9. SYRIA

- ***Since violence started in March 2011, the conflict in Syria has escalated into a full-fledged civil war, which has led to a serious humanitarian crisis.***

- ***While available statistical data are limited, the conflict has produced an important deterioration in the domestic macroeconomic situation, with growth, the fiscal position and the balance of payments all being very negatively affected.***

- ***Syria is now running a war economy, with the majority of the budget being spent on its military and civil service in an attempt to keep the government going.***

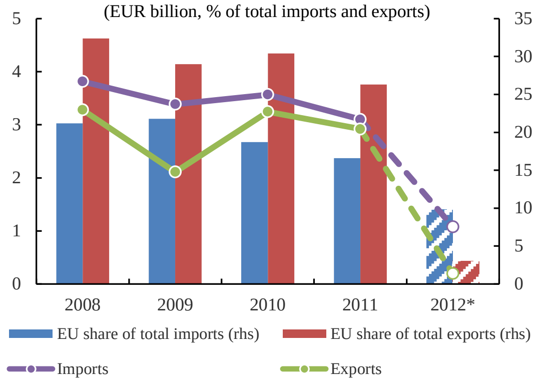
- ***Diminishing imports, destroyed infrastructure and the decrease in agricultural production, have also contributed to inflationary pressures with a steep increase in the cost of living.***

Macroeconomic and financial developments

Since violence started in March 2011, the conflict in Syria has escalated into a full-fledged civil war and has produced a severe and protracted humanitarian crisis. The conflict is having a strong negative impact on growth and other macroeconomic indicators. Syria is running a war economy and the majority of the budget is spent on its military and civil service in an attempt to keep the government going. The government is also subsidising some basic items (e.g. bread) but raising the cost of others (e.g. diesel), fuelling inflation. The economic situation is unsustainable, with the government seeking to cope with decreasing public revenues, and the consequent strain on public finances, whilst waging a war.

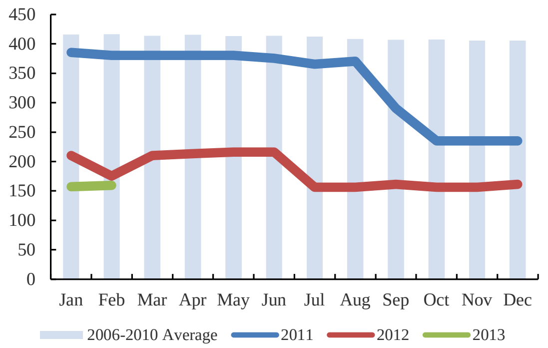
According to the United Nations, the conflict had claimed more than 94,000 lives, as of July 2013. Out of an estimated population of 20.9 million (2010), more than 1.6 million have fled to neighbouring countries (Lebanon, Jordan, Turkey, Iraq, Egypt) and are registered refugees or awaiting registration; an estimated 6,000 Syrians are leaving the country daily. The number of internally displaced persons (IDPs) has reached 4.25 million. The Arab League, the EU, the United States, Turkey, Japan, Canada, Norway, Australia and Switzerland have imposed restrictive measures on Syria in response to the repression of anti-government protests and human rights' violations (see section below on sanctions). ([82])

Graph IV.9.1: **Syria - Trade with the EU**
(EUR billion, % of total imports and exports)



**2012 data are for Q1 to Q3 only*
Source: European Commission, IMF

Graph IV.9.2: **Syria - Effects of crisis on oil supply**
(thousand barrels per day)



Source: U.S. Energy Information Administration

When the conflict started in early 2011, Syria's economy was relatively diversified according to regional standards, with services (including tourism) making up more than 50% of GDP, industry (including oil production) 25% of GDP, and agriculture 18% of GDP. Exports and FDI were on the rise, with net FDI as a stock growing

([82]) As of July 2013, the UN Security Council had not agreed on sanctions against Syria.

up to 2009 ([83]), as Syria appeared to emerge from a prolonged autarkic situation with modest economic growth. The country had been undergoing reforms towards the transformation from a centrally planned to a more liberalised economy from the early 2000s. Progress had been achieved in a number of areas (e.g. finance, trade, investment), although the economy required significant additional legislative and administrative reforms. In view of the current war, significant post-war economic rehabilitation and reconstruction will be needed, as the repercussions will be manifold.

No reliable data are available from 2011 onwards, but the effective end of tourism, private investment and the destruction of infrastructure and agriculture, compounded by economic sanctions – principally geared towards the oil and financial sectors – by the EU, the United States and the Arab League, have had a strong negative impact on the macroeconomic situation and effectively suppressed economic growth. According to some estimates, GDP contracted by almost 20% in 2012, although calculations should be treated with caution in view of the lack of data. The services sector is in standstill. From 2006 to 2010, four consecutive droughts had affected Syria, placing great strains on the agricultural sector, leading to a drastic reduction in production, and forcing an estimated 1.5 million people to move from rural to urban areas. The situation was compounded by the beginning of the conflict, which initially spread from the government's violent crackdown on protesters in urban areas to rural areas, thus further deteriorating the prospects of the country's agricultural sector– on the back of a near collapse in grain output. Social discontent and high unemployment rates (officially at 8%, but likely closer to 15%) were some of the reasons behind the uprisings in early 2011. Reports and anecdotal evidence suggest a quintupling in the unemployment rate as of mid-July 2013. Employment figures need to be put into a context of large numbers of IDPs and refugees leaving the country.

In 2011, Syria's main trading partners were the EU, Iraq, Saudi Arabia, China, and the United Arab Emirates, which together accounted for 60% of total trade. The economic sanctions (and the energy infrastructure damage) have led to a significant decrease in trade, with the consequent loss in export revenues and custom duties. The year-on-year variation in total trade from 2011Q1 to 2012Q1 was -28.9% for exports and -19.4% for imports, according to European Commission data.

Syria's oil production has been seriously affected by the EU's ban oil imports from Syria. Prior to the ban, Syria was producing approximately 350,000 barrels per day (bpd) (potential of 380-400,000 bpd). Syria's refining capacity was approximately 250,000 bpd. Even at its peak, Syria's contribution to global oil production and exports was limited, averaging 1% and 3% respectively. In December 2011, Syrian Oil Minister Sufian Alao announced that the country had reduced production by 30 to 35%. In October 2012, oil output was estimated at 153,000 bpd, a nearly 60% decline since March 2011. The US Energy Information Administration estimates total production shut-ins totalled 220,000 bpd as of November 2012.

Diminishing imports, destroyed infrastructure and the decrease in agricultural production, have all contributed to inflationary pressures with a steep increase in the cost of basic items. According to the Syrian Central Bureau of Statistics (whose website is, as of July 2013 no longer accessible), consumer prices rose by more than 40% year-on-year in September 2012. The rise mainly consisted of price increases in food, housing, utilities and fuel due to a combination of sharp reductions in their supply and alleged printing of money by the central bank to pay for state salaries. Taking into consideration black market and official exchange rates, the Cato Institute's 'Troubled Currencies Project' estimated that inflation had accelerated to more than 225% by mid-July 2013, fuelled by the currency's sharp depreciation.

In October 2012, the Finance Minister announced an increase of 4 percentage points in the 2013 government budget, which appeared an unrealistic increase in view of the hyperinflation. ([84]) No details of the budget were published and thus no information on revenue, deficit or military expenses. Current expenditures were expected to go up by 13%-16% relative to the 2012 budget, largely due to salary increases and the alleged

([83]) As a GDP share only up to 2008.

([84]) In 2010, Syria ran a fiscal deficit of 4.8%.

creation of new public sector jobs. Subsidies (food, fuel, electricity and agriculture) would be also increased by 25%, whilst government investment would be reduced by 25%. While Syria was planning a reform of its price subsidy system before the conflict, the war has apparently led to the shelving of those plans. Gross public debt was 29.4% of GDP in 2010 and is believed to have doubled in 2012. The government has been drawing on its foreign reserves, on income from Syria's two mobile phone companies and (allegedly) on credit lines from Iran, Russia and China, in order to finance its spending, including military costs, the eventual rises in public sector salaries and subsidies. In July 2013, Syria's regime ratified a 5% tax surcharge as "contributions to national reconstruction".

The Syrian Pound (SYP) was pegged to the IMF's SDR (Special Drawing Rights) since 2007 and was tightly managed by the central bank. Exchange rate stability was a priority. At the end of 2010, the foreign exchange reserves cover was around 13 months of imports, giving sufficient leeway to the central bank to support the peg. However, between March 2011 and September 2012, the SYP depreciated by 44% against the euro. As of early July 2013, the currency had depreciated by 75% since the beginning of the conflict, further dropping to SYP 330 to the US dollar as of mid-July 2013 (85% depreciation). The central bank has repeatedly attempted to intervene in the financial market to control this depreciation as Syria's balance of payments worsens and inflation soars.

The current level of Syria's foreign exchange reserves is difficult to estimate. The central bank claimed in October 2012 that foreign exchange reserves amounted to USD 15.1 billion at end-August 2012, which would have entailed a modest USD 4.7 billion drop since June 2011, the latest available IMF data. Nevertheless, considering the sharp drop in export revenue combined with an increase in import costs since June 2011, as well as the absence of any major net capital inflows, the drop in reserves should have been significantly larger, with foreign currency reserves ranging between USD 2 and 5 billion according to some estimates.

It is clear that the conflict and the sanctions imposed by the EU, the Arab League and others, have had a strong negative impact on Syria's balance of payments position. Syria's exports have been directly disrupted by the conflict and the need to provide for the local market, while the disorganisation of domestic production has obliged Syria to replace many products with imported ones. Tourism has collapsed. As a result, Syria's current account deficit (at 3.3% of GDP before the war) is likely to have widened considerably.

Syria has been accumulating arrears on some of its external debt. Since November 2011 and as of July 2013, Syria accumulated arrears towards the EIB for an amount of more than EUR 70 million; even though an exemption on the EU's sanctions makes payments possible. The Economist Intelligence Unit (EIU) estimated the external debt stock in Syria at 18.4% of GDP in 2012. The debt service-to-export ratio also remains low at an estimated 2%, and, except for the EIB loans and according to the EIU, the country continues to service its debt.

EU and international sanctions

In May 2011, Syria's most important trade partner, the EU, suspended the draft Association Agreement and all bilateral cooperation programmes under the European Neighbourhood Policy (ENP). The EU's sanctions ([85]) also included an embargo on arms and related equipment; an import ban on crude oil and petroleum products; the freeze of central bank assets and a ban on the provision of new banknotes and coins; restraint on commitments for financial support for trade and a ban on new long term commitments of EU Member States; a ban on new commitments for grants, financial assistance and concessional loans; a prohibition for the European Investment Bank (EIB) to make certain payments; and an asset freeze on entities, persons and bodies associated with the regime. The impact of these sanctions is evident, with a 90% fall in imports by the EU from 2011 to 2012. Prior to the ban, the EU was the main importer of Syrian oil, with oil sales to Italy, Germany and Spain, in particular, being among the main sources of revenue for the government, contributing approximately one quarter in 2010.

([85]) Council Decision 2012/739/CFSP, Council Regulation (EU) No 36/2012, Common Position 2005/888/CFSP, Council Regulation (EC) No 305/2006.

In April and May 2013, the EU introduced a number of derogations to its sanctions' regime to be granted by competent authorities in Member States and introduced for economic measures in the oil and gas sectors. These would allow European participation (loans and credits) in the Syrian oil industry (production or refining), the import of oil and petroleum products, and exports of equipment and technology (for oil and gas) provided that the Syrian National Coalition for Opposition and Revolutionary Forces had been consulted in advance and that the activities do not benefit persons close to the El-Assad regime. In addition, the EU amended the arms embargo against Syria so as to allow for the provision of non-lethal equipment and technical assistance to the Syrian Opposition Coalition for the protection of civilians.

Nineteen of the 21 member states of the Arab League ([86]) have also applied sanctions. The countries include Saudi Arabia, the United Arab Emirates and Kuwait, which together accounted for 14% of Syria's exports in 2011. The sanctions comprise bans on transactions with the central bank; commercial exchanges with the Syrian government; a freeze of government assets; and a ban of commercial flights between Syria and the League's member states. On the other hand, both neighbouring Iraq and Lebanon, which accounted for more than 40% of Syria's exports in 2011, voted against and are not enforcing the Arab League's sanctions. Other key trade partners not imposing sanctions include China, Iran, and Russia.

Outlook

The outlook of Syria's economic situation is difficult to assess, given the significant disruption caused by the on-going conflict on all economic factors and the scarcity of reliable figures and the difficulty to predict the duration of the conflict. ([87]) Economic challenges include growing budget and trade deficits, trade barriers, decreasing oil production and exports, the continued depreciation of the Syrian pound and the current hyperinflation. Economic recovery will only be possible once the civil war is over.

The provision of post-war assistance should be informed by a detailed understanding of the needs, 130including a Post Conflict Needs Assessment and coordinated international support on economic and asset recovery, including from the international financial institutions. Coordination among donors is necessary to develop a comprehensive programme for economic and social stabilisation. The Syrian conflict is having significant humanitarian, economic and political effects also on its neighbours, including through the refugees crisis (see Part II).

Syria's most pressing current problems are humanitarian. Short-term priorities should include: water and sanitation, health, housing, education, employment, economic fairness and inclusion. The destruction of physical and institutional infrastructure will have to be addressed and the rebuilding of the economy will be crucial for a sustainable and secure peace process.

([86]) Syria's membership is currently suspended.
([87]) The conflict is likely to continue into December 2013 and possibly further, as El Assad keeps a military hold on the country despite partial state collapse.

Table IV.9.1:
Syria - Main economic indicators

	2008	2009	2010	2011	2012
Real sector					
Real GDP (% change)	4.5	5.9	3.4	n.a.	n.a.
GDP nominal (USD billion)	52.6	53.9	60.0	n.a.	n.a.
GDP per capita (USD)	2,386	2,343	2,656	n.a.	n.a.
Inflation (%, period average)	15.2	2.8	4.4	n.a.	n.a.
Social indicators					
Unemployment (officially registered)	10.9	8.1	8.6	n.a.	n.a.
Population (million)	21.3	21.1	21.4	n.a.	n.a.
Fiscal sector					
General government revenues (% GDP)	20.1	23.8	21.8	n.a.	n.a.
General government expenditures (% GDP)	23.0	26.7	26.6	n.a.	n.a.
General government balance (% GDP)	-2.9	-2.9	-4.8	n.a.	n.a.
Gross public debt (% GDP, end-period)	37.4	n.a.	n.a.	n.a.	n.a.
Monetary sector					
Domestic credit to the private sector (% change)	25.8	18.0	20.0	n.a.	n.a.
Broad money (M2% change)	19.0	9.4	12.6	n.a.	n.a.
External sector					
Trade balance (% GDP)	-3.9	-5.8	-5.3	-5.7	n.a.
Current account balance (% GDP)	-1.3	-3.6	-3.3	n.a.	n.a.
Net remittances (% of GDP)	1.7	1.5	1.3	n.a.	n.a.
Net FDI (% GDP)	4.2	3.7	3.2	n.a.	n.a.
Gross official reserves (USD billion, end-period)	17.1	17.4	19.5	n.a.	n.a.
Import cover of reserves (months)	9.4	10.7	9.4	8.4	n.a.
Gross external debt (% GDP)	14.1	14.6	14.4	n.a.	n.a.
Financial sector					
Exchange rate (S£ per USD, end-period)	46.5	45.6	46.7	46.9	n.a.
Real effective exchange rate (% change, + is appr.)	9.0	n.a.	n.a.	n.a.	n.a.

Sources: IMF, World Bank.