Syrian economy needs faster, deeper reforms to offset oil depletion

Syria's economy experienced a mild recovery in 2004 following a slowdown in 2003 that had been caused by a decline in oil production and the impact of the Iraq conflict on exports and investment, the IMF said in its latest annual economic review. The recovery, which has continued in 2005, has been aided by a strong rebound in exports and a surge in private investment, reflecting ongoing reforms.

Inflation remains subdued for the time being, despite expansionary fiscal policies and an easing of credit conditions. Fiscal policies promise to be somewhat tighter in 2005, as a result of the introduction of a consumption tax, some adjustment in petroleum prices, and a planned curb on inefficient public investment. This, together with moderate credit expansion, will help keep inflation in check.

Syria	2001	2002	Prel. 2003	Prel. 2004	Proj. 2005
			(percent change)		
Real GDP	3.6	4.1	1.3	3.1	3.8
CPI annual average	5.6	–2.3	5.9	4.6	10.0
			(percent of GDP)		
Overall balance	2.4	–1.6	–2.7	–5.3	–4.8
Nonoil budget balance	–16.1	–15.4	–17.9	–18.0	–16.9

Data: Syrian authorities and IMF staff estimates and projections.

Encouraged by Syria's strong non-oil growth and the stable macroeconomic environment, the IMF Executive Board commended the authorities for pushing forward the structural reform agenda, including further liberalizing the trade and foreign exchange rate regimes, simplifying the tax system and broadening the tax base, and strengthening budgetary procedures to improve public spending efficiency.

However, given that its oil is likely to be exhausted in the late 2020s, Syria's medium-term prospects are worrisome. The Board expressed concern that the pace and scope of reforms may be falling short of the daunting challenges posed by the prospective depletion of oil reserves and the high demographic pressures on the labor market. Syria is at risk of getting locked in a cycle of financial volatility, fiscal deterioration, slow growth, and rising unemployment. To avoid such a cycle, the Board urged the authorities to accelerate structural reforms and draw up a strong and credible fiscal consolidation strategy within a transparent medium-term fiscal framework. ■

Bold policy change needed to brighten Zimbabwe's economic prospects

After some improvement in 2004, Zimbabwe's economic and social conditions deteriorated further in 2005, the IMF said in its annual economic review. Continued sharp declines in agricultural output, as well as accelerating inflation—projected to increase beyond 400 percent annually by year's end—and shortages of foreign exchange are expected to cause real GDP to contract by more than 7 percent this year. An overvalued official exchange rate and import restrictions have produced pervasive shortages of basic goods in the economy.

Zimbabwe	2002	2003	Prel. 2004	Proj. 2005
		(percent change)		
Real GDP	–4.4	–10.7	–4.2	–7.2
CPI (12-month change to year-end)	198.9	598.7	132.7	404.6
Export volume	–17.6	–19.3	–9.0	–7.3
Import volume	–0.5	–19.9	–5.8	–11.9
		(percent of GDP)		
Overall fiscal balance[1]	–2.8	–0.4	–7.1	–14.2

[1]Excluding grants, including interest arrears.
Data: Zimbabwean authorities and IMF staff estimates and projections.

The IMF Executive Board expressed deep concern over Zimbabwe's continued sharp economic and social decline, prospects for continuing triple-digit inflation, and further increases in poverty. It urged the authorities to implement a comprehensive package of macroeconomic policies and structural reforms without delay. Decisive fiscal adjustment, particularly through cuts in the public sector wage bill, is essential in the near term, the Board said, although adequate food security and social safety nets would need to be provided to vulnerable groups, especially those affected by HIV/AIDS and "Operation Restore Order" (the government's recent effort to remove unauthorized dwellings). The Board stressed the need to fully liberalize the exchange rate regime for current account transactions and leave the determination of the exchange rate to the market while establishing a strong, credible monetary anchor. Although it welcomed the recent monetary tightening, the Board noted that further sustained tightening would still be needed. The Board commended the Reserve Bank of Zimbabwe's efforts to strengthen banking supervision, while underscoring the need to ensure that supervisors remain independent.

The Board stressed that fundamental structural reforms will be essential for sustaining macroeconomic stability and achieving durable growth. It called on the authorities to act decisively in a number of areas, including: deregulation; public enterprise reform, fiscal reform, and particularly civil service reform; land and agricultural reform; and improvements in governance to increase investor confidence.

The Board welcomed Zimbabwe's recent payment to the Fund, which has substantially reduced arrears, but sought clarification regarding the source of funds for this payment. It agreed to review Zimbabwe's overdue financial obligations again in six months, providing the authorities with more time to strengthen cooperation with the Fund in terms of policies and payments. ■