

## Title: Syria – Crisis Poverty and Social Impact Analysis (PSIA)

Summary prepared by: The Inclusive Development Cluster, Poverty Group

No.6 - January 2010

This is a summary of the report '**The Impact of the World Economic Downturn on the Syrian Economy, Inequality and Poverty**' funded through a contribution from the Government of Norway. This is part of a series of crisis response PSIA initiatives aimed at generating policy responses to protect human development gains and to stimulate a broader policy dialogue. The Poverty Group at UNDP manages the PSIA initiative and provides technical guidance to country teams conducting the analysis.

### Context

The global economic downturn manifested its impact on the Syrian economy through a fall in the demand for exports from the rest of the world. Production of manufacturing and mining products fell by 1.9 percent and 2.3 percent respectively in response to the decline in foreign demand.

The downturn has come at a time when Syria is suffering the adverse consequences of drought. The drought has worsened the performance of the agricultural sector, which accounts for one fifth of Syrian GDP and has put pressure on the balance of payments.

### PSIA Exercise

The objectives of the study are to undertake a multi-level analysis to quantify the potential short-term impact of the global economic crisis and drought on the domestic economy, including their impact on inequality and poverty. The analysis also evaluates impacts of government intervention to accelerate economic recovery.

The multi-level analysis relies on a macro-econometric model, a computable general equilibrium (CGE) model and a micro-simulation model. The three models are used to assess the impact of a 10 percent decrease of the demand for Syrian exports and a 10 percent decrease of agricultural performance resulting from drought. The impact of a 10 percent devaluation of the Syrian Pound is also used to check whether this measure is suitable to accelerate economic recovery.<sup>1</sup>

### Predictions of the Multi-Level Analysis

Following the fall of world demand and drought, the *macroeconomic model* predicts that real GDP growth will reduce from 7.7 percent to 4.1 percent in 2008 and from 6.2 percent to 2.2 percent in 2009. The Syrian economy will begin recovery in 2009, but real GDP growth will be below what could be achieved without the crisis.

According to the *CGE Model* the fall of world demand for Syrian exports leads to a contraction of real exports by 4.2 percent. At the sectoral level, export losses range from 3.0 percent in other services to 5.5 percent in mining, the most export oriented activity. For these sectors, export contractions translate into output and value-added decline. The conjunction of drought and world economic downturn worsens the negative impact on the Syrian economy. The real GDP falls by 3.1 percent and

---

<sup>1</sup> The 10 percent fall in export demand is predicted by several studies dealing with the impact of the world economic crisis such that of the International Monetary Fund concerning the Syrian economy.

unemployment increases from 9.6 percent to 13.9 percent. Real exports decrease by 5.9 percent, whereas real imports contract by 3.8 percent.

The devaluation of the Syrian Pound to cope with the international crisis does not appear to be efficient to curb the negative impact on real GDP and unemployment. The fall in real GDP broadens to reach 1.1 percent (from 0.1 percent without devaluation). Adding the effect of drought, the change in real GDP reaches negative 4.1 percent.

The reason for these results are to be found in the high dependence of the Syrian economy on exports; while the depreciation of the exchange rate improves the competitiveness of exports and facilitates an expansion of exports by 3.4 percent, import demand contracts by 8.7 percent but higher prices production costs and subsequent price increases result in an increase in the price index by 2.3.

According to the *micro simulation model* the global economic downturn is expected to have a marginal impact on income distribution in Syria. The most important change in the distributional pattern is expected to come from the national drought. The crisis is not expected to have an important negative effect on poverty either. The percentage of persons living in poverty would not increase by more than 1 percentage point, whatever the poverty line chosen. For instance, the pre-crisis incidence of extreme poverty at the reference poverty line is estimated at 12.3 percent. The drought would, nevertheless, increase extreme poverty from 12.3 percent to 14.9 percent. The devaluation of the Syrian pound would further worsen the poverty impact of both the crisis and drought by roughly 2 percentage points.

### **Key Conclusions and Policy Recommendations**

The Syrian economy does not have the flexibility to react to the devaluation of the Syrian Pound. The increase in exports remains below what is needed to counter the negative consequences of the fall in export demand and the increase in the price of imports increases the cost of production and leads to a generalized increase in consumer prices. In addition, sensitivity analysis based on different values of the import and export elasticities does not show any significant improvement in the effectiveness of devaluation to boost economic activities.

The devaluation of the Syrian Pound should be accompanied by other measures to enhance local demand in order to reap the potential benefits of the devaluation. Simulations of an increase in government expenditure by 15 percent show that it would counteract the negative impact of the crisis and lead to faster recovery - real GDP is expected to increase by 0.4 percent and the unemployment rate is expected to decrease from 9.6 % to 8.8 %. Further to offset the potential negative effects of the devaluation on poverty, policymakers may consider an increase in food subsidies or the implementation of direct cash transfers to the poor. The current study has not explored the potential effects of such safety nets. They could make the natural extension for future researches.