

Syria's draft national budget for 2024 reflects the depth of its economic crisis

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A big rise in spending in nominal terms says much more about the collapse of the pound than government spending power, as it continues to drop subsidies, including on fuel

Syria's Council of Ministers has approved a draft state budget for 2024. By one measure, it is up massively year-on-year, a rise that reveals much about the sheer scale of the economic crisis the country faces.

That's because the increase in the nominal value of the state's spending plans follows the collapse in the value of the country's currency, the Syrian pound. Much more money is needed just to keep the same level of services running.

In 2024, the budget has hit 35.5tn pounds, up from 13.3tn pounds in 2022 and 16.6tn in 2023. The rise comes after the sharp fall in the pound took the official exchange rate to the dollar to 12,500 pounds by the end of October.

And so, in real terms - using the official exchange rate of 11,557 pounds to the dollar at the time the budget was announced on 23 October - the spending plans have dropped by around 44%. Measures for 2024 are worth \$3.1bn, down from \$5.5bn in 2023.

Investment and spending

The draft budget does not reveal the full extent of the government's financial plans. But current spending plans amount to 26.5tn pounds, or \$2.3bn at the exchange rate at the time the budget came out. Around 9tn pounds, or \$800mn, will go on investment.

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In nominal terms, those are big year-on-year increases, of 96% and 200% respectively, a rise reflecting the country's plunging currency. Nonetheless, over recent years the proportion of the budget set aside for investment has grown, from 15% in 2022 to 18% in 2023 and to 25% in 2024.

While the amount actually invested has tended to be below the amounts listed in draft budgets since 2011, there should be an increase in state investment in the economy, although no detailed information is available yet.

Social support

Social support services, including subsidies, were allocated 6.2tn pounds, or \$540mn.

Of that, including 2tn pounds will support oil derivatives, 103bn pounds will subsidise bread via cost controls on yeast. Areas affected by the devastating earthquake will get 75bn pounds.

The National Fund for Social Aid, which helps retired soldiers, women and small business, will get 50bn pounds.

The National Project for Transition to Modern Irrigation will receive 75bn pounds, with another 75bn pounds going to the Agricultural Production Support Fund. A further 7bn pounds will go to a fund for mitigating droughts and disasters.

In real terms, all this spending is down year-on-year - by 67% - from \$1.6bn a year ago.

State Revenues

Revenues are expected to rise significantly, probably because of a broad increase in taxes and fees across the economy, including President Bashar al-Assad's Law No. 19, which hiked raising consular and business service fees by up to 100%.

Syria's Minister of Finance Kenan Yaghi forecast 2024 revenues of 26tn pounds, up from 11.69tn pounds last year. Investment income in 2024 is expected to hit 15tn pounds, including income from revenues of public sector companies.

Syria's rare presence at the World Bank and IMF annual gathering is an apparent step towards global reintegration. Minister of Finance Kenan Yaghi led the delegation.. □
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The national deficit will rise in nominal terms in local currency - from 4.86tn pounds to 9.5tn pounds - but when tracked in dollars, it will be around 51% lower - from \$1.62bn to \$800mn.

In previous years, the deficit has been funded with cash from the reserves, which overwhelmingly represents money printed by the Central Bank of Syria's domestic debt through treasury bonds and foreign debt.

Budget Dynamics

Aside from the impact of exchange rates, the 2024 draft budget is consistent with the patterns and dynamics established by previous fiscal plans.

Since the aftermath of the uprising in March 2011, current spending has accounted for the bulk of the budget. Investment represents the smaller share.

Most of the spending goes on the management and operation of state institutions, the Public Debt Fund (PDF), wages and subsidies.

In 2023, the PDF received about 30% of the spending total. It uses the money to grant loans to public entities which they use to fund their investments. This has, in the past, included spending at governorate level on infrastructure including water sanitation.

The increase in the budget allocation to the PDF is that it has been covering the expenses of of the Ministry of Defence (MoD) and the Presidency of the Republic since 2018.

Shrinking social support

The share of spending on public subsidies and other such support programmes is lower in 2024 at 18%, down from almost 30% in 2023.

This drop comes amid a wider state austerity effort to reduce subsidies, with mechanisms to limit the price of oil derivatives, in particular, coming down. These subsidies account for just 5.6% of the 2024 draft budget, down from 15.5% in 2010. Even after falling after the outbreak of civil conflict in 2011, these subsidies were over 18% of the 2023 draft budget.

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Plans to cut subsidies began before 2011, especially over oil derivatives. There was a long list of criticisms of them, not least that they had become an excessive burden on the state budget.

They also did not help those in society who needed it most, holding prices down for rich and poor alike, while also encouraging diesel smuggling out of the country and damaging the environment.

Other ways of offsetting the impact of lower subsidies were found, including direct cash aid for farmers and an increase in salaries. At the end of the 2000s, Syrian officials announced, on several occasions, that most energy products, and especially oil derivatives, would be sold at market price by 2015.

In line with these policies, the government raised the price of oil products and fertilisers in 2008 and 2009. The eruption of the conflict in 2011 slowed the process down.

The granting of bonuses to state employees and pensioners and rise in salaries have not offset the cuts in subsidies. The economic and social impact on the population has been severe.

Higher prices for fuel affect all levels of agriculture and production, including labour wages, transport fees, generators, and the general day-to-day lives of the population.

And so lower subsidies mean a higher cost of living, and inflation. One measure – the standard reference food basket – doubled in price between January and September this year. It tripled year-on-year compared with September 2022, reaching 938,000 pounds.

Poverty trap

The dynamics of the 2024 draft budget reflect the continuous weakening of the Syrian state and its economic capacity, as well as the sustained drop of the country’s currency.

After the country’s civil war wiped out significant revenues, especially from oil and gas and tourism, the government has looked to cut the bill from subsidies, not least to try and stabilise the pound.

As well as wider plans to cut state spending and rebuild foreign currency reserves, it has sought to lift revenues.

To date, these plans have been a total failure. They have reduced living standard and caused an increase in poverty, with over 90% of the population now under the poverty line.

Nonetheless, subsidies will probably continue to be lifted, on fuel and other goods, as costs are, in effect, transferred from the state to ordinary people, which they are struggling to pay for.

It is likely to mean that more and more people will become dependent on humanitarian assistance, which is diminishing, and remittances sent back home by people in Syria's diaspora, in the absence of any economic recovery.

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