Chapter II

Syria's Economy: An Overview

1. The Syrian Economy before the Crisis

Economic literature in the region shows that the Syrian economy enjoys a special geopolitical position, with the country standing as a gateway for the West to the East. This economic geopolitical position has been instrumental in the internal and external wars and invasions that have battered Syria throughout its history. Instability has taken hold of the country for extended periods of time and has affected the Syrian economy in a context of changing political systems and frequent changes of governments. However, the diversified natural and human resources that the Syrian economy has always enjoyed emerged as a model for a relatively well integrated economy. To this end, with the collapse of the Ottoman Empire and dissolution of its states, Syria was placed under the French mandate until it gained independence in 1946 and the Syrian state was formed with its current features and geographical and demographic fabric. Modern Syria extends on an area of land 185,180 km2 in size, of which 1,550 km2 is water. It borders five counties with total land borders of 2,253 km: Iraq (605km), Palestine (76km), Jordan (375km), Lebanon (375km) and Turkey (822).

Like other countries in the Middle East, especially in the Levant, Syria is made up of a blend of sects and ethnicities with Arabs accounting for the majority (90.3%) while the remaining 9.7% are accounted for by Kurds, ethnic Armenians, Circassians and other minorities. Sunni Muslims amount to 74% of the population. The rest includes other Muslim sects, namely Shiites, Alawites, Ismaeelis and Druze (16%), as well as Christians (10%), the highest proportion in the region. There is also a small percentage of Arab Jews. According to the latest (2013) estimates, there are roughly 22.5 million inhabitants in the 15 to 64 age group, accounting for the highest portion (62.3%). The figures indicate that the active economic segment is the largest in the society and that Syria, like Jordan, is undergoing a "demographic opportunity". The age groups 0-14 and 65+ account for a third and 4% of the population, respectively. This makes Syria a young society, just like other Arab societies, with the young making up the largest segment of population.

In March 2011, protests broke out all over the country starting in Daraa, a city near the northern border of Jordan in the context of the so-called "Arab Spring" and popular uprisings sweeping the region. Demonstrators rallied peacefully, calling for reform, but as demonstrations gained momentum and were confronted by the Syrian authorities, the events unfolded into an armed conflict between the opposition and the regime. Several foreign attempts and interventions were made to end the dispute, but the situation escalated leading to a situation similar to a civil war. Syria had already become a battleground for several forces, causing civilians to be caught between conflicting interests and regional and international accounts. Fighters and gangs proliferated, while international reports talked of Syria being used as a stronghold for Al Qaida and other extremist Islamic groups. This presents the alarming prospect that the situation will persist and that the crisis will last for years rather than for months. This reality has impacted on the Syrian economy, as will be highlighted in the ensuing parts of this chapter.

The Syrian Economy: Phases of Development since Independence (10)

The history of Syria demonstrates six main phases of development beginning with the independence of the country in 1946 up until the early days of the crisis in 2011. It has experienced several fluctuations, making it among the most volatile economies in the region. Any discussion of the Syrian economy, however, should invoke an overview of its phases of development up to the current crisis, as an in-depth analysis helps in understanding the pillars of the economy.

Phase I (1946-1963): Economic Openness and Free Movement of Capital

The post-colonial Syria witnessed a huge development on all levels and enjoyed a state of economic recovery. An economic liberation policy was pursued, allowing for a free movement of capital, particularly in the 1950s under the rule of President Shishakly. The early republican era was a time of propensity for agriculture, a main source of income in the absence of excavation of natural resources such as oil and gas. Around 75% of the active population worked in agriculture and due to the vital role of the sector in domestic economy the concerns of farmers dominated the disputed issues in Syria. In that era, the movement of capital inside the country was smoothed to a large degree, with Aleppo and Damascus emerging as the hubs for sending out and receiving capital, respectively. Socialists, however, considered this an era of bourgeois and feudal hegemony, based on the assumption that agricultural lands were run by a small group of the population with meager returns going to the farmers. Intense political and economic conflicts and unrest followed, leading eventually to the first military coup, led by Husni Al-Zaeem in 1948. Subsequent transfers of power and instability dominated the scene until the rule of Adib Shishakly in 1952. The decade from the late 1940s until the end of 1950s saw an economic boom with several trade contracts executed with countries such as the Soviet Union and Czech Republic. The port of Latakia was established and the Lebanese custom fees previously levied on Syrian goods were removed. Capital poured on the country, particularly from Aleppo merchants, as explained earlier. The production of wheat and cotton doubled, making them key crops in agriculture. In 1954, Shukri Quwatli came to power and under his rule Syria and Egypt merged in 1958 into one country, the United Arab Republic. However, the union did not last long and was soon dissolved for several economic and political reasons,

10 For more information, see Syrian Centre for Political Research, 2013, "The Syrian crisis and socio-economic impacts' (available in Arabic only).

leading Syria into a new state of political instability. Following the break-up of the UAR, the military took over in Syria and remained in power until the 1961 elections. The first pluralistic elections in the history of Syria ended with the nomination of Nazim Qudsi as a president. His reign encouraged an open economy, denationalization of banks and a proliferation of big corporations. The reforms introduced by Qudsi to agricultural laws brought resentment of the Ba'ath Party, which issued several statements opposing Qudsi's decisions. In 1963, the Ba'ath Party led a successful coup, putting an end to pluralism and economic liberation policies in Syria.

Phase II (1963-1970): Nationalization and Political Transformations

With the Ba'ath party having seized power, a state of emergency came into force and lasted until 2011. The era of political pluralism had ended and so had the open economy policy. To bring the economy into line with its socialist ideology, the Ba'ath party initiated a nationalization drive in private sector institutions including banks, major businesses and public utilities, leaving no room for actual competition in the Syrian market in the absence of the private sector. A closed economy prevailed until the 1970 coup d'état led by the then air force commander, Hafez Assad. The "correction movement", as it was called, ousted the government led by Salah Jadeed and Atassi. The rule of Hafez Assad continued until his death in 2000, when he was succeeded by the current president, his son Bashar.

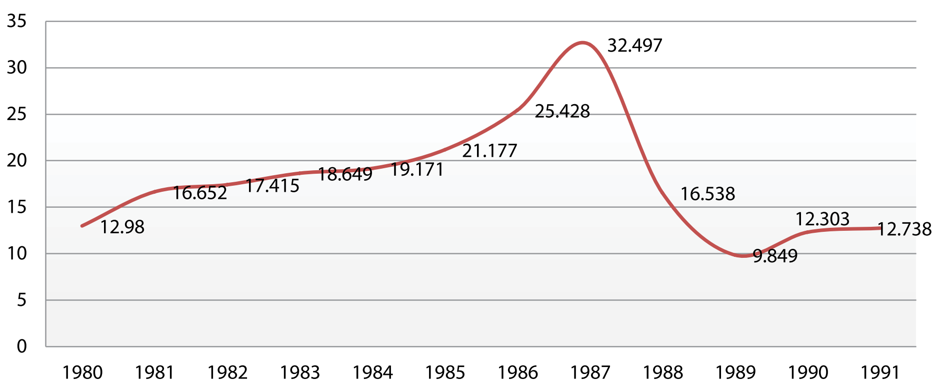
Phase III (1970-1981): Transformation towards Industrialization and Developmental Plans

In this period, the Syrian economy headed for developmental planning guided by developmental planning technique. A diligent observer may have noticed how the state's concerns were increasingly shifting towards industry, or "industrial economy". The pre-correction movement era had, conversely, focused on agriculture and agricultural production. The government was bent on transforming Syria into a fully self-efficient industrial country. It supported all types of industrial enterprises, though not at the expense of the state's role as a care-giver and guarantor for all educational, health and infrastructure services. The number of factories increased and craftsmen and industrial workers received tremendous support for building their own factories and enterprises. The infrastructure saw a fair advancement, particularly in transport, bridges, roads and water and sanitation systems. The aftermath of the October Arab-Israeli war saw a boom in the Arab world lasting from 1974 to 1982 as a result of the cash flows attained by the significant rise of oil prices. The Syrian economy benefited from the boom as it impacted on significant economic developments in all facets of life, in addition to improving purchasing power and GDP per capita. At the end of the 1970s, however, this economic recovery came to a halt because of a series of protests, mainly staged by the Islamic opposition. By then, the Syrian economy had plunged into an economic crisis that was not resolved until the early 1990s.

Phase II (1981-1991): Recession and Challenges

The political upheavals in the late 1970s unfolded into military strife, which was marked by the assassination of senior figures in the Syrian Arab Army. In response, the military launched a major offensive in Hama in 1982, which was met by heavy international sanctions ushering in an era of recession and challenges. With the suspension of aid from the Gulf States, Syria was propelled into a spiral of deteriorating political and economic strife. The Syrian GDP, nonetheless, continued to grow despite all challenges and sanctions, until 1988 when the value of the Syrian pound dropped 12 times. The national reserves of wheat and wheat flour fell short of meeting the need for even a few months. The hard times of the economy continued up until the early 1990s, the sanctions and the associated crisis having strained the economy and prevented any growth in GDP after 1988. It was not until 1991, after the Kuwaiti liberation war in which the Syrian army was involved with international forces, that the West started to be more open –though only partially - to Syria and to ease the decade-long sanctions. At that juncture, the economy started to recover and sustain some slow growth.

Figure (1): Syria's GDP (1980-1992) in US$ billion



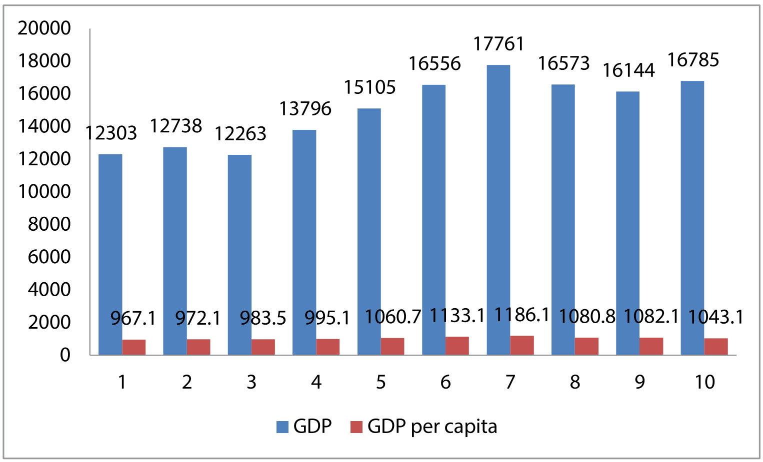
Source: IMF Database (2011).

As illustrated in Figure (1), the GDP underwent a fluctuating growth between the early 1980s and late 1987, an indicator of a steady growth resulting from the economic policies adopted in those years. However, the trend was challenged by the abovementioned realities, leading the economy to fall back in light of the accumulated crises, the failure of the economy to withstand the sanctions, the devaluation of the Syrian pound and a decline in GDP, first to around US$16.5 billion in 1988 and then to US$9.8 billion the following year, a rate of around 70% of its level in 1987. The early 1990s, however, witnessed a significant improvement in economic growth, promising kind of economic recovery.

Phase IV (1991-2000): Economic Recovery

The 1990s was an era of a form of economic liberation and prosperity, with an increasing trend for oil and gas excavation in Syria. The carbohydrate revenues increased as oil production went up to around 600,000 bpd in 1995, of which around 250,000 bpd was for domestic consumption while the rest was for export, having been as low as 194,000 bpd in 1986. The discovery of huge natural gas reservoirs boosted local industries and eventually contributed to the growth of Syrian economy to a significant degree.

Figure (2): GDP and GDP per capita (1990-1999)



Source: IMF Database (2011).

Figure (2) shows the development of the economy in the early 1990s, showing an increase in GDP from US$12.3 billion in 1990 to around US$17.8 billion in 1996: a yearly average growth of over 7%. The GDP per capita also increased from US$967.1 in 1990 to US$1,186.10 in 1996 with an aggregate growth rate of 23%. This development impacted on the economic climate of the country as a result of the adoption of less stringent economic and trade policies, leading to a partial kind of economic openness. A slight setback, however, was recorded in the second half of the 1990s, which was reflected in the GDP growth and GDP per capita. The economy, nevertheless, soon managed to catch up and restore recovery with the inception of the third millennium after the death of President Hafez Assad. With Dr. Bashar Assad's accession to power, more open economic policies were adopted and there were attempts to encourage the private sector and aim for a gradual abandonment of a centralized economy reliant solely on the government.

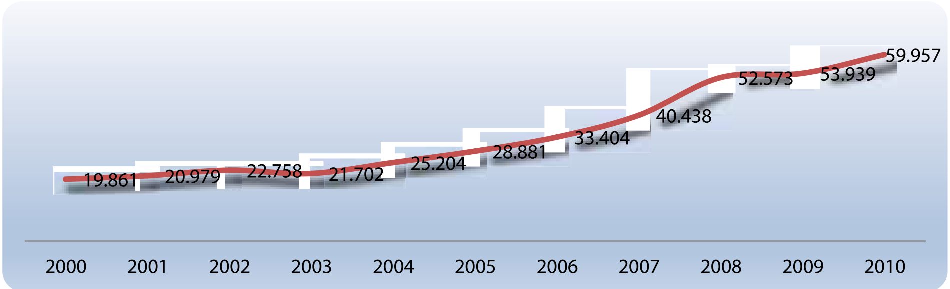
Phase IV (2000-2010): New Economic Trends

Upon assuming his presidential office in 2000, Bashar Assad introduced several economic reforms. The main features of those reforms were market liberalization, support for the private sector and the attraction of foreign investments. The economy started to gain momentum as new stimulating laws were enacted:

1. Law No. 29 for the year 2001 on the Establishment of Private Banks and Banking Confidentiality;
2. Legislative Decree No. 36 for the year 2001 on licensing private universities;
3. Several decisions by the Ministry of Education licensing private schools;
4. The Free Zone General Corporation law;
5. Legislative Decree No. 35 for the year 2005 on licensing Islamic banks in Syria;
6. Decree No. 43 for the year 2005 on investment in the insurance sector, health and higher education;
7. A number of measures on the possession of foreign currency and tax and banking reforms.

Substantial changes were made during the period on the economic, political and social levels in an attempt to find a place for Syria among global economies and ensure access to global markets. Salient achievements include the construction of industrial cities in Rif Dimashq (Adra), Homs (Hissiya), Aleppo (Sheikh Najjar) and Deir ez-Zur. Since 2000, the investment climate has changed. Macro-economic indicators show increases in growth rates, regression of inflation pressures and materialization of reasonable rates for the domestic and foreign trade balances with a rise in and variation of hard currency reserves. The Syrian pound was unpegged from the United States dollar in the context of a policy aimed at fixing the exchange rate of the Syrian pound. Another important step in opening and liberalizing the economy was Syria's accession to the Greater Arab Free Trade Area (GAFTA) and other bilateral free trade agreements.

Figure (3): GDP from 2000 to 2010 (US$ billion)



Source: IMF Database (2011).

Figure (3) above shows the relatively significant growth of the Syrian economy during the period 2000-2010 with nominal GDP rising by an annual rate of 20%, surpassing all other rates recorded for other countries in the region. This can be mainly attributed to the economic policies adopted by the government, particularly in giving a freer hand to engaging in growth and attracting Arab and foreign investments. The contribution of the private sector to GDP increased from 52.5% in 2000 to around 61.5% in 2008 and 2009, though at the expense of the contribution of the public sector. The same situation applied to the private sector's contribution to investment and capital formation, averaging around 52% compared with 48% contributed by the public sector for the period 2006-2009. Table (1) shows the size of investment and capital formation in Syria.

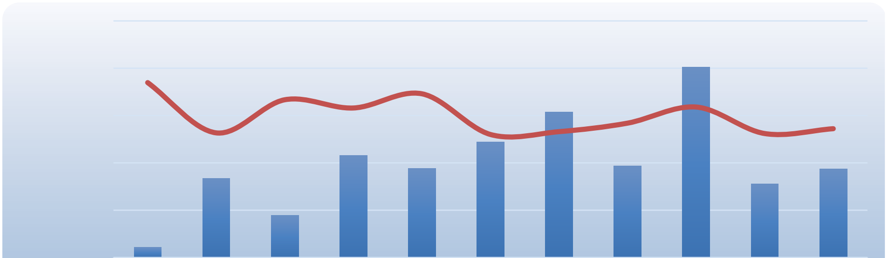
Table (1): Capital formation at fixed market prices (2006-2009)

Year	Fixed Capital Formation at Fixed Market Prices for the Year 2000 (SYP Million)			Contribution Rates %		
	Public	Private	Total	Public	Private	Total
2006	143,791	164,878	308,669	46.6	53.4	100
2007	136,400	146,699	283,099	48.2	51.8	100
2008	112,739	153,794	266,488	42.3	57.7	100
2009	143,820	153,280	297,100	48.4	51.6	100

Source: The Fifth Annual Investment Report 2010 (Syrian Investment Commission).

Unemployment rates gradually dropped to 2.3% in 2010 accompanied by a drop in inflation rates by 10.8% in 2010 compared with those of 2008. This means the Syrian economy had, by the end of the first decade of the third millennium, reached a healthy state and begun a trend of stable growth before the onset of the current crisis, as shown in Figures (4) and (5) below.

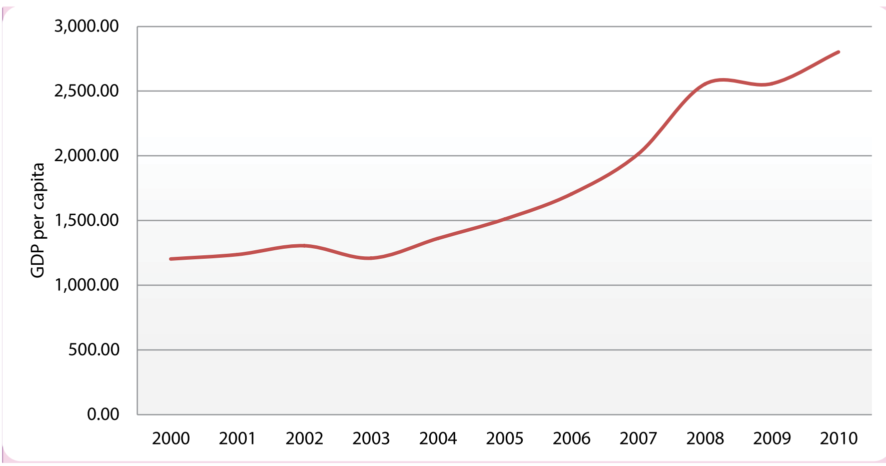
Figure (4): Rates of inflation and unemployment (2000-2010) (%)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
التضخم	3.9-	3.401	0.518-	5.797	4.433	7.24	10.39	4.677	15.153	2.804	4.398
البطالة	13.483	8.171	11.672	10.8	12.3	8	8.3	9.2	10.9	8.1	8.613

Source: IMF Database (2011).

Figure (5): GDP per capita (2000-2010) (US$ billion)



Source: IMF Database (2011).

It is important to point out that the above positive indicators are not free of distortions. Many skeptical economists have doubted the accuracy of the figures, which, according to them, conceal structural imbalances as they rely on quantitative factors, particularly physical capital. They base their argument on the inflationary growth in real estate speculation and in the financial sectors, as well as the unplanned expansion and growth in the tourism and commercial sectors in addition to decreasing labor costs. In addition, tax evasion is still an issue of concern as it rose to very alarming levels to the detriment of the economy through increasing indirect taxes at the expense of direct taxes. The result was a weakened investment climate and the businessmen's control over a large portion of the national income. Other researchers, however, put the blame on endemic corruption and political money that have plagued most elements of the state.[11]

2. Syria's Economy in the Crisis: Determinants and Challenges[12]

With the end of the first quarter of 2011, Syria became the scene for a wave of mass protests calling for rights and freedoms, as well as condemning corruption and many of the Syrian government's practice. The protests, which were part of a wider protest movement in the Arab world known as the Arab Spring, soon escalated into a fully-fledged conflict and civil war in Syria between the Syrian regime and the opposition with all its factions. According to international studies and reports, this armed conflict has claimed the lives of over 100,000 people and left many times that number injured and millions displaced.The country had become the scene of battling local, regional and international powers in a crisis that is exacerbated by international sanctions. In the final analysis, production and labor were adversely reduced in the majority of sectors to a degree as high as a quarter.

On the statistical level, it is not possible to cite accurate figures to quantify the economy, given the repercussions of the crisis. It is equally hard, in addition, to make estimates on the financial losses sustained by the country for the following reasons:

1. No accurate figures or indicators relating to the situation in Syria are provided;
2. There are almost no reliable official or non-official statistics on such issues as the rates of unemployment and manpower;
3. The principles underlying public spending, particularly for the government's institutions, such as the army, are not disclosed;
4. The value of assistance given to Syria from its allies is not known;
5. The black market has expanded and so has tax evasion;
6. The revenues of exports and expenditure on imports are hard to know.

11 For more information, see: Hussein Bakeer, 2013, "The Syrian nightmare? Evaluation of the critical situation in Syria and Future Scenarios" (Arabic only). See also Syrian Centre for Political Research, 2013, "The Syrian crisis and socio-economic impacts" (available in Arabic only)

12 For more information, see Hussein Bakeer, 2013, "The Syrian nightmare? Evaluation of the critical situation in Syria and future scenarios" (Arabic only); "Impact of the conflict on Syrian economy and livelihoods", Syrian Analysis Project, July-2013, ACAPS, MapAction; "Socioeconomic roots and impact of the Syrian crisis", Syrian Center for Policy Research, 2013.

Impact on GDP and Capital

The destruction of physical and human capital in Syria has brought about economic catastrophes, with the financial losses sustained by the economy since 2011 estimated at around US$48.4 billion at current prices.
Since the latest statistics on the GDP's value in Syria in 2010 suggest about US$60 billion, it follows that the losses have so far accounted for nearly 81% of GDP for the year 2010. The losses are distributed into 50% of GDP, 43% in capital expenditures and 7% of military budget. Sustaining a major portion of the loss (83%), several factors have been hit especially hard by the crisis, including domestic and foreign trade, transport, telecommunications and extractive manufacturing. Sources of the damage include high inflation and a state of imbalance between the rates of production, consumption, investment and saving, with the consumer price index jumping as high as 51% and the largest segments of industry decreasing in production by around 25%.

Today, expectations are high that a further deterioration in the performance of Syria's economy will occur as the Syrian pound has lost around 67% of its value on the official market and 100% on the black market. Prices of basic commodities have soared higher than ever before, leading to the deterioration of private and domestic consumption and a decline in expenditure on investment to 7% of GDP. Negative net investment in the economy, trade imbalance and decreased exports of substantial economy-supporting goods, such as oil, as a result of the sanctions are all direct consequences of the situation.

Pre-crisis Syria had projected a possible GDP growth for the years 2011 and 2012 of around 7.1% and 5.1% respectively. The crisis, however, casts gloom on the scene with the prospect that GDP would drop by around -3.7% and -18.8% in that same period. This decrease is coupled with an increasing deficit in the trade balance of 18.8% and 9.1% in the financial and capital account, which entails an increasing aggregate deficit in the balance of payments to around US$16 billion. This posed serious challenges for the foreign exchange reserves, which dropped from US$18 billion in 2010 to US$2 billion in 2012, indicating the Central Bank's failure to supply the market with hard currency. Those challenges are expected to raise unemployment to around 34.9% in 2012, which is likely to further increase so long as the crisis remains unresolved.

The crisis has been further complicated by the international sanctions imposed on Syria. According to statistics, 28.3% (US$6.8 billion) of economic losses are attributed to the sanctions rather than the ongoing conflict. Oil export was the most damaged sector, with a decrease of US$3.9 billion. Other exports have also decreased by 52% to Arab counties, 92% to European countries and 82% to Turkey. The decrease was accompanied by a decrease in imports and a failure to import the various types of production equipment, not to mention basic goods such as medicine and energy. Eventually, the prices of petroleum derivatives increased in the local market by 200%. All of those factors were collectively responsible for a rise in poverty rates in Syria and the increase in the number of the poor by around 887,000, according to latest statistics.

Table (2): GDP by Sectors (2010-2012) and the expected crisis-driven impact (SYP billion)

Sector	Actual	Crisis scenario based estimates		Continuous scenario based estimates (without the crisis)		Impact		Total impact
	2010	2011	2012	2011	2012	2011	2012	2011-2012
Agriculture	240	263	262	263	262	10	0	0
Extractive industry	186	163	99	185	185	23	86	109
Manufacturing	100	78	23	105	110	26	86	112
Facilities	37	39	32	42	48	3	16	19
Construction	52	59	48	54	55	-5	7	2
Trade	297	263	200	311	326	49	126	175
Transport and telecommunications	191	158	120	208	227	51	107	157
Money, insurance and real estate	80	87	66	88	96	1	30	31
Public services	207	228	210	230	257	3	46	49
Social services	59	60	73	67	76	7	4	11
Non-governmental organizations	1	1	2	1	1	0	-1	-1
GDP	1,452	1,398	1,136	1,555	1,642	157	507	664
Non-extractive Output	1,265	1,236	1,037	1,370	1,458	134	421	555

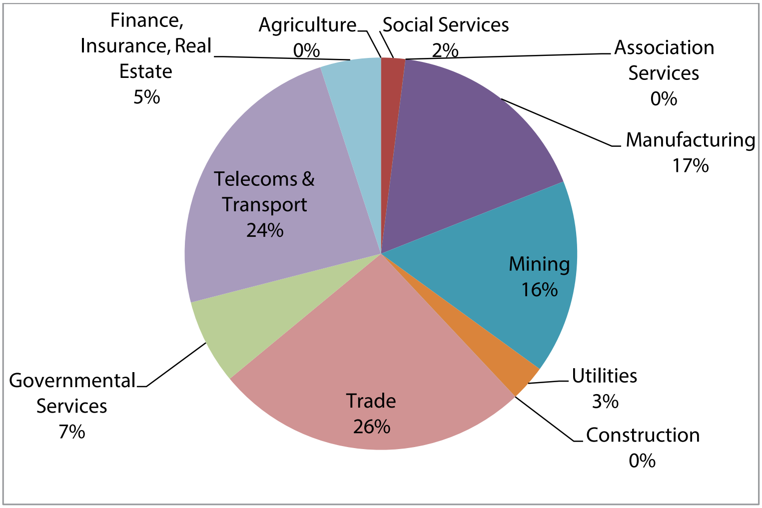
Source: Report on the Syrian Crisis: Roots and Socio-Economic Impacts, 2013.

Table (2) shows the imbalance and losses in all sectors, with agriculture, construction and public services standing at the lowest levels. Agriculture's growth was 10% and 0% in 2011 and 2012, respectively, owing to an improvement in the Syrian climate and the ability of farmers to better adapt to the effects of the crisis more than other sectors could. However, the major problem facing the farmers was logistics and transportability of their crops, which exacerbated the food situation for several regions. The construction sector started to recover in early 2011 by an increase in unlicensed building, but then receded in 2012 by 12%. The growth of public services increased in 2011 as more public spending was made after the beginning of the crisis, but the growth stopped in 2012 because of the state's failure to continue that increase, leading eventually to a recession in public services at a rate exceeding 7% in 2012.

The sector that is most damaged by the crisis is the retail and wholesale trading sector, including, for example, restaurants and hotels. The sector sustained losses at SYP175 billion, accounting for around 26% of total losses of GDP. The other sectors have experienced a great deterioration and losses amounting to 87%, with expectations that this will decrease their abilities to generate GDP from 53% in 2010 to 39% in 2012. In sum, the greatest impact of the losses sustained because of the current crisis has affected the domestic trade sectors, transport, telecommunications, mining industry and manufacturing. The decline is mainly caused by the international sanctions on Syria, the halting of Syrian industries, the destruction of a large number of factories and weak demand and domestic consumption.

The tourism sector lost 50% of its contribution as the foreign tourism revenues declined by around 60% in 2011. Oil production also dropped by around 47% in the same year while other sectors, specifically transport and telecommunications, lost around SYP175 billion in 2011. In addition, the value added of the manufacturing sector fell by 76% in both the public and private sectors.

Figure (6): Breakdown of losses (gains) as a result of the crisis according to sector (2010-2012)

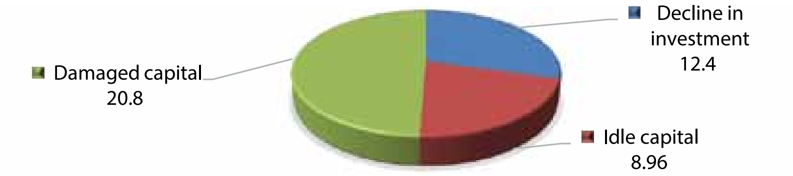


Source: Report on the Syrian Crisis: Roots and Socio-Economic Impacts, 2013.

Figure (6) above shows a sharp decline in private consumption demand accounting for 42% of total losses when a comparison is drawn between the crisis and its continuity scenarios. Those losses were reflected in Syria's trade balance, with exports falling in 2012 by as much as 38.4% compared to expectations before the crisis. Imports also suffered a decline in 2012 by 44.5% of the pre-crisis scenario and though they grew in 2011 as a precautionary measure by the government they soon fell dramatically as a result of the sanctions.

The total impact on the national economy is evinced by the huge losses sustained by GDP in Syria after the crisis compared with the scenario before the crisis. Those losses amounted to US$42.1 billion distributed as shown in Figure (7), broken down into three elements: the decrease in net fixed capital formation, i.e., investment, by US$12.4 billion, a decrease in production capacity by US$8.96 billion and a decline in the fixed capital component by US$20.8 billion.

Figure (7): Estimated losses (2010-2012) in capital stock at current prices (US$ billion)



Source: Report on the Syrian Crisis: Roots and Socio-Economic Impacts, 2013.

A noteworthy element of the economic losses is the opportunity cost for the losses accrued by military spending. Such losses, according to studies, are not mentioned in the GDP accounts. In general terms, military spending directs resources from production into military operations, which are not economically feasible. Due to the lack of data and statistics, some studies estimate that the military spending increased by around 2.2% of GDP in 2011 and 6.6% in 2012, which is equal to US$3.6 billion.

Table (3): Overall losses of Syria's economy (US$ million)

	2011	2012	Total
GDP losses	6,460	17,637	24,098
Damages in physical capital	5,721	15,067	20,788
Exceptional increases in military spending	951	2,608	3,559
Total economic losses	13,132	35,313	48,444

Source: Report on the Syrian Crisis: Roots and Socio-Economic Impacts, 2013.

Table (3) shows the total losses of the economy amounting to US$48 billion in 2011-2012. Those losses are distributed as follows: 50% of GDP, around 43% of capital stock and 7% for increased military spending.

Impact on the Budget

Table (4) shows the impact of the crisis on the Syrian budget, with revenues declining by 11 percentage points in 2012 compared with those in 2010 and by a rate of 48%. Public revenues also account for 12% of GDP in 2012, a decline from 23.1% in 2010.

Table (4): Impacts of the Syrian Crisis on the General Budget (2010-2012) (% of GDP)

Indicator	2010	2011 (estimate)	2012 (estimate)
Revenues	23.1	18.9	12
Oil revenues	4.4	3.8	1.9
Tax revenues, non-oil	11.5	9.9	6.7
Non-tax revenues, non-oil	7.1	5.2	3.4
Spending	26.9	27.6	22.1
Current spending	18.1	20.9	18.5
Salaries and wages	11.5	14.4	14.7
Goods and services	1.2	1.2	0.7
Interest payments	1.1	1.2	0.7
Spending on development	8.8	6.6	3.5
Budget balance	-3.8	-8.6	-10.0

Source: Report on the Syrian Crisis: Roots and Socio-Economic Impacts, 2013.

The decline is basically due to dropping oil revenues. The Syrian government lowered investment spending (as a ratio of GDP) from 8.8% in 2010 to 3.5% in 2012. In return, there was an increase in wages from 11.5% to 14.7% in 2010-2012 to compensate for part of the decline in the purchasing power per capita. This increase was accompanied by another increase in current spending as a ratio of GDP from 18.1% in 2010 to 18.5% in 2012. All of those elements have contributed to a rise in the budget deficiency from 3.8% of GDP in 2010 to 10.1% in 2012, while the debt amounted to 40% of GDP in 2012 compared with around 23% in 2010.

Impact on the Balance of Payments

Table (5) shows the alarming increase of the current account deficit from US$367 million in 2010 to US$7.329 billion in 2012. This increase was accompanied by a dramatic decline in the capital account, which suffers from a deficit of US$3.589 billion, having been US$1.539 billion in 2010. This means a decline in capital by US$5.128 billion between 2010 and 2012. As for the total balance of the balance of payments, it reached a deficit of US$10.918 billion in 2012 compared with a saving of US$1.172 billion in 2010, a decline of US$12.090 billion.

Table (5): Impacts of the crisis on the General Budget and the balance of payments (2010-2012) (US$ million)

Indicator	2010	2011 (estimated)	2012 (estimated)
Current account balance	-367	-5,255	-7,329
Trade balance	-3,663	-4,688	-6,375
Exports	12,274	12,000	2,804
Oil	5,478	4,608	548
Non-oil	6,796	7,392	2,256
Imports (FOB)	-15,937	-16,688	-9,178
Services (net)	3,860	100	-2,123
Income (net)	-1,514	-1,917	-142
Transfers	949	1,250	1,311
Financial and capital account	1,539	202	-3,589
Capital transfers	287	190	24
Financial account	1,252	13	-3,613
Direct investmentsn	1,469	735	-735
Investment portfolio	-193	-385	-771
Other investments	-24	-336	-2,107
Error and omission	897	0	0
Weighted exchange rate	56.5	48.4	75

Source: Report on the Syrian Crisis: Roots and Socio-Economic Impacts, 2013.

Crisis-Driven Economic Lossesin a Nutshell

The crisis in Syria poses a grave challenge to the Syrian economy and makes it difficult to speculate on any way out in the short and medium terms, even once the crisis is over. The situation outlined above has led Syria's credit rating to be downgraded around three times since the beginning of the crisis. The Syrian pound had already lost a great portion of its value, reaching SYP68 against the US dollar in 2012 and suffering a major decline in 2013 to around SYP200 against the US dollar, a drop from SYP48-50 against the US dollar before the crisis. This decline affected inflation rates and increased consumer prices by up to 51% as the prices of many commodities soared. Household gas and electricity rose by 99% followed by foodstuff and dairy products (75%), non-alcoholic beverages (71%), sugar (61%), clothes and shoes (57%) and finally bread and cereals (54%). It also affected the quality of health care services and all other indicators relating to human resource development, including teaching. A broader overview can be seen in Tables (6) and (7):

Table (6): Overview of the economic impacts of the Syrian economic crisis

	2011	2012	Total
Economic Impacts			
Total economic losses	13.1	35.3	48.4
GDP losses (US$ billion)	6.5	17.6	24.1
Losses caused by the sanctions			
Loss in capital stock (US$ billion)	5.7	15.1	20.8
Increase in military spending (US$ billion)	1	2.6	3.6
Government deficit	8.61%	10.09%	
Balance of payments (US$ billion)	-5.05	-10.92	-15.97
nflation from March 2011 through September 2012			l51%
Unemployment	14.88%	34.87%	

Source: Report on the Syrian Crisis: Roots and Socio-Economic Impacts, 2013.

Table (7): Overview of the social impacts of the Syrian crisis

	2011	2012	Total
Human development index	0.613	0.554	-15%
Growth rates	1.51%	-2.51%	
Mortality rates	0.43%	0.66%	62%
Refugees (thousands)	30	512	542
Migrants (thousands)	160	688	848
IDPs (thousands)	0.2	1.8	2
Poverty increase (billion)			
Absolute poverty			1.55
Abject poverty			3.11
Directly caused by the sanctions			0.877
Health			
Mortality (thousands)	7	53	60
Injured (thousands)	28	211	239
Decrease in spending (2000 prices)			50%
Education			
Damaged schools (until 2012)			2,362
Decrease in spending (2000 prices)			48%

Source: Report on the Syrian Crisis: Roots and Socio-Economic Impacts, 2013.

Three years after the crisis, the national economy sustained huge financial losses; the ESCWA index shows that Syria's GDP decreased by 45% and that the number of unemployed and impoverished reached alarming levels. It also highlighted a decline in the performance of most sectors of the economy, particularly health, treatment and education. The socio-economic consequences are devastating, even before one considers the mothballing of a large number of factories and pharmaceutical plants and the decline in foreign trade.

In 2013, several crises had adverse effects on the wellbeing of people and economic sectors. These include the oil, diesel, household gas, bread and electricity shortages. In addition, the value of the Syrian pound plunged and the prices of basic commodities soared to alarming levels. The trade sector was severely shackled by the sanctions, leading to difficulties in importation and many other challenges in respect of funding, shipping, distribution and collection. In a similar manner, the industrial sector was challenged by the factories being put out of service after bombardment, not to mention the soaring of production input prices, the disruption of electricity and increases of fuel prices. The agricultural production sector also saw an acute recession in view of a lack of local demand and difficulties in either exporting its products or reaching the farms to deliver necessary supplies of seeds, water, laborers and transport vegetables.

On the other hand, the government managed the crises and provided basic goods with the assistance of friendly countries and through lines of credit funding was granted for local imports. This contributed to meeting some of the basic needs of the population. The Central Bank of Syria (CBS) also managed to keep a reasonable control of the exchange rates of the local currency against other currencies and retained acceptable exchange levels, the Syrian pound's value having deteriorated for a period of time.

As for the private banking sector, the operational risks increased in view of the current situation of the country. Some banks were the victims of looting, robbery, embezzlement and fraud, forcing the CBS to pursue a more stringent approach to its monitoring role with the aim of preserving the assets of banks. The great bulk of these banks' activities, though, were restricted to funding and paying out the prices of imports (credits and policies), managing cash and liquidity and treating cases of credit default. Unrealized gains resulting from the change in exchange rates/ structural positions, which were accrued in the previous year and which covered most of the operational losses, are expected to disappear in 2013, given the improvement in the Syrian pound's exchange rates and its stabilization. As for provisions, there is a strong possibility that new regulations will be enacted for credit rating and provisioning to reduce the impact of such provisions on the profitability and capital adequacy of banks will be avoided.