

# Syria's budget reflects foreign exchange crisis

SYRIA's 1987 budget provides a clear indication of the government's severe financial problems. Expenditure has been cut by almost 5 per cent in nominal terms, compared with 1986. But when inflation, now running at more than 30 per cent, is taken into account, the decrease is much greater.

The background to the spending squeeze is a chronic shortage of foreign exchange, resulting partly from a decline in foreign aid, on which the Syrian economy has become heavily dependent.

Defence dominates the expenditure budget – as it has done for years – taking 55 per cent of current spending and 32 per cent of total expenditure. But even this has been slightly trimmed.

On the current side, there are small increases for education and health, and a 26 per cent rise in allocations for servicing public debt.

## Cuts

Subsidies have been cut sharply – but this is partly offset by the benefits from heavily subsidised Lebanese bread and fuel, substantial quantities of which are smuggled into Syria.

The investment budget has been cut by just under 10 per cent. The budget report notes that investment allocations have been estimated "in a way that is more compatible with the volume of available domestic resources, the hard currency situation and optimum utilisation of available external resources."

Agriculture, including irrigation, accounts for just above 20 per cent of the investment budget. Electricity and water take 14 per cent of allocations, and extraction industries 9 per cent.

The allocations are broadly similar to those in 1986, but the proportion of foreign currency required is lower, amounting to the equivalent of \$765 million in 1987, compared with just under \$1,000 million the previous year. The bulk of the hard currency allocations are for oil and minerals projects, and electricity schemes.

The investment budget is not usually disbursed in full. In 1986, actual investment expenditure was 74 per cent of the £Syr 19,333 million (\$4,925 million) allocated.

The gross budget deficit – equivalent to the revenue item "exceptional proceeds" – is significantly lower than in 1986. This is a result of the cut in overall spending, and an

increase in tax revenues and the state sector surplus. However, the key to the government's foreign exchange revenues lies in the section of the report described as "various proceeds," which includes aid from other Arab states and Iran.

## Aid

The budget puts aid at £Syr 7,682 million, which is Syria's entitlement according to the 1978 Baghdad Arab summit conference. In practice, the government is unlikely to receive more than 25 per cent of this sum – only Saudi Arabia has consistently paid its share. Other states have reneged on their commitments because of cash constraints, or political differences with Damascus.

The Arab aid has been an important support for the balance of payments, despite the failure of some governments to pay their share. The summit resolution covering the aid expires in November 1988, putting pressure on Syria to try to improve its relations with other Arab states.

These have worsened primarily as a result of Syria's support for Iran in the Gulf war. In return for that support, Damascus has received aid from Tehran in the form of concessionary oil supplies (MEED 8:8:87).

## Strains

The 1987 budget reflects the strains in the government's relations with Iran. The £Syr 519 million entered under "donations" refers to the 1 million tonnes of oil supplied free of charge by Iran. This is slightly below the 1986 figure because of the fall in the price used to calculate the value of the gift.

According to the April 1982 protocol with Iran on the oil supplies, Tehran should also provide 5 million tonnes of crude a year on concessionary terms. In the 1986 budget, this comes under the category "special proceeds at £Syr 2,570 million, equivalent to 5 million tonnes of oil at \$18 a barrel. In 1987, special proceeds have fallen to zero, implying that the government has not budgeted for any Iranian assistance in this form.

The fall in supplies reflects disagreements with Tehran over prices and payments, and tensions between the two sides over Lebanon. But it also results from a rise in domestic oil production, which is the single most positive aspect of the economic picture.

But, in general, the budget gives a stark indication of the scale of Syria's economic problems: shortage of foreign exchange, lack of raw materials and spare parts for industry, stagnant agricultural production, high inflation and depreciating local currency.

Syria: budget, 1986-87  
(£Syr million)

	1987	1986	% change
<b>Expenditure</b>	<b>41,703</b>	<b>43,841</b>	<b>-4.9</b>
Current, of which:	24,195	24,508	-1.2
defence	13,200	13,600	-2.9
elementary education	3,803	3,641	+4.4
public debt	1,747	1,385	+26.0
subsidies	900	1,400	-35.0
Investment	17,508	19,333	-9.4
<b>Revenue, of which:</b>	<b>41,703</b>	<b>43,841</b>	<b>-4.9</b>
Taxes and duties	14,159	12,040	+17.5
Services	594	382	+55.5
State sector surplus	15,129	14,443	+4.7
Various, of which:	9,442	12,086	-22.0
aid <sup>1</sup>	7,682	7,682	—
donations <sup>2</sup>	519	700	-26.0
special <sup>3</sup>	—	2,570	—
Exceptional, of which:	2,379	4,890	-51.0
loans and external	2,143	1,749	+22.5

<sup>1</sup> aid pledged by Arab states according to the 1978 Baghdad summit conference

<sup>2</sup> refers to free oil supplied by Iran

<sup>3</sup> refers to oil supplied by Iran on concessionary deferred payment basis

Exchange rate: \$1 = £Syr 3.925

Source: Finance Ministry, Damascus