Syria is a lower middle-income country with a per capita GNI estimated at US$ 2,090 (2008), a population of 18.7 million – plus 1.2 million Iraqi refugees and migrants - growing at about 2.5 percent per annum and a labor force growing at the rapid rate of about 3 to 4 percent per annum.

Syria’s growth performance has strengthened in recent years, reflecting the country’s own reform efforts towards a social market economy as well as the hitherto favorable external environment for oil-producing countries. However, Syria’s macroeconomic performance has been affected by ongoing external and domestic shocks, particularly the impact of the global financial crisis and a prolonged drought that has been affecting agricultural output. Inflation was 2.5% in 2009 but is expected to increase over the next years as commodity prices recover, fuel prices rise and a VAT is introduced. Year-on-year inflation reached 3.7 percent in April 2010.

Foreign assets remain high, but their coverage of imports is declining. Although public debt remains moderate at 22 percent of GDP, the recourse to debt to finance the budget deficit is likely to increase with the progressive decline in oil revenues. Despite the decrease in oil production, real GDP growth averaged 5.1 percent in 2004-2008. This is due to the expansion in private investments, stimulated by the recent economic reforms and to inflows from oil rich countries. Real economic growth had previously averaged 3.4 percent per annum between 1999 and 2003, only one percentage point over the current population growth. While growth slowed by more than 1 percentage point in 2009 compared to 2008, and unemployment increased to 11%, the Syrian economy did continue to grow at a rate of 4% in the midst of the global crisis. This in part reflects countercyclical fiscal measures aimed at reducing the impact of the crisis, including increases in public investments and the wage bill.

Syria’s GDP remains dependent on the oil and agriculture sectors, both subject to uncertainties due to changes in oil prices and rain dependency respectively. The oil sector provides approximately 20 percent of the government’s revenues and about 40 percent of its export receipts. The agriculture sector contributes to about 20 percent of GDP and 20 percent of employment. Oil exports, exports of services and foreign transfers of income and remittances are the main sources of foreign earnings. Oil reserves, however, are expected to continue decreasing in the coming years and Syria has already become a net oil importer. A current account deficit of 2.4 percent of GDP is projected for 2010.

Over the medium term, Syria faces the dual challenges of: (i) keeping strong growth and developing non-oil sectors to cope with still important demographic pressures and with the decline in oil production and, (ii) maintaining fiscal sustainability.

To sustain growth, Syria will need to further develop the non-oil sector and diversify its economy, away from the oil sector, improve private sector development, and exports.
Much has been done, including the opening of banking and finance to private investors, the unification of the exchange rate and the removal of many barriers to trade. However, further structural reforms are needed, to help sustain export diversification and institutional reform. More precisely, developing the business environment needed for the development of a diversified, competitive and export oriented private sector remains crucial in face of the negative impact of the decline in oil exports on external and fiscal accounts. In addition, Syria will need to increase its productivity by raising the skills of its labor force and improving its overall technological base.

To maintain fiscal sustainability, Syria needs to continue on the path of fiscal consolidation. The current budget still relies on oil revenues, and, in the recent years, increases in oil prices have led to increases in public spending. The depletion of oil reserves renders the sustainability of the current fiscal policy difficult. In recent years, Syria has started to strengthen its fiscal policy stance through conservative budgeting and by reducing the fuel subsidies and broadening the tax base for the consumption tax. Fiscal consolidation towards an adjustment of non-oil budget deficit requires a continuation of this reform process.

Other challenges include an education system which is not fully prepared to provide quality education and economically relevant skills to the young labor force. Syrian workers appear uncompetitive by regional standards. Major upgrading of the quality of the human resource base is required to take up the challenges of opening up the economy. This includes upgrading the quality of education in schools, professors at universities, vocational training systems, and civil servants to manage the transition.

Like many Middle East and North Africa countries, Syria faces major challenges in terms of environmental and natural resources sustainability. Most water basins are under stress and water deficits are expected to worsen, due to large and unsustainable water usage in agriculture, and expected rapid increase in urban water demand. Climate change is resulting in a decrease in agriculture production and is adversely affecting the food security target of the Government.

**Bank Group Relations**

The Bank’s assistance to Syria comprises a program of technical assistance and advisory services in support of economic growth and transition, including policy advice on private sector development, as well as on human development, social protection and environmental sustainability. Activities cover the following areas:

- *Economic Growth and Transition Support.* Trade policy reform; Public expenditure policies; Sources of non-oil growth (Country Economic Memorandum); Private sector development and business environment; Public – Private Partnerships (PPP); Governance, Public Financial Management and Procurement Reform; Statistical capacity.
• **Human Development and Social Protection.** Labor market and employment; Enhancing policymaking and implementation capacity in social protection; Reform options for social insurance; Education sector strategy, Support to avian influenza preparedness;

• **Sustainable Development.** Electricity sector strategy; Agriculture and irrigation sector reform; Transport sector technical assistance.

IFC has been active in Syria since 1999 when the Board approved the corporation’s first investment in the country—a $1 million equity stake in a manufacturer of drip irrigation systems. Since that time, IFC has made two other investments, including an equity position in the first private sector bank in Syria and a loan to a chemicals company. The total held portfolio is $20.2 million. IFC has also conducted technical assistance work, including studies of aspects of the financial sector and is assisting the Syrian Government as transaction advisor for the development of the Al-Nassarieh IPP project.

All dollar figures are in US dollar equivalents. **Updated September 2010**

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