

**FOR
AGENDA**

SM/08/358
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December 22, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Syrian Arab Republic—Staff Report for the 2008 Article IV
Consultation—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2008 Article IV consultation with the Syrian Arab Republic (SM/08/358, 12/22/08), which is tentatively scheduled for discussion on **Wednesday, January 7, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Syrian Arab Republic indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Ms. Farahbaksh (ext. 39957) and Mr. El Said (ext. 35918) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Arab Monetary Fund, and the Islamic Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

SYRIAN ARAB REPUBLIC

Staff Report for the 2008 Article IV Consultation—Informational Annex

Prepared by The Middle East and Central Asia Department
(in consultation with other departments)

December 19, 2008

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Appendix I. Syrian Arab Republic: Relations with the Fund

(As of October 31, 2008)

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

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

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	36.56	100.00
Holdings	36.57	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				
	2008	2009	2010	2011	2012
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. The official budget exchange rate, which was applied to all public sector transactions, was pegged to the U.S. dollar until end-December 2006. Since the abolition of the official “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 authorities switched the reference currency from the U.S. dollar to the SDR in August 2007. The *de facto* exchange rate arrangement is classified as a peg to a basket.

¹ 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 2007 and was completed by the Board on July 31, 2007 (SM/07/288).

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. 13958 (07/67) at the Board meeting on July 31, 2007:

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 SM/06/253. In addition, as described in SM/06/253, 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. (SM/07/263, Sup 2. 7/19/07).

X. Technical Assistance

Department	Topic	Date
METAC	Central Bank Accounting	Ongoing
FAD	Tax administration	July 2008
STA	Multi-Sector Statistics (National Accounts, Fiscal, Monetary, and Balance of Payments)	December 2007
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	2002–04
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 GROUP²

(End-August 2008)

Syria joined the World Bank in 1947. Between 1963 and 1974, IDA approved four credits for Syria totaling \$48.6 million. Following Syria's graduation from IDA in 1974, IBRD approved 15 loans during the period 1974-86. In 1986 Syria ceased debt service payments to the Bank, which prompted a suspension of Bank disbursements. Following several rounds of negotiations with the Bank, by July 1, 2002, Syria settled all its overdue service payments to IBRD and IDA, thereby reinstating the country's eligibility for disbursement.

There is currently no World Bank Country Assistance Strategy (CAS) for Syria. A Memorandum of Understanding (MoU) covering the period 2005-07 provided the framework for the Bank's program of advisory and analytical (AAA) services. The MoU allowed the Bank to support reforms in areas of economic growth and transition, along with human development and social protection. Activities have included, among others: (i) advise on restructuring public banks and establishing a government securities market; (ii) FIAS support provided in reviewing the recently adopted Investment Law; and (iii) analytical work on energy subsidies and advise on drafting a Basic Finance Law and improving public financial management.

The Syrian authorities have expressed interest in World Bank Group technical and advisory services in three areas: (i) economic growth and transition support; (ii) human development and social protection; and (iii) improving the environment for sustainable development. Based on preliminary discussions with the Syrian authorities, Bank assistance would take the form of analytical and advisory services focusing on the following themes:

- *Economic Growth and Transition Support.* Trade reform; fiscal sustainability; price liberalization; sources of non-oil growth; private sector development and business environment.
- *Human Development and Social Protection.* Enhancing policymaking and implementation capacity in social protection; support to avian influenza preparedness; reform options for social insurance; and education sector strategy.
- *Sustainable Development.* Electricity sector strategy; agriculture sector reform; solid waste technical assistance; water and wastewater technical assistance; and transport sector technical assistance.

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

² World Bank TA mission focusing on trade, fiscal issues, and the development of a SAM for Syria will overlap with the 2008 Article IV Consultation mission, facilitating Bank-Fund coordination.

in the first private sector bank in Syria and a loan to a chemicals company. The total held portfolio is \$20 million. IFC has also conducted technical assistance work, including studies of aspects of the financial sector.

ANNEX III. SYRIAN ARAB REPUBLIC: STATISTICAL ISSUES

1. Data provision has serious shortcomings that significantly hamper surveillance. 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 to and from Iraq have added to this challenge. The staff's assessment of economic developments and policies is constrained by these circumstances. In the context of Article IV missions, the authorities have expressed an intention to improve the statistical system. With the assistance of the 2007 multisector statistics mission, Syria began participating in the General Data Dissemination System (GDDS) in December 2007, and the plans for improving the statistical system are posted on the Fund's Dissemination Standards Bulletin Board.

A. Real Sector Statistics

2. Annual national accounts by expenditure data are reported for publication in the *International Financial Statistics (IFS)* with about 2-years lag. In addition, significant weaknesses remain in the source data and statistical techniques for national accounts statistics.

3. A STA-resident statistics advisor has been in place since July 2008 to help implement the recommendations of the December 2007 STA multisector mission in the area of national accounts. During the past two years, METAC has also provided technical assistance for improving data sources and methods for the compilation of national accounts statistics in accordance with the *System of National Accounts, 1993 (1993 SNA)*. Guidance has also been provided for using existing data for improving gross domestic product (GDP) estimates at current and constant prices and for the appropriate treatment in the national accounts of implicit subsidies to some public enterprises. The Central Bureau of Statistics (CBStat) made a steady progress for implementing recommendations made by the technical assistance missions. Economic surveys covering private sector enterprises had been conducted for years 2004–06. The central purpose of these surveys was to serve as main data source for improving national accounts statistics in accordance with the *1993 SNA*; however, the results are yet to be fully processed and validated.

B. Government Finance Statistics

4. 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. Fiscal statistics are not provided for publication in the *IFS*. The multisector mission of June 2004 found that compilation is adversely affected by cumbersome institutional arrangements, inadequate resources, 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 Ministry of Finance (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 payments statistics.
5. 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 Central Bank of Syria (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.
6. 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.
7. 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 and Financial Statistics

8. Monetary statistics suffer from major deficiencies which hamper the staff's ability to conduct meaningful analysis of monetary developments. Monthly monetary statistics are reported for publication in the *IFS* with about 10-month lags, falling short of recommended dissemination practices under the GDDS of 3-month lags. Progress has been made in addressing some issues identified by the multisector statistics mission in June 2004, namely including in the monetary survey the private banks, the Savings Bank, and banks/bank branches operating in the Free Zones. Although the format of monetary statistics is largely consistent with the structure of the *MFSM*-recommended sectoral surveys, 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-currency positions; (ii) financial positions are not valued at market prices or market-price equivalents; (iii) a number of accounting procedures for the maintenance of public sector accounts cause distortions in the measurement of gross positions; and (iv) there are disparities between the institutional coverage of public sector in monetary statistics and the government finance statistics.

9. A technical assistance mission during November–December 2008 worked with the authorities on developing data reporting based on the Standardized Report Forms (SRFs), which reflect the *MFSM*-recommended compilation principles. The mission's work was underpinned by detailed data recently provided by the authorities.

D. External Sector Statistics

10. Balance of payments statistics are compiled by the CBS on a provisional basis. Trade data are compiled monthly by the Customs Department and reported quarterly by the CBStat 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.

11. In February 2006, a STA assessment mission assessed the status of the work program as a basis for developing a METAC technical assistance program on external sector statistics. In December 2007, STA conducted a multisector statistics mission in collaboration with METAC and follow-up METAC missions took place in January and July 2008.

12. In September 2008, a STA inspection visit followed up on the recommendations of the 2007 multisector mission and METAC's work program and discussed the reporting and publication of data on international liquidity for *IFS*, which has been an outstanding issue for over three years.

13. Regarding the balance of payments, the mission found that the CBS had made progress in improving source statistics through surveys and International Transactions Reporting System (ITRS), by adopting appropriate classifications, and improving consistency with other data sets. The CBS's new organizational structure is designed to include a balance of payments division

of five staff (currently two staff are assigned to BOP work but plans are in place to fully staff the division).

14. The October 2008 STA balance of payments statistics mission worked to provide advice on international reserves, trade data, and the treatment of Iraqi immigrants was provided, to the extent possible. Data for 2007 were adjusted where needed and the mission assisted the CBS staff to compile January-July 2008 balance of payments in *BPM5* format.

15. Despite recent progress, further efforts are needed to improve the accuracy of the BOP data to meet data needs for surveillance purposes, in particular; (i) continue **data collection initiatives** (ITRS and surveys) that have been developed with a view to strengthening source data, and ensuring coverage of free zones, (ii) improve the undercoverage of **imports**, (iii) examine the scope of **transfers**, including the treatment of inflows related to Iraqi immigrants, (iv) review the coverage of **reserves**, and (iv) improve the coverage of **financial account data of the private sector** (bank and nonbank).

16. The authorities have made some progress in the compilation of international merchandise trade statistics. The Customs Department has adopted Automated System for Customs Data (ASYCUDA) as its operating system and is presently implementing it and a Statistical Committee on Foreign Trade Statistics has been formed to assist with trade methodology. However, significant weaknesses remain in the source data and statistical techniques for foreign trade statistics.

SYRIAN ARAB REPUBLIC: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of November 20, 2008

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷
Exchange Rates	Nov. 19, 2008	Nov. 20, 2008	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Feb. 2006	Mar. 2006	M	Q	M
Reserve/Base Money	Dec. 2007	Aug. 2008	M	Q	M
Broad Money	Dec. 2007	Oct. 2008	M	Q	M
Central Bank Balance Sheet	Dec. 2007	Aug. 2008	M	Q	M
Consolidated Balance Sheet of the Banking System	Dec. 2007	Oct. 2008	M	Q	M
Interest Rates ²	Sep. 2008	Oct. 2008	M	Q	M
Consumer Price Index	Sep. 2008	Oct. 2008	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2007	Oct. 2008	A	A	A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	2007	Oct. 2008	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2007	Oct. 2008	A	A	A
External Current Account Balance	2007	Oct. 2008	A	A	A
Exports and Imports of Goods and Services	Jun. 2008	Oct. 2008	Q	Q	Q
GDP/GNP	2007	Oct. 2008	A	A	A
Gross External Debt	2007	Oct. 2008	A	A	A
International Investment Position ⁶	NA	NA	NA	NA	NA

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

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

³ Foreign, domestic bank, and domestic nonbank financing.

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

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not available (NA).