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January 30, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Syrian Arab Republic - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with the Syrian Arab Republic, which is proposed to be brought to the agenda for discussion on Monday, February 24, 1986. A draft decision appears on page 16.

Mr. Kawar (ext. 7138) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

SYRIAN ARAB REPUBLIC

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the
1985 Consultation with the Syrian Arab Republic

Approved by S.H. Hitti and J.T. Boorman

January 29, 1986

I. Introduction

The 1985 Article IV consultation discussions with the Syrian Arab Republic were held in Damascus during the period November 14-20, 1985. The Syrian representatives included the Minister of Economy and Foreign Trade, the Deputy Minister of Finance, the Acting Governor of the Central Bank, and other senior officials. The staff team consisted of Messrs. S.H. Hitti (Head), S. Kawar, M. Shadman, G. Tomasson (all of MED), and B. Haque (ETR), and Ms. J. Edmondson (Secretary-MED).

The Syrian Arab Republic continues to avail itself of the transitional arrangements of Article XIV.

II. Background

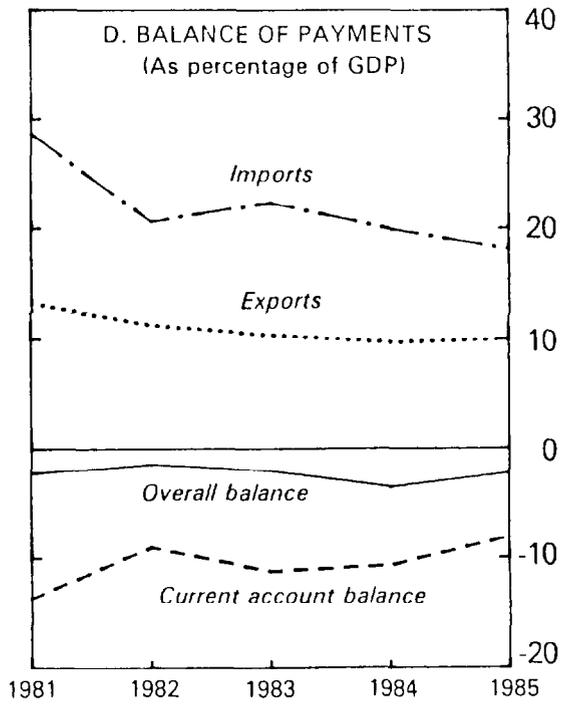
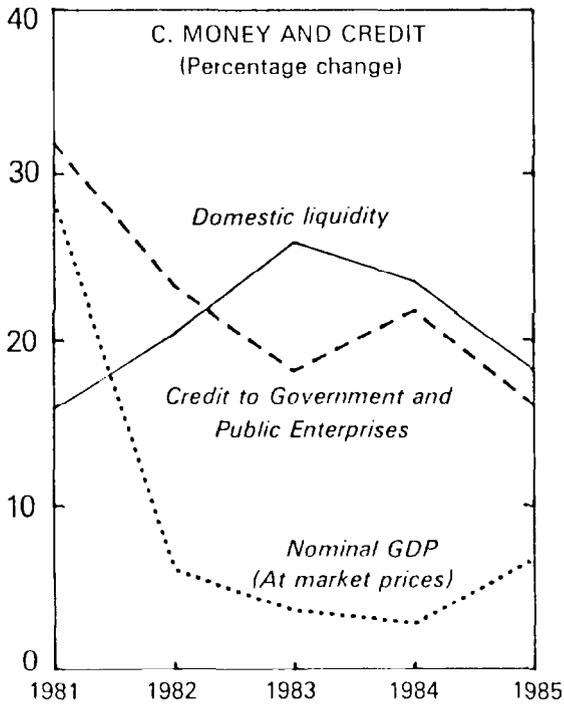
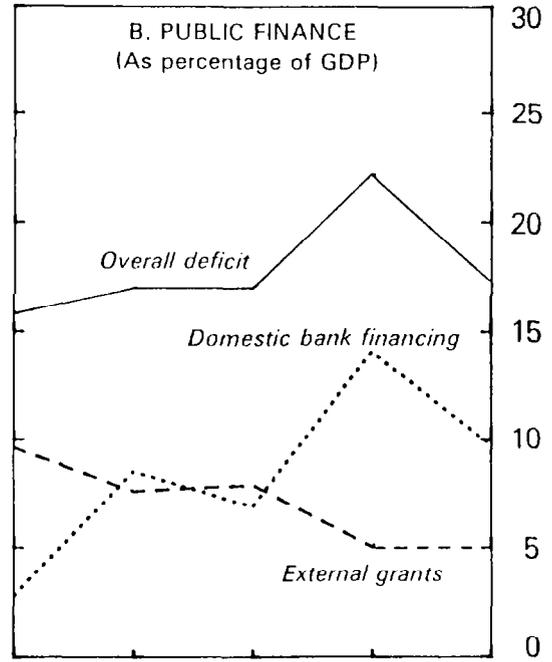
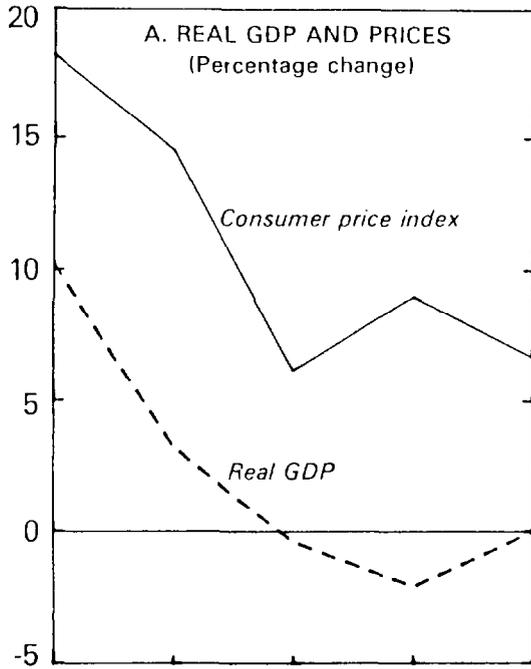
The economic base of the Syrian Arab Republic is diversified. A large agricultural sector is complemented by an expanding manufacturing sector and the contribution of mining activity has risen with the development of petroleum and phosphate deposits. The Fifth Five-Year Development Plan launched in 1981 involved a more than doubling of planned investment over the previous five-year period and aimed to achieve an average annual growth rate of about 8 percent during the Plan period. In the event, after a strong performance in 1981, when real GDP was estimated to have grown by 10 percent, overall activity slowed down considerably in 1982 and declined in both 1983 and 1984. The deterioration in the economy's performance was due in part to weather conditions but also reflected growing financial constraints. Agricultural production was adversely affected by drought conditions during 1982-84 while manufacturing activity weakened on account of the reduced availability of agricultural raw materials for processing as well as the shortages of foreign exchange. Since 1980 successive balance of payments deficits have resulted in the depletion of the country's foreign exchange reserves and the build-up of substantial external liabilities. While expansionary financial policies have been sustaining import demand, foreign exchange receipts have been receding due to the softening of the international oil market, which caused oil revenues to stagnate, and a decline in external assistance

and private transfers which originate mostly in the neighboring oil exporting countries. The foreign exchange constraints have prompted the Government to intensify import controls, thereby affecting the availability of imported inputs.

Under the Fifth Five-Year Plan (1981-85), total domestic fixed capital formation was projected at LS 101 billion in constant 1980 market prices for the Plan period as a whole, an amount about double the GDP in 1980. In the face of substantial domestic and external financial constraints, however, actual domestic fixed capital formation during the first four years of the Plan period fell considerably short of target, amounting to only some 60 percent of the projected five-year total. Available information suggests that the major part of the short-fall was attributable to the public sector, whose share in actual domestic fixed capital formation during 1981-84 was only about 64 percent compared with the ratio of 80 percent envisaged under the Plan. Outlays for security and other current expenditures have been increasing. In 1984, current and capital expenditures accounted for 65 percent and 35 percent of total expenditures, respectively. On the receipt side, external grants in the period after 1980 have been substantially below expectations and, at the same time, domestic budget revenues have not risen significantly as there have been no important initiatives to enhance revenue generation.

The government budget has been in substantial deficit in recent years, with total expenditures during 1981-84 ranging from 42-47 percent of GDP compared with a corresponding ratio of 24-29 percent for total tax and nontax revenues. With external grant receipts falling from the equivalent of about 8 percent of GDP in 1983 to 5 percent in 1984, the budget deficit net of external grants increased in 1984 to the equivalent of about 17 percent of GDP which was approximately twice the average deficit ratio during 1981-83. Allowing for the change in claims on the public enterprise sector, total claims of the monetary system on government and public enterprises rose by the equivalent of about 16 percent of GDP in 1984 compared with 11 percent in 1983. However, the growth rate of money and quasi-money in 1984, at 23.5 percent, was below that of 25.9 percent recorded in 1983, reflecting the contractionary impact of the overall balance of payments deficit, which rose from the equivalent of 2.0 percent to 3.5 percent of GDP between the two years (Chart 1 and Table 1). Interest rates have remained unchanged since 1981, when they were raised moderately to a maximum of 8 percent on deposits and 9 percent on loans. The Damascus consumer price index showed increases averaging about 8 percent in 1983 and 1984 and a similar rate of increase is estimated to have been recorded in 1985.

CHART 1
SYRIAN ARAB REPUBLIC
SELECTED ECONOMIC INDICATORS, 1981-85



Sources: Central Bank of Syria; and official estimates for 1985.



Table 1. Syria: Selected Economic Indicators, 1980-85

| | 1980 | 1981 | 1982 | 1983 | 1984 | Preliminary Estimate 1985 |
|--|---------|---------|---------|---------|---------|---------------------------------|
| (In percent per annum) | | | | | | |
| Overall activity | | | | | | |
| Growth of real GDP | 8.4 | 10.2 | 3.2 | -0.4 | -2.1 | -- |
| Change in GDP deflator | 21.6 | 16.4 | 2.7 | 4.0 | 5.1 | 6.7 |
| Change in Damascus retail prices | 19.2 | 18.2 | 14.5 | 6.2 | 9.0 | 6.7 |
| (In billions of Syrian pounds) | | | | | | |
| Government finance | | | | | | |
| Revenues | 13.8 | 16.6 | 19.2 | 21.2 | 18.3 | 22.0 |
| Expenditures | -24.9 | -27.0 | -31.2 | -33.6 | -35.0 | -36.0 |
| Current | (-15.7) | (-17.2) | (-19.2) | (-21.6) | (-22.9) | (-24.0) |
| Capital | (-9.2) | (-9.9) | (-12.0) | (-12.1) | (-12.1) | (-12.0) |
| Overall deficit (excluding grants) | -11.1 | -10.5 | -12.0 | -12.4 | -16.7 | -14.0 |
| Grants | (6.0) | (6.4) | (5.3) | (5.8) | (3.8) | (4.0) |
| Overall deficit (including grants) | -5.1 | -4.1 | -6.7 | -6.6 | -12.9 | -10.0 |
| (As percent of GDP at current prices) | | | | | | |
| Revenues | 26.6 | 24.9 | 27.2 | 29.1 | 24.4 | 27.4 |
| Expenditures | -48.0 | -40.6 | -44.3 | -46.0 | -46.6 | -44.8 |
| Overall deficit (excluding grants) | -21.4 | -15.8 | -17.0 | -17.0 | -22.2 | -17.4 |
| Overall deficit (including grants) | -9.9 | -6.2 | -9.4 | -9.1 | -17.2 | -12.4 |
| (In billions of Syrian pounds) | | | | | | |
| Changes in money and credit | | | | | | |
| Foreign assets (net) | -2.7 | -1.4 | -1.0 | -1.5 | -2.6 | -1.8 |
| Domestic assets (net) | 8.9 | 5.3 | 6.6 | 10.2 | 12.5 | 11.3 |
| Claims on Government and public sector | 9.8 | 8.9 | 8.6 | 8.3 | 11.8 | 10.6 |
| Claims on Government (net) | (5.0) | (1.8) | (9.7) | (7.0) | (15.3) | (...) |
| Claims on public sector enterprises | (4.8) | (7.2) | (-1.1) | (1.3) | (-3.5) | (...) |
| Claims on private sector | 0.5 | 0.5 | 1.0 | 1.5 | 0.6 |) |
| Import deposits | -0.9 | -2.7 | -2.6 | -0.1 | 0.3 |) 0.7 |
| Other items (net) | -0.5 | -1.6 | -0.3 | 0.5 | -0.2 |) |
| Domestic liquidity | 6.1 | 3.8 | 5.7 | 8.7 | 9.9 | 9.5 |
| (percentage change) | (34.2) | (15.9) | (20.4) | (25.9) | (23.5) | (18.2) |
| (In billions of U.S. dollars) | | | | | | |
| Balance of payments <u>1/</u> | | | | | | |
| Exports | 2.1 | 2.1 | 1.9 | 1.8 | 1.7 | 1.9 |
| Imports | -4.0 | -4.6 | -3.4 | -3.9 | -3.5 | -3.4 |
| Services (net) | -0.4 | -0.2 | -0.4 | -0.3 | -0.4 | -0.3 |
| Private transfers | 0.1 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 |
| Current account balance | -2.2 | -2.2 | -1.5 | -2.0 | -1.9 | -1.5 |
| Official transfers | 1.5 | 1.7 | 1.3 | 1.2 | 1.1 | 1.0 |
| Official loans | -- | -- | -- | 0.3 | 0.3 | 0.1 |
| Other capital (including errors) | -- | 0.1 | -- | 0.1 | -0.1 | -- |
| Overall balance | -0.7 | -0.3 | -0.2 | -0.4 | -0.6 | -0.4 |
| Gross official external reserves | | | | | | |
| (end of year) <u>2/</u> | 0.3 | 0.3 | 0.2 | 0.1 | 0.1 | ... |
| (In weeks of c.i.f. imports) | (4) | (3) | (3) | (1) | (1) | (...) |
| Foreign assets (net) <u>3/</u> | -0.4 | -0.8 | -1.0 | -1.4 | -2.1 | -2.5 |
| External debt (medium- and long-term; end of year) <u>4/</u> | 2.0 | 2.2 | 2.2 | 2.3 | 2.2 | ... |
| External debt service (in percent of current account receipts) <u>5/</u> | 6.3 | 5.8 | 7.6 | 6.6 | 15.7 | ... |

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

- 1/ For balance of payments data in terms of Syrian pounds, see Basic Data (Appendix II).
 2/ Gross reserves of the Central Bank excluding gold and payments agreements balances.
 3/ Converted at official exchange rate.
 4/ Civilian debt only.
 5/ Ministry of Finance data.

Syria's external payments position has been under pressure in recent years, reflecting declining export earnings--about two thirds of exports comprise crude oil and refined products--and a fall in external grant receipts concurrently with a sharp decline in unrequited private transfers from Syrian nationals working in neighboring countries. In the face of growing foreign exchange shortages, import restrictions were steadily intensified, with the result that total commodity imports financed through official channels (about one third of which is oil and oil products) fell from the equivalent of 29 percent of GDP in 1981 to about 20 percent in 1984. Beginning in late 1984, however, limited steps have been taken to ease the severity of existing import restrictions by authorizing some private sector traders to engage in transactions involving the importation of specified essential goods and raw materials against foreign credits of 180 or 360 days maturity or against payment in own exchange deposited in special accounts with the Commercial Bank of Syria. If official exchange is not made available at the time of scheduled import credit repayment, the importers concerned are free to effect such repayments through alternative channels.

Syria's exchange system has remained complex during the past several years, comprising a number of official exchange rates as well as several additional effective exchange rates arising from spreads on official buying and selling transactions, advance import deposits required from private sector importers, and, until September 1985 when it was eliminated, the practice of requiring varying proportions of specified commodity export proceeds to be surrendered at the official and parallel exchange rates. The official exchange rate has been maintained at LS 3.90/3.95 per U.S. dollar since 1976. However, as financial conditions in Syria came under considerable strain and the unofficial exchange rate depreciated sharply--by about 40 percent between September 1980 and April 1981--the authorities re-established in April 1981 a parallel exchange market, mainly for private sector transactions (since August 1981 the rate in that market has been LS 5.40/5.45 per U.S. dollar). In the latter part of 1981, the emergence of a substantial spread between the exchange rates in the parallel and the unofficial markets presented strong incentives for workers' remittances and other foreign exchange supply to flow through the unofficial market. The Syrian authorities reacted to these developments by introducing a "tourist" exchange rate in 1982 at the initial level of LS 5.75 per U.S. dollar (buying); subsequent adjustments in the rate brought it to its present level of LS 8.25 per U.S. dollar as of February 1985. A fourth official exchange rate of LS 11.25 per U.S. dollar was introduced in September 1985 for the sale of official exchange for medical and tourist expenditures abroad by Syrian nationals. There is also an unofficial exchange market in which the volume of transactions is believed to be substantial. The main sources of supply are believed to be workers' remittances and private capital held abroad, while demand in the unofficial market comprises financing requirements of the private sector which cannot be satisfied in the four official exchange markets. In mid-November 1985, the unofficial exchange rate was placed at about LS 13.00 per U.S. dollar compared with about LS 7.00 per U.S. dollar in May 1984.

The Syrian authorities made considerable efforts to supply the mission with economic and financial data needed for the discussions. Despite these efforts, however, the evaluation of economic and financial developments in Syria continues to be hampered by several deficiencies in the compilation and presentation of official statistics, including national income and price data. In the area of financial statistics, the budget actuals and the balance of payments estimates exclude the external financing of most military imports and associated external debt servicing obligations and payments. Additionally, significant discrepancies exist between the budgetary reporting of central government bank borrowing and that indicated by the consolidated balance sheet of the banking system. The analysis of monetary developments has been affected by growing delays in the availability of monetary data. The Syrian representatives indicated that the authorities accorded high priority to improving the data base with regard to its quality, coverage, and timeliness.

III. Report on the Discussions

During the Executive Board discussion of the 1984 Article IV consultation with the Syrian Arab Republic on September 10, 1984, Executive Directors expressed the hope that demand management policies would be strengthened and import restrictions reduced, and that prompt progress could be made toward the reform of the complex exchange system. Since the 1984 consultation review, balance of payments pressures in Syria have intensified. The new Government that was appointed in April 1985 directed its attention to improving economic performance and some initial steps in this respect have been taken since September 1985. The recent consultation focused on an assessment of the new measures introduced as well as on the need for additional corrective measures to address the country's economic problems.

1. Output and price policies

The Syrian representatives attributed the slack in output growth in both 1983 and 1984 to adverse weather conditions, which had affected the performance of the agricultural sector, and to foreign exchange shortages, which had not only limited the availability of raw materials and intermediate goods for the industrial sector, but had also placed constraints on productive investment expenditures in recent years. Economic activity is not likely to have recovered significantly in 1985. A moderate recovery was expected in agricultural sector performance but manufacturing activity continued to be adversely affected by the shortage of foreign exchange. The outlook for 1986 was difficult to assess but if weather conditions are normal, the Syrian representatives concluded, a resumption of modest economic expansion could be expected during the year. In the view of the staff, however, the resumption of sustained economic growth will require that action be taken to ease the balance of payments constraint so as to permit more adequate supply of imported production inputs for both agriculture and manufacturing.

In the agricultural sector, real output declined by 9 percent in 1984 due mainly to unfavorable weather. Sharp falls in wheat and barley production contributed also to pressure on the external payments position as wheat imports of 1.3 million tons were required to supplement the domestic wheat supply of 1.1 million tons, while exports of barley were virtually eliminated. Among the principal industrial crops, cotton production declined (from an exceptionally favorable level in 1983) by 14 percent while sugar beets output rose by about 10 percent. Preliminary indications are that both wheat and barley production in 1985 were sharply higher than in 1984, but that wheat import requirements still remained substantial; cotton output is estimated to have remained approximately unchanged from the 1984 level.

The Syrian representatives stated that it was the Government's policy to set agricultural producer prices at remunerative levels, to ensure the availability of essential inputs, and to provide farmers with preferential rates of interest--in 1984 total credit to the agricultural sector had increased by 23 percent and the capital of the Agricultural Bank was quadrupled to LS 1 billion. The Syrian representatives added that the procurement prices for wheat, barley, and lentils for the 1986 crop had been raised by up to 22 percent. At the domestic retail level, certain essential agricultural products (bread, sugar, rice, and vegetable oil) are subsidized but consumer prices for most other products are determined by market forces. Investment in the agricultural sector continues to be accorded priority, but the Syrian representatives stated that progress on the land reclamation project in the Euphrates basin initiated in 1975 as well as on major irrigation projects had been slowed down, partly because of foreign exchange shortages.

Activity in the manufacturing sector in 1984 and 1985 continued to be adversely affected by shortages of imported inputs as well as of skilled manpower, and by the decline in domestic production of agricultural raw materials such as sugar beets and cotton. The Syrian representatives noted also that certain manufacturing activities, such as textile production, had experienced difficulties due to an erosion in international competitiveness. On the positive side, however, output of some other products, including cement, glass, and electrical engines had been on a rising trend during the past two years. Also, emphasis is being placed on the further rationalization of existing public sector industrial enterprises through improved management. The Syrian representatives stated that private sector industrial activity was being actively encouraged, partly through the decision of the Government to promote joint private-public ventures in both the manufacturing and the agricultural sectors; such joint ventures, it was noted, were already operating successfully in the tourist industry and the transportation sector. The staff representatives welcomed the steps being taken to encourage greater private sector participation in industrial activity, but suggested that relaxation of the present system of centralized decision-making with respect to management at the individual enterprise level would enhance the prospects for successful operation of joint ventures.

Regarding prospects in the oil sector, the Syrian representatives stated that a promising discovery of high quality crude oil deposits had been made in 1984 at Deir Al Zor in the northeastern part of the country. The field was expected to begin production in late 1986 at an initial output level of perhaps 50,000 barrels per day (b/d). This would represent a substantial increase in total oil production, which had averaged about 200,000 b/d in both 1983 and 1984. Although it was too early to estimate the full potential of the new field, there were indications that it might yield as much as 300,000 b/d. The World Bank has been assisting the authorities in assessing energy, agricultural, and industrial policies (see Appendix IV).

At present, Syria is a net exporter of oil and refined products--about 0.7 million tons in 1984--and it remains the Government's policy to rationalize domestic energy consumption and promote conservation, partly by maintaining domestic retail prices for refined oil products generally in line with international prices. Concurrently with other major consumer price adjustments, oil product prices were raised substantially in September 1985, with the increases ranging from close to 30 percent for high octane and regular gasoline to about 50 percent for kerosene and gas oil. At the same time, domestic consumer prices for liquefied natural gas were raised by 70 percent. The country's reserves of associated gas are estimated at about 34-36 billion cubic meters, about one third of which is believed to be recoverable, while nonassociated gas reserves may bring total reserves to more than 100 billion cubic meters. The Syrian representatives stated that the Government intended to intensify ongoing gas development activities with a view to substituting gas for oil as a source of industrial energy. A newly constructed plant at Swaidiyah had already commenced the processing of associated gas on a trial basis and was expected to start production by end-1985 at the capacity level of about 45,000 tons per annum.

Concerning other recent price developments, the Syrian representatives noted that official prices for a wide range of domestic and imported consumer products had been raised substantially in September 1985 to reflect increased production costs and, in some cases, a more realistic valuation of foreign exchange used for their acquisition by public sector enterprises. Individual price increases ranged from 7 percent to 144 percent and it was estimated that the cost of the price adjustments to consumers would be about LS 2.8 billion per annum, representing the equivalent of about 3 percent of estimated GDP in 1985. The Syrian representatives observed that the price adjustments had involved many important consumption items and that, in order to ease the impact on consumers, wages for public sector employees had concurrently been increased by 20 percent--the first general salary increase for such employees since 1980. The cost of the wage increase is estimated at about LS 2 billion. The staff representatives noted that past relative inflexibility with respect to adjustment of official prices had entailed significant cost-price distortions in the domestic economy which needed to be corrected in the interest of both financial stability and economic

efficiency. They added that the recent adjustment of important consumer prices to more realistic levels was a significant step and it was to be hoped that more frequent adjustments of domestic retail prices to reflect changing supply costs will be made in the future in order to strengthen the financial position of the public sector.

In the area of development planning, the Syrian representatives stated that the authorities were currently reviewing developments under the Fifth Five-Year Plan in order to make appropriate adjustments so as to facilitate the successful implementation of the Sixth Five-Year Plan, beginning in 1986, which would be finalized in the near future. With respect to the Sixth Plan itself, the Syrian representatives stated that it would give high priority to the promotion of agriculture and industry and to the restoration of financial stability in the public sector.

2. Financial policies

Syria has been experiencing substantial fiscal deficits which have caused rapid monetary expansion despite the contractionary impact of large decreases in net foreign assets. The overall fiscal deficit, after moderating from the equivalent of 21 percent of GDP to 17 percent between 1980 and 1983, rose to the equivalent of 22 percent in 1984. As the expenditure stance had remained tight in 1984, with total expenditures rising by only 4 percent due entirely to a 6 percent growth in current outlays, the deterioration in the fiscal position resulted from a 25 percent decline in nontax revenues reflecting mainly lower transfer of profits from the petroleum company. The large increase in the overall deficit in combination with a 35 percent drop in foreign grants resulted in a near doubling of the fiscal deficit net of external grants to the equivalent of 17 percent of GDP in 1984. These results were substantially worse than anticipated at the time of the Article IV consultation discussions in May 1984 when the Syrian authorities were estimating the fiscal domestic bank borrowing requirement for 1984 to be of the order of LS 7.3 billion (about 10 percent of GDP).

Noting that the monetary accounts showed an increase of LS 15.3 billion in bank claims on the Government in 1984, the Syrian representatives explained that the difference between the implicit bank borrowing requirement of LS 10.6 billion shown in the fiscal data and the figure of LS 15.3 billion was largely due to the assumption by the Government during the year of certain bank debts of the public enterprises. When allowance was made for the resulting decline in the bank claims on public enterprises in 1984 (by LS 3.5 billion), net claims on the public sector during the year had increased by LS 11.8 billion which was roughly in line with the provisional estimate of the domestic bank borrowing requirement.

With respect to fiscal operations in 1985, the Syrian representatives projected tax collections at about LS 11 billion, or about LS 1 billion less than the budget forecast. The shortfall was attributed to the effect of delay in implementing the comprehensive income tax proposal and to the effect of a lower than anticipated level of imports on import duty collections. The projected level of tax collections nevertheless implies an increase of nearly 20 percent over that of 1984. This improvement was expected to result essentially from a sharp increase in proceeds from the business profits tax, reflecting the continuing efforts to speed up collections of current year obligations and to reduce arrears from previous years. Nontax revenues were projected at about LS 10 billion, or about 20 percent less than the budget forecast. However, this would represent a 12 percent increase in receipts relative to the previous year's level and was expected to result from increased efforts to expedite the transfer of surpluses by the public sector enterprises. The increase last September in prices of commodities sold by public sector enterprises was not expected to result in any significant improvement in profit transfers to the budget in 1985.

Current expenditures were projected by the Syrian representatives at roughly the level indicated in the budget, or about LS 24 billion. The Syrian representatives explained that the level of these expenditures was not subject to any significant compression since the bulk of these outlays consisted of defense spending, wages and salaries, and commodity subsidies. Furthermore, whatever savings had been achieved in other minor categories during the year were expected to be offset by the recently awarded wage and salary increases. Investment expenditures were projected at about LS 12 billion, the same level as in recent years and about 60 percent of the budgeted level. The lower implementation ratio was attributed to the decreased availability of foreign exchange.

With revenues of about LS 22 billion and expenditures of about LS 36 billion, the overall deficit prior to receipt of foreign grants was projected at LS 14 billion (equivalent to about 17 percent of GDP). The staff representatives commented that if foreign grants were assumed to be no more than LS 4 billion, given the unfavorable outlook for assistance by the traditional donor countries, the implied level of the residual financing would amount to about LS 10 billion, most of which would have to come from the domestic banking system. The mission noted that the monetary accounts showed an increase in bank claims on Government and public enterprises by a total of LS 5.6 billion during the first five months of 1985 compared with an increase of only LS 2.0 billion during the like period of 1984; thus it appeared that total public sector bank borrowing in 1985 might well exceed the LS 10 billion suggested by the budgetary estimates. The Syrian representatives noted that up to May 1985, Syria had not received significant amounts of aid, adding that neither the amount nor the timing of aid receipts could be predicted accurately. Although in recent years Syria had not received the full amount of aid donor countries had committed at a meeting in Baghdad in 1978, the approved budgets assume full receipt of the amounts committed.

The Syrian representatives said that while government bank borrowing had been very large during the first five months of the year, subsequent external grant receipts had improved both the budgetary and net foreign asset position of the banking system and, for 1985 as a whole, the authorities expected that both domestic and external financial developments would show an improvement over 1984. The staff representatives observed that, based on official budgetary and balance of payments estimates, domestic liquidity was likely to increase in 1985 by about 18 percent. While lower than in previous years, this growth rate of nominal liquidity remained excessive. The Syrian representatives agreed that the excess liquidity which had emerged in the domestic economy in recent years needed to be absorbed. With the exception of credit to the private sector, which was likely to increase in 1986 in order to finance planned private-public joint ventures--especially in the agricultural sector--growth of bank credit during the year would be strictly controlled.

The Syrian representatives emphasized that efforts were being made to reduce the budget deficit as indicated by the September 1985 measures which would have full impact in 1986. The 1986 budget was still in the process of preparation and any evaluation of the fiscal prospects for the year was necessarily tentative in nature. The outlook for revenues depended considerably on (a) the status of the comprehensive income tax proposal which encompasses a significant broadening of the tax base (by including farm income and gains from speculative activities) as well as adjustments in tax rates, (b) improvements in the availability of foreign exchange resources insofar as this affects the level of imports, and (c) overall activity in the economy insofar as this determines profits of the public enterprises and their ability to transfer surpluses to the budget. With the exception of the comprehensive income tax proposal, which has been under consideration for several years and which is facing strong opposition from various groups, no major revenue generating initiatives were under consideration. The Syrian representatives indicated, however, that some limited initiatives were being considered in the areas of (a) the real estate rentals tax (by adjusting the levy basis to a more realistic level) and (b) increasing the efficiency of tax collections through computerization of information and reliance on random sampling of taxpayers for review and audit of returns. On the expenditure side, the Syrian representatives indicated that controls would continue to be applied by limiting the growth of current expenditures to not more than 6 percent and by not launching new investment projects and, instead, merely concentrating on the completion of existing projects. Generally, the staff commented, it did not appear that the overall budget deficit would be reduced in 1986 in the absence of further corrective action. Therefore, the mission recommended that both tax measures and public sector price adjustments should be considered in addition to budget expenditure restraint in order to bring about reduction in the fiscal deficit.

3. Balance of payments

The official balance of payments estimates provide only a partial view of developments in Syria's external sector. The estimates provide incomplete coverage of transactions effected through the unofficial market and also exclude transactions relating to military imports, their financing, and associated external debt servicing obligations and payments. The available data show that in 1984 the overall balance of payments deficit was about LS 2.6 billion--3.5 percent of GDP--or more than twice the amount of LS 1.2 billion projected in May 1984, reflecting mainly shortfalls from projected levels in official unrequited transfers and in net nonmonetary capital inflows. The Syrian representatives explained that the major part of the overall deficit in 1984 had been financed through the Central Bank's accounts with the central banks of the Islamic Republic of Iran and East European countries. It was stated that some delays had occurred in 1984 with respect to the settlement of certain foreign payment obligations of the Commercial Bank of Syria because of difficulties encountered in negotiations concerning some of its foreign lines of credit. No estimate was available as to the amount of delayed payments and the Central Bank was actively assisting the Commercial Bank in working out arrangements to settle the overdue payments.

The staff representatives observed that the balance of payments outcome in 1984 had been disappointing, and that it had entailed a considerable increase in Syria's external indebtedness. In this connection, the mission expressed concern about the lack of comprehensive information on total external indebtedness and associated debt servicing obligations. In the country's present circumstances, the staff representatives continued, it was essential that adequate current information be compiled on the level of outstanding external debt and scheduled interest and principal repayments. When added to other weaknesses in the official balance of payments statistics, the lack of such information made it difficult to estimate the size of prospective imbalances in Syria's external payments position and the magnitude of adjustment measures needed to restore balance of payments viability. ^{1/} The Syrian representatives reiterated that it was the Government's policy to limit most external borrowing to concessional loans from bilateral sources and international organizations. As for the balance of payments outcome in 1984, several external factors should be taken into account, including sharply lower oil income in neighboring countries which had affected adversely both external grant and private transfer receipts. Also, the severity of the weather-induced drop in wheat production in 1984 had caused total food imports to increase substantially beyond earlier expectations. It was clear, however, that part of the weak external payments position in 1984 was due to lack of adequate export incentives and to the excess demand conditions prevailing in the domestic economy.

^{1/} In the face of substantial economic and financial data gaps, the staff representatives were not in a position to prepare a quantitative scenario for the medium-term prospects for Syria's balance of payments.

In the medium term, the Syrian representatives added, increased oil exports from the newly discovered field held out a promise of a considerable strengthening of overall export performance.

For 1985 the official balance of payments estimates show an overall deficit of LS 1.8 billion compared with the 1984 deficit of LS 2.6 billion. The staff representatives suggested that this estimate might be on the optimistic side, considering the decline of LS 0.6 billion in the net foreign asset position of the banking system during the first five months of 1985 compared with the improvement of LS 0.5 billion recorded during the like period in 1984. The Syrian representatives responded that they were hopeful that exports in 1985 would attain the estimated level of LS 8.0 billion (an increase of about 10 percent over 1984) and that reduced cereal imports would help limit imports to LS 14.5 billion compared with the 1984 level of LS 14.9 billion. Considering also that external grant receipts, at LS 4.0 billion compared with LS 4.7 billion in 1984, and capital inflows in 1985 had been estimated on a realistic basis, they believed it was likely that the overall deficit for the year as a whole would not exceed LS 1.8 billion. As in the preceding year, the overall balance of payments deficit in 1985 would be financed mainly through drawings by the Central Bank of Syria on other central banks.

While no quantitative projections had been made for the balance of payments performance in 1986, the Syrian representatives stated that it was likely to entail an overall deficit lower than that of 1985. Among factors which would contribute to this improvement they cited the favorable agricultural output prospects and, perhaps, the beginning of exports from the newly discovered oil field. On the domestic side, the growth of budget expenditures would be severely constrained and other steps would be taken to attain an overall improvement in the financial position of the public sector. In addition, improved incentives were expected to stimulate export growth.

4. Exchange and trade system

Syria maintains a complex system of restrictions and controls over external trade and payments. Restrictive practices include the maintenance of multiple exchange markets, large spreads between buying and selling rates in these markets, a multiple currency practice arising from an advance import deposit requirement, bilateral payments arrangements with Fund members, and restrictions on the making of payments for imports and invisibles.

In May 1985 the Syrian authorities initiated a process of exchange rate adjustment and simplification. The multiplicity of effective exchange rates was reduced sharply by the discontinuation of the practice of requiring most export proceeds to be surrendered partly at the official rate and partly at the parallel rate; with the exception of petroleum and phosphate exports (about 64 percent of total exports in 1984) which are effected at the official rate and of exports of fresh

fruit and vegetables (tourist rate), all other export items are now transacted at the parallel rate. Also, the replacement of varying advance import deposit requirements in September 1985 for the private sector by a uniform 50 percent requirement served to reduce the number of effective exchange rates on the import side. However, the introduction in the same month of a fourth exchange rate for medical and tourist expenditures abroad widened the spread between the lowest and highest official exchange rates. In the external trade sector, several regulatory changes introduced after November 1984 (see p. 4 above) effectively authorized private sector importers to finance selected transactions with own funds or funds obtained from unofficial sources. 1/

The staff representatives welcomed the recent measures to simplify the exchange system, provide more attractive exchange rates for most export items, and to introduce a measure of flexibility in the import system. However, the mission expressed the view that Syria's exchange and trade system remained both complex and restrictive and early progress toward exchange rate unification at a realistic level together with import liberalization was highly desirable from the point of view of economic efficiency and external balance. The Syrian representatives said that the authorities were considering implementing further steps in the process of reform of the exchange system that would lead to a reduction in the number of effective rates. While the ultimate objective of the intended reform process was to achieve a unitary rate of exchange at a realistic level, the authorities believed that a one-step approach might have adverse effects on the financial position of the public sector and would entail an unduly abrupt increase in import costs. In this connection, the Syrian representatives explained that recent price increases for many imported goods sold by the public sector had been intended to compensate partly for the overvaluation of the Syrian pound in terms of foreign exchange. The staff representatives acknowledged that a phased approach to exchange reform over a relatively brief period of time could ease the adjustment process, but it was not without potential drawbacks. Thus, the adjustment of public sector prices to reflect a more realistic exchange rate gave rise to profits at the public enterprise level while the import exchange rate itself remained unchanged; such profits, if continued over a period of time, might come to be viewed as a useful source of revenue and might thereby impede action on an appropriate exchange rate adjustment. Moreover, such profits on the import side were the equivalent of taxes imposed on the economy's export sector, whose growth and diversification would be correspondingly discouraged.

Another area of concern for the Syrian authorities was that higher import costs brought about by exchange rate adjustment might cause a sharp decline in the transfer of funds to the government budget from public enterprises, whose social responsibilities constrained their

1/ For a detailed description of these and other changes in Syria's exchange and trade system since May 1984, see Section V of the Recent Economic Developments report (to be issued shortly).

capacity to adjust prices in line with such higher costs or to reduce employment in order to contain costs. In this context, the process of exchange reform would need to be accompanied by complementary measures in other areas of economic management in order to achieve successful results. The authorities wished to study carefully all possible implications before deciding to take further major steps in the area of exchange rate management policy.

The Syrian representatives stated that the bilateral payments agreements with Sri Lanka and Viet Nam had remained inoperative for several years, while the agreement with the U.S.S.R. remained active. Also, the banking arrangement between the Central Bank of Syria and the central bank of the Islamic Republic of Iran had been renewed without modification, thereby retaining the provisions which effectively make it a bilateral trade and payments agreement.

IV. Staff Appraisal

The Syrian economy has been experiencing economic difficulties and severe balance of payments pressures. Unfavorable weather conditions have affected output growth in agriculture, and manufacturing activity has been constrained by shortages of imported inputs. While agricultural output growth may recover to the extent that weather conditions improve, the foreign exchange stringency will continue to constrain economic activity and investments with serious implications for the economy's overall performance in the medium term. On the positive side, important progress has been made in recent years in the oil and gas sector. The new discovery of high quality oil deposits is expected to entail higher oil exports and to strengthen the external payments position. Also, the authorities have intensified their efforts to exploit Syria's large natural gas reserves for domestic industrial energy consumption, thereby releasing petroleum products for exports.

The authorities do not count on increased exploitation of Syria's energy resources to extricate the economy from its present difficulties, and have recently taken some corrective steps--wide-ranging, and long overdue, price increases and simplification of the exchange system--to moderate excess demand and cost-price distortions in the domestic economy. While the authorities are to be commended, these actions are limited in scope. The staff would recommend that the authorities develop a comprehensive set of coordinated adjustment measures to tackle the country's economic and financial problems. Without such an approach, the authorities would be risking the dissipation of appropriate action in one policy area because of the lack of adequate supportive efforts in other fields.

In 1984 the external accounts recorded a fifth successive deficit which turned out to be more than twice the level forecast during the previous consultation review in May 1984. Even on optimistic assumptions, the balance of payments is expected to show considerable deficits

in 1985-86. Beyond 1986 the balance of payments may benefit substantially from the exploitation of the newly discovered oil and gas reserves, but it would not be prudent to expect this factor to be sufficient to erase the balance of payments constraint. The flow of workers' remittances and aid receipts from neighboring countries are an unstable source of exchange receipts and, in any case, cannot be viewed as a substitute for measures aimed at strengthening Syria's balance of payments structure. Additionally, the prospective evolution of the burden for servicing Syria's external debt in the second half of the 1980s is clouded by the fact that the available information in this area is incomplete. Therefore, to appraise the magnitude of the problem in the external sector in order to determine the appropriate policy response, the staff believes that it would be desirable for the authorities to carry out a detailed evaluation of needed adjustment measures. Moreover, the authorities would need to consider that the additional resources resulting from the expanded oil exports will be needed to provide a margin for increasing investments and relaxing the existing tight restrictions on imports so that the economy can resume satisfactory growth.

The restoration of domestic financial balance will require a substantial strengthening of the public sector's financial performance both as regards the public enterprises and the Government's budget. For a number of years, no major tax initiatives have been introduced. Consequently, the tax/GDP ratio, which is low by international standards, has stagnated. With the fall in nontax revenues (mainly the surplus of the oil sector), the overall fiscal deficit rose by about one third in 1984. This adverse development was compounded by the continuous fall in aid receipts and, as a result, bank borrowing to finance budgetary operations more than doubled in 1984 compared with their level in 1983 and, despite efforts to contain expenditure growth and improve revenue collections, considerable improvements do not appear likely in 1985-86. Currently the Syrian economy is highly liquid despite the large contractionary impact of the successive external deficits. Administered price adjustments, particularly those introduced in September 1985, will help to absorb part of this liquidity overhang. Nevertheless, pressures on foreign exchange resources will continue to emanate from this source until domestic financial balance is restored. In the view of the staff, restoration of financial balance is not likely to materialize in the absence of substantive measures aimed at reducing the fiscal deficit.

In the discussions the authorities outlined their thinking with regard to a possible major reorganization of the exchange system in Syria. No decisions have so far been taken as regards the scope or the timing of action in this area. The authorities consider that, for the time being, a one step reform which would establish a unitary rate at an appropriate level is not feasible. Nevertheless, in the discussions they expressed the view that substantial further progress in reducing the multiplicity of rates and effecting a considerable depreciation of the Syrian pound remains a possibility. The staff considers that substantive progress in the reform process is necessary soon so as to

provide the basis for the eventual exchange rate unification for the Syrian pound. Moreover, the difficult external payments position and the existing liquidity overhang in the domestic economy suggest that flexibility in exchange rate management will be essential for improving external sector performance. More fundamentally, enduring progress toward the restoration of domestic and external balance in the Syrian economy will require that determined action be taken to strengthen the fiscal position, improve the operational efficiency of the public enterprises, and reduce the overhang of liquidity. For the medium term, resumption of satisfactory growth in the Syrian economy is also likely to require that domestic resource allocation be shifted in favor of productive investment and that present import restrictions be relaxed.

Despite recent simplifications and improvements, Syria's exchange system continues to be complex and to involve a number of restrictive features in the form of multiple currency practices and restrictions on payments for current international transactions that are subject to Fund approval under Article VIII. In view of the fact that the authorities do not have specific plans for simplifying the system and unifying the exchange markets at an early date, the staff is not recommending approval of Syria's exchange system.

It is recommended that the next Article IV consultation with the Syrian Arab Republic be held on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to the Syrian Arab Republic's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1985 Article XIV consultation with the Syrian Arab Republic, in the light of the 1985 Article IV consultation with the Syrian Arab Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Syria's present exchange regime involves multiple currency practices and exchange restrictions subject to Article VIII, as described in SM/86/__. The Fund notes the simplifications that have been made in Syria's exchange arrangements. The exchange system in Syria, however, remains complex and the Fund hopes that in the near future the authorities will take steps toward the establishment of a unified exchange system and the liberalization of exchange restrictions. The Fund notes that the Syrian Arab Republic maintains three bilateral payments agreements with Fund members and hopes that these agreements will be terminated as soon as possible.

Syrian Arab Republic - Fund Relations

(As of December 31, 1985)

I. Membership Status

Date of membership: April 1947
Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

Quota: SDR 139.1 million
Total Fund holdings of
Syrian pounds: SDR 139.1 million, equivalent
to 100 percent of quota

III. SDR Department

Net cumulative allocation: SDR 36.56 million
Holdings: SDR 2.775 million and 7.59 per-
cent of net cumulative
allocation

IV. Administered Accounts None

V. Use of Fund Resources

The Syrian Arab Republic made frequent use of Fund resources under stand-by arrangements and the compensatory financing facility during the early 1970s. However, apart from purchases in the reserve tranche, Syria has not made any purchases in recent years.

VI. Overdue Obligations None

B. Nonfinancial Relations

VII. Exchange Rate Arrangement

The Syrian pound (LS) is pegged to the U.S. dollar (the intervention currency). Since 1976, the exchange rate in the official market has been maintained at LS 3.90, buying, and LS 3.95, selling per US\$1. The representative rate applicable to Fund transactions is LS 3.925 per US\$1. The official exchange rate is applied to most public sector trade and trade-related activities and capital transactions. In April 1981, an official parallel market was established for all imports and trade-related services transactions of the private sector and for certain commodities exported by the private and public sectors. Since August 1981, the rate in the parallel market has been set at LS 5.40, buying, and LS 5.45, selling per US\$1. In May 1982 a third rate--a "tourist" rate--was

introduced for tourism receipts, remittances, and the provision of foreign exchange for travel abroad; since February 1985 this rate has been LS 8.25, buying, and LS 8.85, selling per US\$1. In September 1985 a fourth rate (LS 11.25 per US\$1) was established for the sale of foreign exchange to Syrian nationals for travel and medical expenses abroad.

VIII. Last Article IV Consultation

Discussions were held in May 1984. The Staff Report (SM/84/185, 7/31/84; and Sup. 1, 9/7/84) was discussed by the Executive Board on September 10, 1984.

The Executive Board's decision (Decision No. 7802-(84/140)), adopted September 10, 1984, was as follows:

1. The Fund takes this decision relating to the Syrian Arab Republic's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with the Syrian Arab Republic in the light of the 1984 Article IV consultation with the Syrian Arab Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Syria's present exchange regime involves multiple currency practices and exchange restrictions subject to Article VIII, as described in SM/84/189. The Fund notes the complexity of Syria's exchange system and hopes that in the near future the authorities will take steps toward the establishment of a unified exchange system and the liberalization of exchange restrictions. The Fund welcomes the termination of the bilateral payments agreements with a Fund member and notes that the two remaining agreements with Fund members are inoperative and hopes that these agreements will be terminated as soon as possible.

XI. Technical Assistance

A fiscal technical assistance mission visited Damascus in April 1977 to survey the tax system and recommend improvements, and its report was submitted to the authorities in August 1977. A mission visited in November/December 1978 to advise on measures to stimulate domestic savings and the flow of expatriate remittances, and its report was submitted in February 1979. The Bureau of Statistics provided advice on balance of payments statistics in March 1981 and on government finance statistics in October 1982. Additional technical assistance in the latter area was provided through a staff visit in February/March 1985.

Syrian Arab Republic: Basic Data

| | |
|---|---------------------------|
| Population (1984 estimate) | 9.9 million |
| Area | 185,170 square kilometers |
| Currency | Syrian pound (LS) |
| Official exchange rate (since April 1976) | LS 3.925 = US\$1 |
| Parallel market rate (since August 1981) | LS 5.425 = US\$1 |
| Tourist market rate (since February 1985) | LS 8.550 = US\$1 |
| GDP at current market prices (1984) | LS 75,126 million |
| GDP per capita (1984) | LS 7,562 |

| | 1982 | 1983 | Provi- sional 1984 | Budget 1985 |
|--|----------|----------|--------------------------|----------------|
| (In millions of Syrian pounds) | | | | |
| Government finances | | | | |
| Revenues | 19,202 | 21,228 | 18,333 | 24,906 |
| Tax | (8,490) | (8,767) | (9,027) | (11,764) |
| Nontax | (10,712) | (12,461) | (9,306) | (13,142) |
| Expenditures | 31,218 | 33,648 | 35,010 | 42,984 |
| Current, of which: | (19,166) | (21,571) | (22,900) | (23,549) |
| Public debt amortization | [1,620] | [2,086] | [...] | [...] |
| Capital | (12,052) | (12,077) | (12,110) | (19,435) |
| Deficit (excluding grants) | -12,016 | -12,420 | -16,677 | -18,078 |
| External grants | 5,354 | 5,762 | 3,768 | 8,378 |
| Deficit or surplus (including grants) | -6,662 | -6,658 | -12,909 | -9,700 |
| | | | | Est. 1985 |
| Money and credit (changes during period) | | | | |
| Money and quasi-money | 5,670 | 8,671 | 9,933 | 9,500 |
| Foreign assets (net) | -965 | -1,491 | -2,597 | -1,800 |
| Domestic assets (net) | 6,635 | 10,162 | 12,529 | 11,300 |
| Claims on Government & public sector enterprises | (8,612) | (8,321) | (11,799) | (10,620) |
| Claims on Government (net) | [9,754] | [6,973] | [15,335] | [...] |
| Claims on public sector enterprises | [-1,142] | [1,348] | [-3,536] | [...] |
| Claims on private sector | (983) | (1,466) | (642) | |
| Import deposits | (-2,622) | (-104) | (271) | (680) |
| Other items (net) | (-339) | (479) | (-183) | |

Syrian Arab Republic: Basic Data (Concluded)

| | 1982 | 1983 | Prov. 1984 | Est. 1985 |
|---|---------|---------|---------------|--------------|
| (In millions of Syrian pounds) | | | | |
| Balance of payments | | | | |
| Exports, f.o.b., of which: | 7,975 | 7,594 | 7,298 | 8,000 |
| Petroleum and petroleum products | (5,940) | (5,195) | (4,588) | (...) |
| Imports, f.o.b. | -14,535 | -16,297 | -14,920 | -14,500 |
| Services and private transfers | 234 | 518 | -436 | -- |
| Current account balance | -6,326 | -8,185 | -8,058 | -6,500 |
| Official transfers (net) | 5,413 | 5,015 | 4,714 | 4,000 |
| Capital movements (net) | 83 | 1,477 | 1,013 | 700 |
| Errors and omissions | -135 | 202 | -266 | -- |
| Overall surplus or deficit (-) | -965 | -1,491 | -2,597 | -1,800 |
| (In millions of SDRs) | | | | |
| External reserves (end of period) | | | | |
| Gross official holdings <u>1/</u> | 447 | 285 | 244 | ... |
| Net foreign assets <u>2/</u> | -942 | -1,356 | -2,123 | ... |
| (Ratios to GDP) | | | | |
| Overall fiscal surplus or deficit (-) | | | | |
| Excluding grants | -17 | -17 | -22 | |
| Including grants | -9 | -9 | -17 | |
| Balance of payments | | | | |
| Current account deficit (-) | -9 | -11 | -11 | |
| Overall deficit (-) | -1 | -2 | -3 | |
| (In percent) | | | | |
| Rate of change of selected indicators | | | | |
| GDP at current prices | 6 | 4 | 3 | |
| GDP at constant prices | 3 | -- | -2 | |
| Consumer price index <u>3/</u> | 14 | 6 | 9 | |
| Government revenues | 16 | 11 | -14 | |
| Government expenditures | 15 | 8 | 4 | |
| Money | 19 | 25 | 22 | |
| Money and quasi-money | 20 | 26 | 24 | |
| Net domestic assets | 21 | 27 | 26 | |
| Credit to Government (net) and public enterprises | 23 | 18 | 22 | |
| Exports | -9 | -5 | -4 | |
| Imports | -24 | 12 | -8 | |

1/ Excludes bilateral balances and gold holdings (833,000 ounces), but includes gross reserves held by the Commercial Bank of Syria.

2/ Converted at end period Syrian pound per SDR 1 utilizing official exchange rate.

3/ Average annual rate of change in the Damascus Retail Price Index.

Syrian Arab Republic - Statistical Issues

1. Outstanding Statistical Issues

a. Monetary accounts

The latest monetary data reported to the Bureau of Statistics relate to end 1983. Data up to May 1984 in the Bureau of Statistics' files have recently been updated using official publications. The currentness of the monetary data is likely to improve in 1986 after the completion of an ongoing reorganization of the monetary accounts expected in early 1986. However, the impact of this reorganization on the compilation of monetary aggregates will have to be reviewed by the Fund, particularly regarding classification of the government accounts.

b. Government finance

The 1985 GFS Yearbook includes data from 1972 to 1981 for revenue and expenditure by function and by economic type. There are no detailed data on financing, and no data on debt, and regional and local governments. The only year of data covered by the derivation table is 1981, compiled during a technical assistance mission in 1981.

A technical assistance mission visited Syria in February/March 1985 to give a seminar on the methodology underlying the Fund's system of government finance statistics and discuss outstanding statistical issues with the authorities.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Syria in the January 1986 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Syria, which during the past year have been provided on an infrequent basis. With the exception of exchange rates and the balance of payments, there is an urgent need to improve the currentness of data in all fields.

Status of IFS Data

| | | <u>Latest Data in January 1986 IFS</u> |
|-------------|--------------------------|--|
| Real Sector | - National Accounts | 1983 |
| | - Prices: Consumer | Q1 1985 |
| | Wholesale | 1983 |
| | - Production: Industrial | 1983 |
| | - Employment | n.a. |
| | - Earnings | n.a. |

| | | |
|--------------------|--------------------------------|---------------|
| Government Finance | - Deficit/Surplus | 1981 |
| | - Financing | 1981 |
| | - Debt | n.a. |
| Monetary Accounts | - Monetary Authorities | Q3 1983 |
| | - Deposit Money Banks | Q4 1983 |
| | - Other Financial Institutions | n.a. |
| External Sector | - Merchandise Trade: | |
| | Value: Exports | November 1984 |
| | Imports | October 1984 |
| | Prices: | 1983 |
| | - Balance of Payments | 1984 |
| | - International Reserves | Q2 1984 |
| | - Exchange Rates | August 1985 |

Financial Relations of the World Bank Group with the Syrian Arab Republic
(As of end December 1985)

Lending by Sector, 1975-84

| | FY 75-79 | | FY 80-84 | |
|----------------|-------------------|--------------------|-------------------|--------------------|
| | Lending (US\$) | No. of Projects | Lending (US\$) | No. of Projects |
| Agriculture | 68.5 | 4 | 22.0 | 1 |
| Water/sewage | 85.0 | 2 | 30.0 | 1 |
| Power | 120.6 | 3 | -- | -- |
| Education | 20.0 | 1 | 15.6 | 1 |
| Telecoms | 28.0 | 1 | -- | -- |
| Transportation | 58.0 | 1 | -- | -- |
| Total | 380.1 | 12 | 67.6 | 3 |

During FY 1980-84, relations with Syria were limited mainly to an economic mission and three project loans amounting to US\$67.6 million. Bank involvement during this period was limited because of the Government's decision to postpone the start up of new projects for most of the Fifth Five-Year Plan period (1980-85) in order to concentrate on the completion of ongoing projects as well as the decision to assign the execution of projects to Syrian public sector companies, which reduced the number of projects eligible for Bank financing. However, in FY 1985 the authorities intensified their dialogue with the Bank on certain economic and sectoral issues, particularly in the context of preparation for the Sixth Plan (1986-90); these included a country economic memorandum, an energy sector assessment review, agricultural sector survey, water supply and sewerage sector review, and advice on a manpower study. The Bank's strategy for 1986-90 aims at expanding lending, economic, and sector work programs in areas accorded priority in the Sixth Plan and where the Bank has already had some impact, with the objectives of improving resource allocation and promoting greater efficiency in the public sector. In addition to ongoing sector work, the Bank will provide assistance in reviewing an industrial sector study financed by the EEC which would assist in defining the Government's industrial strategy.