

Embassy of India  
Damascus

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**Economic & Commercial Report for the Months of January and February, 2012.**

**A. Economy and Finance :**

**1. Government tries to Control Inflation on Food Commodities:** The Syrian Government has allowed the import of lentils, chickpeas, beans and peas in a bid to lower their price in the local market. The retail prices of these products had recently risen and by increasing supplies the government hopes prices will decline. The import of agricultural products into the country is strictly controlled and various restrictions exist. The Government is also monitoring very closely the fluctuation of prices, in particular of food commodities, with a view to avoiding any popular backlash. The Government has also announced that it was confirming for one more year the rates of profits that traders of food commodities were allowed to take. Last year, the Government has set profit rates that wholesale traders were allowed to take based on the wholesale prices of food items. As a result, traders are formally allowed to take a profit of 6 percent on the sale of sugar, rice and animal ghee, 10 percent on imported vegetables, ghee and local and imported vegetable oils (corn, soybean and palm), 10 percent on local margarine, bananas and powder milk and 12 percent on sunflower oil. These relatively low margins would help put a lid on inflation, although import traders have complained that setting low rates on imported items may lead to a loss because of the declining value of the national currency.

**2. Syrian Economy Greatly Damaged :** The Syrian economy has been greatly damaged by the crisis gripping the country. This damage has impacted price levels, country's infrastructure as also the mindset of investors and consumers alike. One of the priorities of the Government is to preserve the level of the country's foreign reserves, not the price of the Syrian Pound compared to US dollar. The greed of the traders and lack of competition in several sectors is also to blame for damaging the economy. The daily number of hours of power cuts has increased while shortage of heating oil and cooking gas continues. Manufacturers, who were set to benefit from the free trade agreement with Turkey, now face one full day of electricity cut every week. Syria's GDP, which rose 3.4 percent in 2010 has most probably seriously contracted in 2011 as almost all business sectors have been affected by the downturn. The agricultural sector and real estate are probably the only two sectors of activity that have not declined.

**3. Central Bank Raises Rates on Investment certificates :** The Central Bank of Syria has raised the interest rates paid on investment certificates to 8 percent. Earlier the rate stood at 7 percent. The change on the rate of this instrument is first announced by the Central Bank in July when it had allowed local banks to pay rates of as high as 11 percent on deposit accounts from a maximum of 10 percent previously. The rates on investment certificates had not been changed then.

Investment certificates are financial papers issued only by the Popular Credit Bank, a state owned entity, on behalf of the Ministry of Finance.

**4. Stocks Rise as Government Prepares Launch of Investment Fund :** The stock exchange 's main index rose for the second week running but closed the year with an annual decline of 50 percent. The DWX closed at 869.51 on December 28, a weekly increase of 0.39 percent. The market declined by 0.38 percent on December, 26 and increased by 0.13 percent on December, 27 and 0.64 percent on December, 28, which was the last session of the year. The DWX fell 49.5 percent over the course of the year largely impacted by the political unrest gripping the country since mid-March. In 2010, the market's main index had risen by more than 70 percent. Traded volumes during the week declined by 62.71 percent to SYP 29.93 million or a daily average of SYP 9.97 million. The stocks of the Qatari banks (Syria International Islamic Bank and Qatar National Bank Syria) remained most active. The DSE also announced that it was listing 7 million new stocks of Fransabank Syria worth SYP 3.5 billion following the rights issue carried by the bank. The draft law on recent increase in stock prices was passed last week by the Syrian Parliament establishing a National Investment Fund and is subject to ratification by the Presidential Decree.

**5. Central Bank Again Allows Sale of Foreign Exchange to Importers :** The Central Bank of Syria (CBS) has removed the restrictions on the sale of foreign exchange to importers and again allowed local banks to sell foreign currencies to finance their imports. The decision was apparently made by the Prime Ministry and then only enacted by the CBS after the later had sought to ban all sales of foreign currencies by banks operating in the country. Since the beginning of the political crisis in Syria last year which marked the gradual drain on foreign currency earnings, the CBS has made several policy changes with regard to the sale of foreign exchange. The various moves have drawn the anger of and created confusion among the Syria's businessmen. One of these measures taken in September last year involved an outright ban on all imports that carried a customs tariff of 5 percent or more except selected list of food items and key commodities. The ban was supposed to help save USD 6 billion in foreign exchange reserves. Demand for foreign currencies has increased in Syria as no clear prospects for an end to the political crisis appear in sight, while the cumulative effect of the downturn and of the international embargo on oil exports has begun to seriously bite into the Government reserves of foreign currencies.

## **B. Industry :**

**6. Cement Production by State Plants at 5.1 Million Tons :** Cement Production of Syria's cement manufacturing body said total output by the Government-owned plants fell 10 percent last year attributing the decline to competition from the private sector. Total output declined to 5.1 million tons in 2011 from 5.7 million tons a year earlier. Production from private sector plants, Lafarge Cement Syria and Al-Badia Cement rose to 3.5 million tons after the beginning of production of the latter in

March. The total demand of the market last year is not yet known although annual demand is generally estimated at around 9 million tons. Besides production by the local companies, imports from neighbouring countries mainly Lebanon also takes a share of the market. The political crisis gripping Syria since last March is believed to have benefitted the cement industry because of the strong construction activity reported across the country. Taking advantage of the loosening of controls by the authorities on building restrictions and seeking to evade a potential devaluation of the value of the national currency, many Syrians rushed to invest in the real estate and in particular in informal housing. The large developments that require deposit payments have generally suffered because of the unwillingness of buyers to commit money in projects whose prospects were not clear.

**7. Adra Cement Adds 300,000 Tons in Annual Production Capacity :** Adra Cement, a state-owned cement manufacturing company had begin output from its third production line. The new line will add 800 tons of Portland cement clinker per day. Adra cement is based north of Damascus and is one of the several plants affiliated to the state-owned General Organisation for Cement and Building Materials that produces an average of 5 million tons per annum. A cement manufacturing plant of ASEC of Egypt has been put on hold due to the unrest.

### **C. Oil & Gas :**

**8. Blast stops Egyptian Gas Supplies to Syria :** The bombing of the pipeline carrying Egyptian gas to both Israel and Jordan has resulted in suspension of supplies to Syria. Egypt, Jordan and Syria are linked through the Arab Gas Pipeline which, until the latest suspension transported about 2.5 million cubic metres of natural gas a day to Syria. The gas is mainly used to feed Syrian power plants. The interruption of the supplies would have only a marginal impact on Syria's electricity generation because Egyptian gas represents only 7 percent of the country's total supply.

**9. INA Naftaplin Denies Reports of Syrian Assets Sale :** Croatia's INA Naftaplin has denied press reports that its mother company MOL was considering sale of the company's assets in Syria. INA said that the disposal of its fields in Syria had not been 'discussed any level of management' and that any decision of this type would require approval of its major shareholders including the Government of Croatia and MOL. Croatia is not part of the European Union but Hungary where MOL is based is part of EU. Doubts still persist. INA's assets in Syria mainly comprise gas reserves in the Hayan field in the centre of the country. Its proven and probable reserves amounted to 45 million barrels of oil. Daily average production in the first nine months of last year reached 20,000 barrels of oil per day. In total INA produced in the nine months ending September 2011, 108,000 tons of crude, 618 million cubic metres of natural gas and 131,000 tons of condensate. The company also operates a gas processing plant in Hayan with a daily processing capacity of 3.9 million cubic metres. The Syrian fields are the largest international assets of INA which is

relatively small player in the global oil industry although MOL is one of the leading oil companies in Eastern Europe.

**10. Syria Commissions New Gas Storage Tanks built by Chinese Company :** Works on the expansion of LPG storage capacity in the coastal city of Baniyas have been completed and were commissioned. China Dalian International Cooperation Group, a state-owned Chinese company signed in 2010 a EUR 18 million contract to build three spherical tanks with the capacity of 3000 cubic metres of LPG each. In 2009, the company had already built 4 tanks with a similar capacity on the same site. The added storage will enable ships with a larger capacity to offload the LPG and reduce costs for the Government.

#### **D. Power :**

**11. Power Outages cost the Economy SYP 23 Billion :** Power outages and attacks on the power distribution network have cost the Syrian economy an estimated SYP 23 billion(USD 400 Million). The various attacks that took place on the past few months which have to attributed to the 'armed terrorist groups' have led to the interruption of production in some plants and to a partial suspension in others. Attacks have been carried on pipelines and other distribution routes carrying feedstock for the plants as well as on low voltage distribution networks. The attacks on the power network when a blast targeted a pipeline near Homs leading to the partial suspension of production at the Zeyzoun and Zara power plants. It is estimated that a daily average of between 1000 MW and 1700 MW in generation capacity is currently out of work. It is about 20 to 25 percent of country's generation capacity.

#### **E Tourism :**

**12. Tourist Numbers Fell 64 Percent in 2011 :** The number of tourist visiting Syria in the months of April to November after the beginning of the popular revolt last year declined by 64 percent compared to the same period of 2010. The figures for December are not available. The foreign tourist inflow declined 8 percent in the first quarter of the last year because of the overall situation in the Middle East. The number of visitors from the Arabian Gulf fell by 84 percent while it declined by 75 percent and 30 percent for European and Iranian tourist respectively. The figures for the Turkish visitors is not available. In 2010, Syria had registered 40 percent increase in the tourist inflow.

#### **F. Trade :**

**13. Government Licenses 1300 new Manufacturing Projects in 2011 :** A total of 1338 manufacturing ventures were licensed last year and 1057 began production. Investors willing to establish manufacturing ventures in Syria need to get license for

their projects under Investment law 8 of 2007 which provides various types of incentives and facilities under law 21 of 1958 specifically dedicated to manufacturing ventures. Projects under the Investment Law are processed by the Syrian Investment Agency while the others are processed by the Ministries of Economy and Industry. Chemicals, food, textile and engineering are the four broad sectors of project activities.

**14. Government Provides Classification Grid for SMEs :** The Government has published rules for classification for small and medium enterprises as it prepares to launch a fund earmarked for them. A company that has 10 employees or less and an annual turnover of not more than SYP 3 million will be classified as micro-enterprise and ones that have less than 50 employees and annual turnover of less than SYP 50 million and a balance sheet of maximum of SYP 50 million will be a small company. Medium-sized enterprise is a company that has less than 250 employees, annual sales of less than SYP 250 million and a balance sheet also of less than SYP 250 million. It is not the first time such a scheme is being announced by the Government to support small companies. Several similar projects have been in the making in recent years including the set-up of a loan guarantee institutions.

**15. Syrian-Turkish Bilateral Trade declined 15 Percent in 2011 :** Syria's trade with Turkey fell 15 percent last year due to the political unrest and the suspension of the free trade agreement linking the two countries although until the third quarter of 2011 year-on-year figures remained stable. As per the publication of Turkstats (Turkish Official Statistics Agency), trade between the two neighbours reached USD 1.9 billion in 2011 from USD 2.3 billion in 2010. The trade balance remained largely in favour of Turkey which exported USD 1.6 billion worth of products and imported USD 336million worth of products only. Syrian exports fell at a faster rate, the decline in Turkish exports accounts for most of the decrease because of their larger size. It is now clear that the Turkish businessmen are the ones that will be most affected by the deteriorating economic, security and political situation in Syria, freezing of free trade area, imposition of a 30 percent customs tariff on goods traded by the two countries, decrease in value of the Syrian Pound relative to international currencies that is making imports to Syria more expensive and less competitive. Trade volumes remained stable till the end of September and the decline almost could entirely be attributed to the last quarter of the year when trade halved on year -on-year basis. The freezing of the free trade area came into force only in December and is only partly responsible for the decline. Turkish exports had already fallen by 32 percent and 45 percent in October and November 2011 compared to the same months of 2010.

**Syrian Trade with Turkey (million USD and %)**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2010/11</b>
Exports	221	452	336	-25.7
Imports	1421	1844	1611	-12.6
Balance	-1200	-1392	-1275	-12.6
Total	1641	2296	1947	-15.2

**G. Agriculture and Water :**

**16. Government to spend SYP 13.5 Billion on Agricultural Inputs Aid :** The Syrian government will disburse this year SYP 13.5 billion to support the purchase by farmers of their agricultural inputs. The money will go to the Agricultural Support Fund(ASF), a body established in 2008 to help farmers cope with the increase in the price of gas oil and other fertilizers decided then by the Government. Gas oil, which is used by the farmers to feed their irrigation well engines, had its price increased to SYP 25.00 per litre in 2008 from SYP 7.00 while fertilizers saw their prices raised to match world levels. The price of Gas Oil has since been reduced to SYP 15.00 per liter. This year SYP 1.8 billion will be spent to cover the cost of gas oil needed for irrigation by cotton growers alone. Cotton consumes large volumes of water and the government had been trying in recent years to limit its output because of drought. The export potential of the crop gives an additional importance to cotton at a time foreign currencies are difficult to come by – a ban on Syrian crude oil imposed last September by the European Union is expected to reduce dramatically the country's total export revenues this year. In addition to the amount mentioned above, the Government will also pay SYP 8.8 billion to Cotton Marketing Organisation to compensate for the difference between the price paid by CMO to farmers to purchase their crop and the sale price of cotton. The cost of the purchase of the wheat crop is not included in the budget of the ASF. The ASF money will not be used only for strategic crops but also dedicated to olives, citrus fruits and vegetables. After years of neglect and having suffered from several consecutive droughts, the agriculture sector has benefitted from a lot of attention since the beginning of the political disturbances.

(Sushil K. saraf)  
Second Secretary(Commerce),  
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