

INTERNATIONAL MONETARY FUND

SYRIAN ARAB REPUBLIC

**Staff Report for the 2007 Article IV Consultation—Informational Annex**

Prepared by the Middle East and Central Asia Department

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**Annex I. Syrian Arab Republic: Fund Relations**  
(As of May 31, 2007)

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

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

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>Percent of Allocation</b>
Net cumulative allocation	36.56	100.00
Holdings	36.57	100.03

**IV. Outstanding Purchases and Loans:** None

**V. Financial Arrangements:** None

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

	Forthcoming				
	2007	2008	2009	2010	2011
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00

**VII. Exchange Rate Arrangement**

The central bank of Syria issues on a daily basis quotations for the buying and selling exchange rates for the Syrian pound against major currencies. Up until end-December 2006, the budget exchange rate, which applied to all public sector transactions, used to be pegged to the U.S. dollar. During the transition since the abolition of the budget rate on January 1, 2007 and its unification with the private sector exchange rate, the central bank has been managing the value of the currency vis-à-vis the U.S. dollar within a tight trading range. The de facto exchange rate arrangement is still classified as a conventional peg.

<sup>1</sup> Under the Eleventh General Review.

### **VIII. Article IV Consultations**

Syria is on an annual consultation cycle. The last Article IV consultation was held in April/May 2006 and was completed by the Board on July 31, 2006 (IMF Country Report No. 06/294).

### **IX. Article XIV and Article VIII Restrictions**

Syria continues to maintain, under Article XIV, restrictions on payments and transfers for current international transactions, including administrative allocation of foreign exchange. Syria also maintains exchange measures that are subject to Fund approval under Article VIII: (i) prohibition against purchases by private parties of foreign exchange from the banking system for some current international transactions; (ii) a multiple currency practice resulting from divergences of more than 2 percent between the official exchange rate and officially recognized market exchange rates; (iii) a non-interest-bearing advance import deposit requirement of 75–100 percent for public sector imports; and (iv) an exchange restriction arising from the net debt under inoperative bilateral payments arrangements with the Islamic Republic of Iran, and Sri Lanka.

The Executive Board adopted decision No. 13766-(06/71) at the Board meeting on July 31, 2006:

1. The Fund takes this decision relating to the Syrian Arab Republic's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 2006 Article XIV consultation with the Syrian Arab Republic, in light of the 2006 Article IV consultation with the Syrian Arab Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).
2. The Syrian Arab Republic maintains restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, as described in IMF Country Report No. 06/294. In addition, as described in IMF Country Report No. 06/294, the Syrian Arab Republic maintains exchange measures subject to approval under Article VIII. The Fund encourages the Syrian Arab Republic to eliminate the restrictions maintained under Article XIV, Section 2 as soon as its balance of payments position permits, and to eliminate the measures that are subject to approval under Article VIII as soon as possible. (IMF Country Report No. 06/294).

**X. Technical Assistance**

Department	Topic	Date
METAC	Central Bank Accounting	Ongoing
MCM	Strategic Planning at the Central Bank of Syria and New Central Bank Law	November 2006
FAD	Public Financial Management	February 2006
METAC	Revenue Administration	Ongoing
METAC	Consumer Price Index	Ongoing
MFD	Long-Term Advisors on Central Bank Accounting, Reserves Management, and Monetary Policy Issues	Ongoing
MFD	Foreign Exchange Market Development, Unification and Exchange Regime	January 2006
LEG/MFD	AML/CFT outreach training	December 2005
MFD	Long-Term Advisor on Securities Market	September 2005
MFD	Centralization of Official Foreign Reserves and Associated Accounting, Reserves and Public Debt Management Issues	September 2005
METAC	National Accounts	Ongoing
	Bank Regulation and Supervision	Ongoing
MFD	Re-organization of the Central Bank of Syria	May 2005
FAD	Revenue Administration	March 2005
LEG/MFD	AML/CFT legal drafting	Feb/March 2005
STA	Multi-Sector Statistics (National Accounts, Fiscal, Monetary, and Balance of Payments)	June 2004
FAD	Value-Added Tax	July 2004
MAE	Two Long-Term Advisors on Bank Regulation and Supervision	2002–2004
MAE	Two-Day Workshop on On-Site Banking Supervision	July 2002
MAE	Workshop on Off-Site Banking Supervision	March 2002

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

In June 2002, Syria settled its overdue service payments to IBRD and IDA, which had risen to the equivalent of \$526 million as of mid-1997, and all loans and credits were restored to accrual status. Consequently, the country's eligibility for disbursements was reinstated as of July 1, 2002.

Subsequent to the agreement on arrears in July 1997, the World Bank began to provide non-lending services to Syria. Initial activities included support for the Ministry of Finance and the Central Bank of Syria in accounting and the establishment of an external debt management system covered by grants from the Institutional Development Fund; planning and implementation grants supporting Year 2000 remediation efforts; the Global Environment Fund biodiversity project; and reviews of the trade regime (including export promotion), health, roads, urban water and sanitation, and agricultural irrigation sectors.

In the last two years, the authorities have continued to request only non-lending support from the Bank. Analytical services have focused mainly on the trade and investment agenda. A trade policy report entitled "Harnessing Trade for Growth" was submitted to the Authorities in December 2004. A Trade Logistics study was completed in 2003, and discussed in a large workshop with the private sector in December 2003. An Investment Climate Assessment survey was carried out in 2003 and 2004, and its result have been finalized in a report dated June, 2005. The World Bank has also initiated a grant activity (from April 2005) in collaboration with the Fund and the UNDP to establish a National Statistical Capacity Strategy.

The Bank program over the next three years will be based mainly on knowledge transfer and analytical services focusing on two pillars: (i) economic reform and transition; and (ii) human development and social protection.

- On the first pillar, the program will build on the substantial analytical and survey work done in the last year that resulted in two trade reports and the forthcoming Investment Climate Assessment report that will be presented to the authorities. The Bank will provide both analytical advice and technical assistance to the authorities in their search for a solid and global strategy of economic growth and transition to a private sector-led economy. This would imply integrating within the existing trade and investment agenda issues linked to fiscal and monetary policy, financial sector reform, and public enterprise reform.

- On the second pillar, the Bank will be focusing on assisting the authorities in (i) developing a comprehensive education sector strategy as agreed with the Minister of Education; (ii) understanding the labor market and designing appropriate policies and programs, and (iii) assessing their social assistance programs and policies and providing recommendations on reforming the system.

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

### **Annex III. Syrian Arab Republic: Statistical Issues**

1. 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 staff's assessment of economic developments and policies is constrained by these circumstances.

2. In the context of Article IV missions, the authorities have expressed an intention to address the need for statistical improvement. They have agreed that Syria's participation in the General Data Dissemination System (GDDS) would provide a framework for statistical development. To this end, compilers from the Ministry of Finance (MOF), Central Bank of Syria (CBS), and the Central Bureau of Statistics participated in a GDDS Workshop in Abu Dhabi during February 27–March 9, 2005 and prepared preliminary metadata for all macroeconomic sectors. On May 30, 2006, STA transmitted the draft metadata to the GDDS coordinator to be updated, clarified where needed, and for inclusion of missing information. As of end-June 2007, feedback from the authorities is pending.

#### **A. Real Sector**

3. A series of STA and Middle East Technical Assistance Center (METAC) national accounts and price statistics missions in 2005–06 found that the Central Bureau of Statistics had made steady progress implementing prior STA recommendations and updating the base year for the national accounts to 2000. However, the following weaknesses still exist:

- GDP estimates by the production approach suffer from under-coverage of activities, particularly in private services while free zone activities are not covered.
- Estimates of household final consumption expenditures are residually determined and include the change in inventories, as the latter is not estimated separately. The authorities have begun to make use of the 2004 Household Income and Expenditure Survey and to collect data on inventory changes in the public sector.
- Consumption of fixed capital is estimated as a constant ratio of output.
- Net income flows between residents and nonresidents derived from the balance of payments are unsatisfactory. As a result, the estimates of gross national disposable income, saving, gross capital formation, and net borrowing from abroad are unreliable.
- Consumer price index calculations are nonstandard. Prices are compared to the same month of the base year; and there are four weighing schemes, one for each quarter. Consequently, no month-on-month inflation can be derived, and the annual average inflation is not equal to the sum of the monthly indices. However, improvements are imminent following technical assistance provided by METAC.

- Wholesale price index is compiled and reported annually, but it is not representative of market determined prices, as most prices are for goods and services provided at subsidized prices by public sector enterprises.
4. The latest national accounts figures reported for publication in the *International Finance Statistics (IFS)* refer to 2003.

## **B. Government Finance**

5. Government finance statistics (GFS) suffer from major deficiencies with respect to definitions, coverage, classification, methodology, accuracy, reliability, and timeliness that generate severe inconsistencies with monetary and balance of payments statistics. The multisector mission of June 2004 found that compilation is adversely affected by cumbersome institutional arrangements, inadequate resource availability and unresolved methodological problems. The methodology used for compilation does not follow either *GFSM 2001* or *GFSM 1986*. While budget data are available with very long lags (two years for final budget accounts), financing data are not available. There is no dissemination of GFS data, and even access to key data sources by GFS compilers within the MOF, such as the breakdown of debt service into interest and amortization, is problematic. This contributes to discrepancies in external financing as reported in the budget and the balance of payment.
6. The largest, most persistent and volatile discrepancies are between the financing requirements of the budget, as reported by the MOF, and government financing as reported by the CBS. The lack of a common and regularly updated coverage of the government sector between the MOF and the CBS, misclassification of public enterprises investment expenditure, as well as timing and valuation issues, are mainly responsible for those discrepancies.
7. Other discrepancies between fiscal and monetary accounts relate to the unorthodox treatment by the CBS of some transactions with government, such as the parallel rise of government deposits and claims on government in the CBS balance sheet, which is likely due to government withdrawals being counted as credit and never netted out against deposits, and profits transferred to government treated as permanent claim on the government.
8. To address the methodological issues, the June 2004 multisector mission developed a preliminary bridge table that maps the budgetary source data codes to the GFSM 2001 classification codes, and conducted a seminar to clarify various aspects of the GFSM 2001 methodology to the MOF officials. To help the Directorate of Planning and Statistics (DPS) implement a proper sectorization scheme, the mission provided an updated institutional table showing the current coverage of government and public enterprises—the investment expenditure of public enterprises is included in government’s capital expenditure—for circulation to all relevant agencies. Moreover, the mission formulated a detailed work plan centered around the provision of adequate resources and training for the DPS to fulfill its tasks. The work plan calls for the DPS to access core source data necessary for compilation—initially on a cash basis—of annual GFS data according to the *GFSM 2001*, and for the resumption

of data reporting to STA for publication in *GFSY* and *IFS*, together with improved reporting, in terms of coverage and classification, to the IMF's Middle East and Central Asia Department (MCD). The mission also recommended improvement in the timeliness of annual data, including data on financing, and a start on the compilation of sub-annual data.

### C. Monetary Accounts

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

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

11. Monthly monetary data for the *IFS* are reported irregularly and with a considerable lag. As of end-June 2007, the last data reported for publication were the October 2006 data for the central bank and the October 2005 data for deposit money banks.

#### **D. Balance of Payments**

12. Annual balance of payments statistics are compiled by the CBS on a provisional basis with about an eight-month lag. As of May 2007, the latest balance of payments statistics reported for publication in the *IFS* refer to 2005. Trade data are compiled monthly by the Customs Department and reported quarterly by the Central Bureau of Statistics in local currency units with a six-month lag. The BOP is presented in *BPM5* format, but its compilation method is not entirely consistent with the *BPM5* methodology. The June 2004 STA mission observed the following weaknesses:

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

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

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

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

- deriving flow data from the balance sheets from commercial banks and the CBS (financial account transactions); and
- hands-on training for the new staff.

15. During June 26–29, 2006 a METAC mission visited the CBS to assess progress in developing the institutional infrastructure for compiling balance of payments statistics; provide technical advice on implementing the international transactions reporting system (ITRS) for commercial banks and foreign exchange bureaus; review the international reserves data; and identify specific areas for further technical assistance in revamping the data compilation system. At the end the mission, the CBS agreed to act on a number of critical issues. These included (1) establishing a balance of payments division/department with a start-up staffing of at least 6 persons and provide adequate computing resources; (2) providing to METAC by end-August 2006, ITRS-based data reported by commercial banks; (3) providing by end-July 2006 detailed breakdowns of the central bank balance sheet; and (4) providing by end-July 2006, detailed bridge tables (in English and electronic) that explains how the central bank balance sheet and the commercial banks' balance sheet are mapped to the monetary survey.

16. Another METAC mission visited Syria on January 18, 2007. This mission found little progress in the implementation of previous advice. In particular, the Balance of Payments Department is not yet created. The authorities indicated that management discussions on the proposed structure are completed but took the view that implementing the agreed changes to the RASD should coincide with the timing of the overall restructuring of the CBS to be completed during 2007. On ITRS, of the initial seven banks targeted (the Commercial Bank of Syria and six private banks), only five banks have responded, but the quality of their data is poor; problems include lack of disaggregation, misclassifications and lack of reconciliation with data provided in the old bank reporting form. Missing monthly reports, incomplete reporting (missing branches) and lengthy delays in reporting result in a situation in which the CBS does not have a consolidated ITRS report for any single month in 2006. In the event, the CBS also took the decision not to target the banks in the free zones during 2006, and have indicated that this would be implemented from the reporting year 2007. The authorities requested METAC's assistance in training banks' staff (including those from the Commercial Bank of Syria's extensive branches) in completing the ITRS form. Regarding international reserves, the data are derived from the monetary statistics, and based on the discussions, may contain foreign currency holdings/deposits of commercial banks that are not under the control of the central bank. The authorities agreed to provide METAC (within one week from the date of the meeting) revised data on reserve assets, while identifying the items that were removed. The authorities have followed up on their commitment and submitted to STA international reserves data, which are currently being reviewed.

**Syrian Arab Republic: Table of Common Indicators Required for Surveillance**  
As of June 22, 2007

	Date of latest observation	Date received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Frequency of publication <sup>6</sup>
Exchange Rates	May. 2006	Jun. 2006	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Feb. 2006	Mar. 2006	M	...	M
Reserve/Base Money	Oct. 2006	Jan. 2007	M	...	M
Broad Money	Oct..2005	Apr. 2006	M	...	.M
Central Bank Balance Sheet	Oct. 2006	Jan. 2007	M	...	M
Consolidated Balance Sheet of the Banking System	Oct..2005	Apr. 2006	M	...	M
Interest Rates <sup>2</sup>	Apr. 2006	Jul. 2006	M	...	M
Consumer Price Index	Dec. 2004	Apr. 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	2003	Apr. 2005	A	A	A
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	2003	Apr. 2005	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	2003	Apr. 2005	A	A	A
External Current Account Balance	Dec. 2005	Oct. 2006	A	A	A
Exports and Imports of Goods and Services	Dec. 2005	Oct. 2006	A	A	A
GDP/GNP	Dec. 2003	Apr. 2005	A	A	A
Gross External Debt	Dec. 2003	Apr. 2005	A	A	A

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

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

<sup>5</sup> Including currency and maturity composition.