	11.6	17.4	17.9
Repayment	10.9	10.3	8.4	12.6	23.4
Domestic bank financing	4.3	24.9	60.5	96.8	102.2
Central bank	-16.6	71.1	54.6	9.5	61.4
Commercial banks	20.9	-46.2	5.9	87.3	40.8
Non-bank financing (investment certificates held by non-banks)	-3.7	10.4	8.1	-7.9	0.0
Unidentified financing	28.3	16.4	-5.3	8.5	0.0
Memorandum items:					
<b>Government debt 3/</b>	<b>947.4</b>	<b>1,043.8</b>	<b>535.9</b>	<b>638.9</b>	<b>725.7</b>
Domestic	83.5	118.9	187.3	293.2	395.5
External 3/	863.9	925.0	348.6	345.7	330.3
<b>Implicit petroleum price subsidies 4/</b>	<b>37.2</b>	<b>80.6</b>	<b>144.0</b>	<b>181.9</b>	<b>198.8</b>

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

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

2/ Adjustment to account for the drawdown on the Syrian Petroleum Company's bank deposits in order to derive an estimate of effective oil revenues.

3/ The sharp decline in 2005 reflects the rescheduling of the Russian debt that took place in early 2005.

4/ Energy price subsidies, which include in addition to petroleum price subsidies, subsidies on natural gas, are estimated at SP 254 billion in 2007.

Table 4. Syrian Arab Republic: Monetary Survey, 2003–07

	2003	2004	2005	Prel. 2006	Proj. 2007
<b>(In billions of Syrian pounds; end-of-period)</b>					
Foreign assets (net)	702	750	767	753	792
Central bank	124	136	154	169	162
<i>(In millions of U.S. dollars)</i>	4,926	5,391	6,130	6,721	6,417
Commercial banks	578	614	613	583	630
<i>(In millions of U.S. dollars)</i>	12,435	12,410	12,210	11,657	12,096
Public banks	12,435	12,176	11,455	10,162	9,858
Private banks	0	234	755	1,494	2,238
Domestic assets (net)	186	238	334	429	548
Domestic assets (net) netted from PE deposits	-32	10	84	223	336
Domestic credit	342	410	555	623	785
Claims on public sector	233	263	340	368	481
Claims on public sector netted from PE deposits	14	35	90	162	269
Claims on central government (net)	55	80	141	147	249
Claims on public enterprises	178	182	199	221	232
Claims on public enterprises (net)	-41	-45	-51	15	20
Claims on private sector	109	148	215	255	304
Other items (net)	-156	-172	-221	-194	-237
Import and restricted deposits	-73	-99	-102	-121	-121
Capital accounts	-104	-132	-185	-311	-342
Valuation adjustment (net)	-47	-57	41	260	247
Other	68	115	25	-21	-21
Money and quasi-money (M2)	889	988	1,101	1,182	1,339
Currency outside banks	285	333	385	399	452
Syrian pound deposits	407	462	500	536	608
Of which: PE deposits	196	193	217	162	167
Foreign exchange deposits	40	63	95	102	116
Of which: PE deposits	22	34	33	44	45
Money and quasi-money (M2) excluding PE deposits	670	761	851	976	1,127
<b>(Change in percent of the initial stock of broad money excluding PE deposits)</b>					
Net foreign assets	4.2	7.1	2.3	-1.7	4.0
Domestic assets (net)	3.5	6.4	9.7	16.3	11.5
Domestic credit	4.7	8.8	16.1	13.1	16.0
Claims on central government (net)	0.7	3.7	7.9	0.7	10.5
Claims on public enterprises (net)	-0.1	-0.6	-0.7	7.7	0.5
Claims on private sector	4.1	5.7	8.9	4.6	5.0
Other items (net)	-1.2	-2.5	-6.4	3.3	-4.5
Money and quasi-money (M2) excluding PE deposits	7.6	13.5	12.0	14.6	15.5
<b>(Annual change in percent)</b>					
Currency outside banks	10.3	16.8	15.6	3.7	13.3
Claims on private sector	30.3	35.0	45.9	18.4	19.2
Reserve money	10.2	25.2	7.7	9.7	13.3
<b>(In percent of GDP)</b>					
Broad money (M2)	79.5	78.2	73.7	66.4	69.7
Credit to private sector	9.8	11.7	14.4	14.3	15.8
Credit to public enterprises	15.9	14.4	13.3	12.4	12.1
Change in net claims on central government (bil SP)	4.3	24.9	60.5	6.3	102.2
Change in net claims on central government	0.4	2.0	4.0	0.4	5.3
Change in net claims on PE (bil SP)	-19.5	-4.0	-5.6	65.5	4.9
Memorandum items:					
Currency to deposits ratio	47.2	50.8	53.7	51.0	51.0
Ratio of FX deposits to total deposits	6.6	9.7	13.3	13.1	13.1
Growth in public banks' credit to private sector	9.8	11.7	38.7	10.9	...
Growth in private banks' credit to private sector	0.0	0.0	281.7	106.9	...

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

Table 5. Syrian Arab Republic: Central Bank Balance Sheet, 2003–07

	2003	2004	2005	<u>Prel.</u> 2006	<u>Proj.</u> 2007
<b>(In billions of Syrian pounds)</b>					
Net foreign assets	124.1	135.8	154.5	169.4	161.7
<i>[In millions of U.S. dollars]</i>	4,926	5,391	6,130	6,721	6,417
Net domestic assets	253.5	336.9	354.8	389.2	471.4
Net domestic credit	88.7	129.4	182.8	204.5	286.6
Net credit to government	-86.2	-15.2	39.4	48.9	110.3
Credit to public enterprises	0.1	0.1	0.1	0.1	0.1
Credit to banks	174.8	144.5	143.3	155.5	176.2
Other items (net) 1/	164.8	207.5	172.0	184.7	184.7
Reserve money	377.7	472.8	509.3	558.6	633.1
Currency issued	294.4	344.3	407.4	411.4	466.3
Currency outside banks	285.0	332.8	384.7	399.0	452.3
Currency with banks	9.4	11.5	22.7	12.4	14.0
Deposits of public enterprises	13.1	22.5	15.5	19.7	22.3
Deposits of banks	69.9	105.7	85.9	127.0	143.9
Other non-government, non-bank deposits	0.4	0.4	0.5	0.5	0.5
<b>(Change in percent of initial stock of reserve money)</b>					
Net foreign assets	5.3	3.1	3.9	2.9	-1.4
Net domestic assets	4.9	22.1	3.8	6.8	14.7
Net domestic credit	2.8	10.8	11.3	4.3	14.7
Net credit to government	-4.8	18.8	11.5	1.9	11.0
Credit to public enterprises	0.0	0.0	0.0	0.0	0.0
Credit to banks	7.6	-8.0	-0.2	2.4	3.7
Other items (net)	2.1	11.3	-7.5	2.5	0.0
Reserve money	10.2	25.2	7.7	9.7	13.3

Source: Central Bank of Syria.

1/ The decline in 2007 is due to lower valuation adjustment.

Table 6. Syrian Arab Republic: Balance of Payments, 2003–07  
(In millions of U.S. dollars; unless otherwise indicated)

	2003	2004	Est. 2005	Est. 2006	Proj. 2007
<b>Current account balance</b>	<b>181</b>	<b>-811</b>	<b>-1,177</b>	<b>-2,133</b>	<b>-2,153</b>
<i>(In percent of GDP)</i>	<i>0.8</i>	<i>-3.2</i>	<i>-4.1</i>	<i>-6.1</i>	<i>-5.8</i>
<i>Of which: non-oil current account balance</i>	<i>-2,875</i>	<i>-3,000</i>	<i>-2,716</i>	<i>-3,071</i>	<i>-2,950</i>
<i>(In percent of GDP)</i>	<i>-12.7</i>	<i>-12.0</i>	<i>-9.5</i>	<i>-8.8</i>	<i>-8.0</i>
<b>Oil balance</b>	<b>2,450</b>	<b>1,308</b>	<b>563</b>	<b>143</b>	<b>-53</b>
<i>(In percent of GDP)</i>	<i>10.8</i>	<i>5.2</i>	<i>2.0</i>	<i>0.4</i>	<i>-0.1</i>
Exports, f.o.b.	4,111	3,395	4,300	4,076	3,869
Imports, f.o.b.	-737	-1,156	-2,473	-2,883	-3,046
Repatriation of profits of oil and gas companies	-924	-931	-1,264	-1,050	-875
<b>Non-oil goods and services balance</b>	<b>-2,875</b>	<b>-3,000</b>	<b>-2,716</b>	<b>-3,071</b>	<b>-2,950</b>
<i>(In percent of GDP)</i>	<i>-12.7</i>	<i>-12.0</i>	<i>-9.5</i>	<i>-8.8</i>	<i>-8.0</i>
Trade balance	-2,612	-3,220	-3,209	-3,042	-2,997
Exports, f.o.b.	3,037	3,748	4,749	6,162	6,913
Public	455	322	421	452	508
Private	2,582	3,426	4,328	5,710	6,406
Imports, f.o.b.	-5,649	-6,968	-7,958	-9,204	-9,911
Public	-871	-1,069	-971	-1,948	-2,016
Private	-4,778	-5,899	-6,987	-7,256	-7,895
Balance of services	-263	220	493	-29	48
Receipts	1,543	2,613	2,911	2,924	3,213
<i>Of which: travel and tourism</i>	<i>986</i>	<i>1,800</i>	<i>1,944</i>	<i>2,025</i>	<i>2,268</i>
Payments	-1,806	-2,393	-2,418	-2,953	-3,165
<b>Income (net)</b>	<b>67</b>	<b>202</b>	<b>225</b>	<b>230</b>	<b>236</b>
Credit	282	385	395	428	463
Debit	-215	-183	-170	-198	-228
<b>Transfers (net)</b>	<b>539</b>	<b>679</b>	<b>751</b>	<b>565</b>	<b>614</b>
Credit	554	694	765	610	659
<i>Of which: workers' remittances</i>	<i>530</i>	<i>689</i>	<i>761</i>	<i>610</i>	<i>659</i>
<b>Identified capital and financial account balance</b>	<b>182</b>	<b>-131</b>	<b>-480</b>	<b>-535</b>	<b>320</b>
<i>(In percent of GDP)</i>	<i>0.8</i>	<i>-0.5</i>	<i>-1.7</i>	<i>-1.5</i>	<i>0.9</i>
Capital account (migrants' transfers)	20	18	18	18	18
Direct investment	160	275	500	600	1,151
<i>Of which: Gas project-related</i>	<i>90</i>	<i>150</i>	<i>151</i>	<i>125</i>	<i>125</i>
Long-term government debt (net)	2	-187	-473	-414	-105
Receipts	224	215	138	86	429
Payments	-222	-402	-611	-500	-534
Private banks	0	-237	-525	-739	-744
<b>Inflows related to Iraqi immigrants</b>	<b>0</b>	<b>457</b>	<b>803</b>	<b>1,309</b>	<b>1,225</b>
<b>Errors and omissions</b>	<b>223</b>	<b>686</b>	<b>872</b>	<b>606</b>	<b>0</b>
<i>(in percent of GDP)</i>	<i>1.0</i>	<i>2.7</i>	<i>3.0</i>	<i>1.7</i>	<i>0.0</i>
<b>Overall balance</b>	<b>585</b>	<b>202</b>	<b>18</b>	<b>-753</b>	<b>-608</b>
<i>(in percent of GDP)</i>	<i>2.6</i>	<i>0.8</i>	<i>0.1</i>	<i>-2.2</i>	<i>-1.6</i>
<b>Net change in reserves (increase = -)</b>	<b>-585</b>	<b>-202</b>	<b>-18</b>	<b>753</b>	<b>608</b>
Convertible	-934	-181	-448	752	608
Central Bank	-765	-443	-1,169	-541	304
Commercial Bank of Syria	-169	263	721	1,293	304
Nonconvertible (Central Bank)	348	-21	430	1	0
Memorandum items:					
<b>NFA of the Central Bank and the CBoS</b>	<b>17,362</b>	<b>17,567</b>	<b>17,585</b>	<b>16,833</b>	<b>16,225</b>
<i>(In months of imports of G&amp;S)</i>	<i>25.4</i>	<i>20.0</i>	<i>16.4</i>	<i>13.4</i>	<i>12.1</i>
Government external debt (in millions of dollars) 1/	17,537	18,318	6,682	6,778	6,340
<i>(In percent of GDP)</i>	<i>77.3</i>	<i>73.2</i>	<i>23.3</i>	<i>19.4</i>	<i>17.2</i>
Debt service (in percent of exports of G&S) 1/	10.8	5.9	4.7	5.4	7.3
Weighted average nominal exchange rate (LS/\$) 2/	49.3	50.5	52.2	51.0	52.1
GDP (in billions of dollars) 2/	22.7	25.0	28.6	34.9	36.9
Real effective exchange rate (1990=100)	58.9	58.8	59.8	66.0	67.9
<i>(change in percent)</i>	<i>3.4</i>	<i>-0.2</i>	<i>1.7</i>	<i>10.3</i>	<i>3.0</i>

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

1/ Officially acknowledged debt; excludes military debt. The sharp decline in 2005 reflects the rescheduling of the Russian debt that took place in early 2005.

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

3/ Calculated using the weighted average exchange rate.

Table 7. Syrian Arab Republic: Medium-Term Macroeconomic Framework, 2005–12

	2005	Prel.	Proj.					
		2006	2007	2008	2009	2010	2011	2012
<b>(Change in percent, unless otherwise indicated)</b>								
<b>National income and prices</b>								
Nominal GDP (LS billions)	1,493.6	1,780.9	1,920.7	2,106.6	2,311.5	2,512.4	2,704.1	2,924.7
Oil GDP	362.2	421.0	379.5	375.0	366.0	347.1	316.9	292.8
Non-oil GDP	1,131.4	1,359.9	1,541.3	1,731.6	1,945.5	2,165.3	2,387.2	2,631.9
Nominal GDP (\$ billions)	28.6	34.9	36.9	38.8	40.4	42.2	44.0	46.2
Real GDP	3.3	4.4	3.9	3.7	4.8	4.6	3.9	4.0
Real non-oil GDP	6.0	6.5	5.8	5.0	5.0	5.0	5.0	5.0
GDP deflator	14.4	14.2	3.8	5.7	4.7	3.9	3.6	4.0
CPI period average	7.2	10.0	7.0	7.0	7.0	6.0	5.0	5.0
<b>Oil sector</b>								
Crude oil production ('000 barrels/day)	431	400	370	352	359	363	345	330
Net oil exports (crude and refined, '000 barrels/day)	130	70	56	39	39	36	7	-19
Oil export price (\$ per barrel)	48.3	57.9	57.4	61.9	61.7	60.1	59.4	59.0
<b>(In percent of GDP, unless otherwise indicated)</b>								
<b>Government finances 1/</b>								
Revenue	24.0	21.9	22.0	22.3	23.3	23.7	23.9	24.1
Oil-related revenue	7.1	4.5	3.8	3.0	3.5	3.5	2.6	1.8
Non-oil revenue	16.9	17.4	18.2	19.3	19.8	20.2	21.3	22.3
Expenditure	28.4	27.6	27.0	28.1	28.3	28.5	28.9	29.0
Current expenditure	18.1	18.7	18.4	19.5	19.7	19.9	20.3	20.4
Development expenditure	10.3	8.9	8.6	8.6	8.6	8.6	8.6	8.6
Overall balance	-4.4	-5.7	-5.0	-5.9	-5.0	-4.7	-5.0	-5.0
Nonoil budget balance	-11.6	-10.2	-8.9	-8.9	-8.5	-8.3	-7.6	-6.8
Gross debt 2/	35.9	35.9	37.8	41.0	43.2	45.2	47.6	49.6
Domestic	12.5	16.5	20.6	23.2	24.8	26.4	28.3	29.9
External 2/	23.3	19.4	17.2	17.8	18.3	18.8	19.3	19.7
<b>(Changes in percent of initial stock of money)</b>								
<b>Money and quasi-money</b>								
	12.0	14.6	15.5	14.1	13.9	12.6	11.3	11.2
Net foreign assets 3/	2.3	-1.7	4.0	1.0	0.4	-0.4	-1.1	-1.5
Net domestic assets 3/	9.7	16.3	11.5	13.1	13.5	13.0	12.4	12.7
Credit to government	7.9	0.7	10.5	7.7	6.3	5.7	5.7	5.5
Credit to public enterprises	-0.7	7.7	0.5	0.5	0.4	0.4	0.4	0.4
Credit to private sector	8.9	4.6	5.0	6.5	7.1	7.6	7.2	7.9
Credit to private sector (change in percent)	45.9	18.4	19.2	23.9	24.3	23.8	20.5	20.6
Credit to private sector (in percent of GDP)	14.4	14.3	15.8	17.9	20.3	23.1	25.8	28.8
<b>(In billions of U.S. dollars, unless otherwise indicated)</b>								
<b>Balance of payments</b>								
Oil balance	0.6	0.1	-0.1	-0.4	-0.2	-0.3	-0.8	-1.3
(in percent of GDP)	2.0	0.4	-0.1	-1.0	-0.6	-0.6	-1.8	-2.8
Non-oil exports of goods & services	7.7	8.4	10.1	10.6	11.0	11.5	12.1	12.8
(in percent of GDP)	26.8	24.0	27.5	27.2	27.2	27.2	27.5	27.8
Non-oil imports of goods & services	-10.4	-12.2	-13.1	-13.7	-14.2	-14.7	-15.3	-16.0
(in percent of GDP)	-36.2	-34.8	-35.5	-35.2	-35.0	-34.8	-34.7	-34.6
Non-oil goods and services balance	-2.7	-3.1	-2.9	-3.1	-3.1	-3.2	-3.2	-3.1
(in percent of GDP)	-9.5	-8.8	-8.0	-8.0	-7.8	-7.6	-7.2	-6.7
Current account balance	-1.2	-2.1	-2.2	-2.6	-2.3	-2.3	-2.7	-3.0
(in percent of GDP)	-4.1	-6.1	-5.8	-6.6	-5.8	-5.6	-6.2	-6.5
Foreign direct investment (in percent of GDP)	1.7	1.7	3.1	3.9	4.0	4.1	4.2	4.3
Overall balance	0.0	-0.8	-0.6	-0.4	-0.4	-0.6	-0.7	-0.8
Official net foreign assets	17.6	16.8	16.2	15.8	15.4	14.8	14.1	13.4
(in months of imports of GNFS)	16.4	13.4	12.1	11.4	10.7	9.9	9.0	8.1
<b>Debt</b>								
External debt (percent of GDP) 2/	23.3	19.4	17.2	17.8	18.3	18.8	19.3	19.7
Debt service-to-exports ratio (payments basis)	4.7	5.4	7.3	7.5	8.0	7.6	7.7	7.7

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

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

2/ The sharp decline in 2005 reflects the rescheduling of the Russian debt that took place in early 2005.

3/ Starting in 2008 net of valuation adjustments.

Table 8. Syrian Arab Republic: Public Sector Debt Sustainability Framework, 2002–12  
(In percent of GDP, unless otherwise indicated)

	Actual										Projections										Debt-stabilizing primary balance 10/ -1.4
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012				
<b>Public sector debt 1/ of which:</b> foreign-currency denominated	83.3	84.7	82.6	35.9	35.9	37.8	41.0	43.2	45.2	47.6	49.6	37.8	41.0	43.2	45.2	47.6	49.6				
Change in public sector debt	-2.9	1.4	-2.1	-46.7	0.0	1.9	3.2	2.2	2.0	2.4	2.0	1.9	3.2	2.2	2.0	2.4	2.0				
Identified debt-creating flows (4+7+12)	-4.7	2.9	-3.9	-6.2	-0.5	2.8	3.2	2.2	2.0	2.3	1.9	2.8	3.2	2.2	2.0	2.3	1.9				
Primary deficit	1.4	1.9	3.3	3.3	4.7	4.1	4.1	3.2	3.0	3.3	3.2	4.1	4.1	3.2	3.0	3.3	3.2				
Revenue and grants	26.5	28.8	27.2	24.0	21.9	22.0	22.3	23.3	23.7	23.9	24.1	22.0	22.3	23.3	23.7	23.9	24.1				
Primary (noninterest) expenditure	27.9	30.7	30.5	27.3	26.6	26.1	26.4	26.5	26.7	27.1	27.3	26.1	26.4	26.5	26.7	27.1	27.3				
Automatic debt dynamics 2/	-6.1	0.9	-7.2	-9.5	-5.2	-1.3	-0.9	-1.0	-1.0	-0.9	-1.3	-1.3	-0.9	-1.0	-1.0	-0.9	-1.3				
Contribution from interest rate/growth differential 3/ of which: contribution from real interest rate	-7.7	0.7	-8.9	-11.5	-4.8	-1.7	-1.6	-1.9	-1.7	-1.5	-1.9	-1.7	-1.6	-1.9	-1.7	-1.5	-1.9				
of which: contribution from real GDP growth	-3.1	1.6	-6.8	-9.2	-3.5	-0.4	-0.3	-0.1	0.1	0.1	-0.1	-0.4	-0.3	-0.1	0.1	0.1	-0.1				
Contribution from exchange rate depreciation 4/ Other identified debt-creating flows	1.6	0.3	1.7	2.1	-0.5	0.4	0.7	0.9	0.7	0.6	0.6	0.4	0.7	0.9	0.7	0.6	0.6				
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	0.0	0.0	0.0	0.0	0.0	0.0				
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	0.0	0.0	0.0	0.0	0.0	0.0				
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	0.0	0.0	0.0	0.0	0.0	0.0				
Residual, including asset changes (2-3)	1.9	-1.5	1.7	-40.5	0.5	-0.9	0.0	0.0	0.0	0.1	0.1	-0.9	0.0	0.0	0.0	0.1	0.1				
Public sector debt-to-revenue ratio 1/	315.0	294.6	303.5	149.7	164.0	171.8	184.0	185.4	190.3	199.3	205.8	171.8	184.0	185.4	190.3	199.3	205.8				
<b>Gross financing need 5/ In billions of U.S. dollars</b>	6.1	6.6	8.5	9.6	12.4	14.2	16.1	16.0	16.2	17.2	17.8	14.2	16.1	16.0	16.2	17.2	17.8				
	1.4	1.5	2.1	2.7	4.3	5.2	6.2	6.5	6.8	7.6	8.2	5.2	6.2	6.5	6.8	7.6	8.2				
<b>Key macroeconomic and fiscal assumptions</b>																					
Real GDP growth (in percent)	5.9	1.1	2.8	3.3	4.4	3.9	3.7	4.8	4.6	3.9	4.0	3.9	3.7	4.8	4.6	3.9	4.0				
Average nominal interest rate on public debt (in percent) 6/ Average real interest rate (nominal rate minus change in GDP deflator, in percent)	0.8	0.8	1.2	1.7	3.3	2.8	5.0	4.7	4.4	4.1	3.9	2.8	5.0	4.7	4.4	4.1	3.9				
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	-3.8	1.9	-8.8	-12.8	-10.9	-1.0	-0.7	0.0	0.4	0.5	-0.1	-1.0	-0.7	0.0	0.4	0.5	-0.1				
Inflation rate (GDP deflator, in percent)	-2.1	-0.3	-2.4	-3.2	2.3	-2.1	-4.0	-5.0	-4.0	-3.0	-3.8	-2.1	-4.0	-5.0	-4.0	-3.0	-3.8				
Growth of real primary spending (deflated by GDP deflator, in percent)	4.5	-1.1	10.0	14.4	14.2	3.8	5.7	4.7	3.9	3.6	4.0	3.8	5.7	4.7	3.9	3.6	4.0				
Primary deficit	7.8	11.4	2.2	-7.8	1.9	2.3	1.9	4.9	5.3	5.4	4.8	1.9	4.9	5.3	5.5	5.4	4.8				
	1.4	1.9	3.3	3.3	4.7	4.1	4.1	3.2	3.0	3.3	3.2	4.1	4.1	3.2	3.0	3.3	3.2				
<b>A. Alternative scenarios</b>																					
A1. Key variables are at their historical averages in 2007–12	37.8	37.1	36.7	36.0	35.3	37.8	37.1	36.7	36.0	35.3	34.7	37.8	37.1	36.7	36.0	35.3	34.7				
A2. No policy change (constant primary balance) in 2007–12	37.8	40.9	44.0	47.1	50.3	37.8	40.9	44.0	47.1	50.3	53.1	37.8	40.9	44.0	47.1	50.3	53.1				
<b>B. Bound tests</b>																					
B1. Real interest rate is at baseline plus one standard deviation	37.8	41.9	45.1	48.1	51.6	37.8	41.9	45.1	48.1	51.6	54.8	37.8	41.9	45.1	48.1	51.6	54.8				
B2. Real GDP growth is at baseline minus one-half standard deviation	37.8	41.8	45.3	49.0	53.6	37.8	41.8	45.3	49.0	53.6	58.1	37.8	41.8	45.3	49.0	53.6	58.1				
B3. Primary balance is at baseline minus one-half standard deviation	37.8	42.0	45.2	48.2	51.6	37.8	42.0	45.2	48.2	51.6	54.5	37.8	42.0	45.2	48.2	51.6	54.5				
B4. Combination of B1-B3 using one-quarter standard deviation shocks	37.8	42.2	45.7	49.0	52.8	37.8	42.2	45.7	49.0	52.8	56.2	37.8	42.2	45.7	49.0	52.8	56.2				
B5. One time 30 percent real depreciation in 2008 9/	37.8	49.3	51.4	53.2	55.4	37.8	49.3	51.4	53.2	55.4	57.2	37.8	49.3	51.4	53.2	55.4	57.2				
B6. 10 percent of GDP increase in other debt-creating flows in 2008	37.8	51.0	52.9	54.7	56.9	37.8	51.0	52.9	54.7	56.9	58.7	37.8	51.0	52.9	54.7	56.9	58.7				

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

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

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

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

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

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

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

8/ The implied change in other key variables under this scenario is discussed in the text.

9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

10/ 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 9. Syrian Arab Republic: External Debt Sustainability Framework, 2002–12  
(In percent of GDP, unless otherwise indicated)

	Actual				Projections							Debt-stabilizing non-interest current account 6/ -4.2
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
<b>External debt</b>	75.9	77.3	73.2	23.3	19.4	17.2	17.8	18.3	18.8	19.3	19.7	
Change in external debt	-5.4	1.4	-4.1	-49.8	-3.9	-2.2	0.6	0.5	0.4	0.5	0.4	0.0
Identified external debt-creating flows (4+8+9)	-14.0	-1.2	-5.1	-6.8	0.2	1.7	1.9	1.1	1.2	1.3	1.3	0.0
Current account deficit, excluding interest payments	-8.6	-1.6	2.7	3.3	5.5	5.2	5.9	5.0	4.7	5.3	5.6	4.2
Deficit in balance of goods and services	-7.1	-2.2	3.0	3.1	5.4	5.8	6.6	6.5	6.7	7.8	8.6	
Exports	37.4	38.3	39.0	41.8	37.7	38.0	36.3	35.9	34.9	34.1	34.1	
Imports	30.2	36.1	42.0	44.9	43.1	43.7	42.8	42.7	42.6	42.7	42.7	
Net non-debt creating capital inflows (negative)	-0.5	-0.7	-1.1	-1.7	-1.7	-3.1	-3.9	-4.0	-4.1	-4.2	-4.3	-4.3
Net foreign direct investment, equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net portfolio investment/equity	-4.9	1.0	-6.6	-8.4	-3.6	-0.4	-0.1	0.1	0.1	0.1	0.1	0.0
Automatic debt dynamics 1/	1.4	0.8	0.6	0.8	0.6	0.6	0.7	0.8	0.9	0.9	1.0	1.0
Contribution from nominal interest rate	-4.4	-0.9	-1.9	-2.1	-0.8	-0.7	-0.6	-0.8	-0.8	-0.7	-0.7	-0.8
Contribution from real GDP growth	-1.9	1.1	-5.3	-7.1	-3.4	-0.3	-0.2	0.1	0.0	-0.1	-0.2	-0.2
Contribution from price and exchange rate changes 2/	8.6	2.6	1.0	-43.0	-4.1	-3.9	-1.3	-0.6	-0.3	-0.7	-0.9	0.0
Residual, incl. change in gross foreign assets (2-3)	203.2	201.8	187.8	55.9	51.5	45.3	49.1	50.5	52.3	55.3	57.8	
External debt-to-exports ratio (in percent)	1.0	2.3	3.7	4.0	4.7	5.2	5.8	5.7	5.7	6.3	6.7	
<b>Gross external financing need (in billions of U.S. dollars) 3/</b>	4.3	10.2	14.8	14.1	13.5	14.0	14.8	14.1	13.6	14.2	14.5	
In percent of GDP												
<b>Key macroeconomic assumptions</b>												
Real GDP growth (in percent)	5.9	1.1	2.8	3.3	4.4	3.9	3.7	4.8	4.6	3.9	4.0	4.0
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	-2.1	-0.3	-2.4	-3.2	2.3	-2.1	-4.0	-5.0	-4.0	-3.0	-3.0	-3.8
GDP deflator in US dollars (change in percent)	2.3	-1.5	7.3	10.8	16.8	1.6	1.5	-0.6	-0.2	0.5	0.8	0.8
Nominal external interest rate (in percent)	1.9	1.0	0.8	1.2	3.4	3.4	4.4	4.7	4.9	5.0	5.1	4.8
Growth of exports (U.S. dollar terms, in percent)	20.4	2.1	12.3	22.6	10.1	8.8	11.7	6.3	0.4	3.2	1.5	2.6
Growth of imports (U.S. dollar terms, in percent)	18.2	19.0	28.4	22.2	17.1	10.3	13.9	7.2	3.0	4.1	3.9	4.9
Current account balance, excluding interest payments	8.6	1.6	-2.7	-3.3	-5.5	2.2	4.7	-5.2	-5.9	-4.7	-5.3	-5.6
Net non-debt creating capital inflows	0.5	0.7	1.1	1.7	1.7	3.1	3.9	4.0	4.1	4.2	4.3	4.1
<b>A. Alternative scenarios</b>												
A1. Key variables are at their historical averages in 2007–12	17.2	11.8	7.4	3.6	-0.4	-4.4						
<b>B. Bound tests</b>												
B1. Nominal interest rate is at baseline plus one-half standard deviation	17.2	17.9	18.4	18.9	19.6	20.0						-4.2
B2. Real GDP growth is at baseline minus one-half standard deviations	17.2	18.0	18.6	19.1	19.7	20.0						-4.3
B3. Non-interest current account is at baseline minus one-half standard deviations	17.2	20.2	23.1	25.9	28.9	31.7						-4.2
B4. Combination of B1-B3 using 1/4 standard deviation shocks	17.2	19.1	20.9	22.6	24.5	26.1						-4.1
B5. One time 30 percent real depreciation in 2008	17.2	23.7	22.0	20.3	18.4	16.3						-6.3
<b>II. Stress Tests for External Debt Ratio</b>												
Debt-stabilizing non-interest current account 6/ -0.8												

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

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

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

4/ 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.

5/ The implied change in other key variables under this scenario is discussed in the text.

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

Table 10: Syrian Arab Republic: Medium-Term Framework for the Strong Adjustment Scenario, 2005–12

	Prel.		Proj.					
	2005	2006	2007	2008	2009	2010	2011	2012
<b>(Change in percent, unless otherwise indicated)</b>								
<b>National income and prices</b>								
Nominal GDP (LS billions)	1,493.6	1,780.9	1,920.7	2,143.9	2,382.4	2,624.0	2,863.8	3,117.3
Oil GDP	362.2	421.0	379.5	371.1	362.2	343.5	313.6	292.7
Nonoil GDP	1,131.4	1,359.9	1,541.3	1,772.8	2,020.1	2,280.5	2,550.2	2,824.6
Nominal GDP (\$ billions)	28.6	34.9	36.9	39.1	41.2	43.6	46.1	49.2
Real GDP	3.3	4.4	3.9	5.0	6.1	5.9	5.2	5.4
Real nonoil GDP	6.0	6.5	5.8	6.5	6.5	6.5	6.5	6.5
GDP deflator	14.4	14.2	3.8	6.3	4.7	4.0	3.7	3.2
CPI period average	7.2	10.0	7.0	8.0	7.0	6.0	5.0	4.0
<b>Oil sector</b>								
Crude oil production ('000 barrels/day)	431	400	370	352	359	363	345	330
Net oil exports (crude and refined, '000 barrels/day)	130	70	56	44	40	33	0	-32
Oil export price (\$ per barrel)	48.3	57.9	57.4	61.9	61.7	60.1	59.4	59.0
<b>(In percent of GDP, unless otherwise indicated)</b>								
<b>Government finances 1/</b>								
Revenue	24.0	21.9	22.0	24.7	26.4	29.0	30.0	30.4
Oil-related revenue	7.1	4.5	3.8	3.1	3.4	3.3	2.3	1.4
Non-oil revenue	16.9	17.4	18.2	21.6	23.0	25.7	27.7	29.0
Of which: measures								
VAT	...	...	...	...	0.2	2.0	3.0	3.9
Phasing petroleum price subsidies	...	...	...	2.7	3.5	4.0	4.6	4.8
Expenditure	28.4	27.6	27.0	29.0	29.5	30.0	31.0	32.2
Current expenditure	18.1	18.7	18.4	19.9	20.4	20.9	21.5	21.7
Development expenditure	10.3	8.9	8.6	8.6	8.6	8.6	9.0	10.0
Overall balance	-4.4	-5.7	-5.0	-4.3	-3.1	-1.0	-1.0	-1.8
Non-oil budget balance	-11.6	-10.2	-8.9	-7.4	-6.5	-4.3	-3.2	-3.2
Gross debt	35.9	35.9	37.8	39.0	39.0	37.5	35.9	35.2
Domestic	12.5	16.5	20.6	21.7	21.8	20.9	19.9	19.6
External	23.3	19.4	17.2	17.3	17.2	16.6	16.0	15.5
<b>(Change in percent of initial stock of money)</b>								
<b>Money and quasi-money</b>								
Net foreign assets 2/	2.3	-1.7	3.4	8.8	6.9	5.4	4.3	4.2
Net domestic assets 2/	9.7	16.3	10.4	6.6	7.4	5.6	6.5	8.1
Credit to government	7.9	0.7	10.5	5.8	4.0	1.8	1.2	2.2
Credit to public enterprises	-0.7	7.7	0.0	-0.6	0.4	0.4	0.4	0.4
Credit to private sector	8.9	4.6	3.1	2.9	3.3	4.1	5.8	6.6
Credit to private sector (change in percent)	45.9	18.4	12.0	11.4	13.3	16.7	22.6	23.1
Credit to private sector (in percent of GDP)	14.4	14.3	14.9	14.8	15.1	16.0	18.0	20.4
<b>(In billions of U.S. dollars, unless otherwise indicated)</b>								
<b>Balance of payments</b>								
Oil Balance	0.6	0.1	-0.1	-0.3	-0.2	-0.3	-1.0	-1.6
(in percent of GDP)	2.0	0.4	-0.1	-0.7	-0.5	-0.8	-2.1	-3.3
Non-oil exports of goods & services	7.7	8.4	10.1	10.8	11.4	12.1	13.0	14.2
(in percent of GDP)	26.8	24.0	27.5	27.5	27.7	27.7	28.1	28.9
Non-oil imports of goods & services	-10.4	-12.2	-13.3	-13.7	-14.5	-15.0	-15.3	-16.1
(in percent of GDP)	-36.2	-34.8	-36.1	-35.1	-35.1	-34.4	-33.3	-32.7
Non-oil goods and services balance	-2.7	-3.1	-3.2	-3.0	-3.0	-2.9	-2.4	-1.9
(in percent of GDP)	-9.5	-8.8	-8.6	-7.6	-7.4	-6.7	-5.2	-3.8
Current account balance	-1.2	-2.1	-2.0	-1.9	-1.9	-1.7	-1.7	-1.7
(in percent of GDP)	-4.1	-6.1	-5.4	-5.0	-4.5	-4.0	-3.7	-3.5
Foreign direct investment (in percent of GDP)	1.7	1.7	3.2	4.0	4.1	4.1	4.2	4.3
Overall balance	0.0	-0.8	-0.2	1.2	1.1	0.9	0.8	0.9
Official Net foreign assets	17.6	16.8	16.6	17.9	18.9	19.9	20.6	21.5
(in months of imports of GNFS)	16.4	13.4	12.2	13.0	12.9	13.0	13.0	12.8
<b>Debt</b>								
External debt (percent of GDP)	23.3	19.4	17.2	17.3	17.2	16.6	16.0	15.5
Debt service-to-exports ratio (payments basis)	4.7	5.4	7.3	7.4	7.6	6.9	6.7	6.1

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

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

2/ Starting in 2008 net of valuation adjustments.

Table 11. Syrian Arab Republic: Financial Soundness Indicators, 2005–06 1/  
(In percent unless otherwise indicated)

	Public Banks		Private Banks		All Banks	
	2005	2006	2005	2006	2005	2006
<b>Asset quality</b>						
Non-performing loans/loan portfolio	13.1	12.1	0.5	1.0	12.2	10.6
Loan loss provisions/non-performing loans	6.6	8.6	94.4	40.2	6.9	9.0
<b>Liquidity 2/</b>						
Liquid assets/total assets	38.4	22.3	64.0	62.9	40.1	27.5
Customer loans/total deposits	44.5	52.6	25.5	25.5	43.2	49.2
Syrian pound loans/total Syrian pound deposits	50.8	64.8	48.9	49.2	50.7	62.8
<b>Profitability</b>						
Return on Assets (RoA)	1.2	0.5	0.5	0.4	1.2	0.5
Return on Equity (RoE) 3/	25.7	3.6	4.6	6.0	22.9	3.8
<b>Solvency</b>						
Capital adequacy ratio (BIS)	na	na	na	na	na	na
Leverage ratio (capital/assets) 3/	4.7	14.6	10.0	7.1	5.1	13.7
<b>Stability</b>						
Growth in credit to private sector	38.7	10.9	281.7	106.9	45.9	18.4
Deposit growth	1.9	-0.8	232.7	116.4	8.8	9.9
Deposit dollarization ratio	9.0	11.8	52.9	54.0	13.1	19.4

Source: Central Bank of Syria; and Fund staff estimates.

1/ Data are preliminary and subject to change.

2/ Weighted averages by asset size.

3/ The decline in ROA and ROE ratios and the increase in leverage ratio in 2006 is due to the increase in CBoS's capital by SP 66 billion in 2006.