Syria: committed to Reform

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Syria is struggling with spiralling inflation, food shortages and increased poverty, prompting a series of government moves to offset these challenges. Nonetheless, it remains committed to its programme of economic reform, which aims at easing state involvement and liberalising the economy, leaving the country looking for a delicate balance.

Though the official inflation rate for last year was just 5.5%, unofficial studies have suggested it was closer to 15%. Whichever figure is nearer the mark, it is sure to be eclipsed in 2008 as rising international fuel and food costs look set to continue.

In a step to reduce the pain of rising prices, on May 4, Syrian President Bashar Al Assad signed off on a decree authorising a 25% pay increase for public servants and military personnel, with a similar rise in pensions for retired state workers.

In total, some 2m of Syria's 18m population will benefit from the increase, which will see the average state worker's salary rise from $175 to around $219.

The next day, Prime Minister Mohammad Naji Ottri said the wage increases were part of a wider package of support that would raise living standards and meet the daily needs of citizens. Special funds would be made available to support agriculture, exports, social assistance and the health system, Ottri said, although he did not give details as to what form this would take.

The agriculture sector is of particular concern, as rising food costs are one of the main forces driving inflation. Since the beginning of the year, the prices of some of the staples of the Syrian diet, including vegetables, meat, milk and wheat have risen by between 30% and 60%. While the state currently provides some pricing support for basic foodstuffs, the ongoing deregulation of the farming sector and shortages have made commodity costs independent of government control.

In the same cabinet meeting, Ottri said the ministry of economy and trade had been instructed to take all the necessary steps to ensure that bread supplies were not interrupted. The ministry had to tackle the temporary snags in the sale of bread in some governorates, tighten controls on the sale of flour and curb smuggling, he said.

However, while boosting the wages of state employees and other state funding initiatives will help them make ends meet, the government's commitment to reducing fuel subsidies as part of its programme to develop a real market economy is at the same time putting pressure on Syrians' pockets.

Prices of kerosene rose from 15 cents to 54 cents per litre in early May and further rises could be on the way if the government follows through with its promise to completely end fuel price support. Currently, the state imports heating oil at the standard international rate of $1 per litre, meaning it still has a long way to go to recoup the estimated $7bn to $9bn it spends annually to ensure fuel supplies.

A week before announcing the price increases, the government moved to rationalise its subsidised distribution system, introducing vouchers for families that entitle them to 1000 litres of kerosene at below market cost. The measure aims at limiting the amount of fuel used, by making those burning more than the subsidised ration pay market prices, as well as reducing rampant fuel smuggling.

One of the main problems the government faces, according to Safi Shujaa, director of the Syrian Economic Centre, is that while economic growth has remained strong at around 6%, the benefits of this growth have not filtered down evenly throughout society, despite state reforms.

"According to some economists, 70% of gross domestic product goes to only 30% of Syrians," Shujaa said in an interview with the UN's Integrated Regional Information Network in February. "In the past incomes were supplemented by government support, but now as we move towards a free market, government support is being squeezed and society is becoming more privatised."

Syrians are struggling with an economy in transition, with the move from tight state control to even a limited open market proving to be a challenging one as the stepping up of reforms coincides with a global food crisis and record high fuel costs.