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الحجم والعبء الاقتصادي للدين الخارجي في سورية

الدكتور هيثم أحمد عيسى*

(تاريخ الإيداع 4 / 7 / 2021. قُبِل للنشر في 26 / 9 / 2021)

□ ملخّص □

رغم اهتمام كثيرٍ من الدول الكبير بمشكلة الدين الخارجي وكثرة الدراسات الأكاديمية حولها، إلا أنّه مقارنةً بذلك يوجد ضعف اهتمام بهذه المشكلة في سورية سواء في المجال الأكاديمي أو مجال مناقشات صنّاع السياسات الاقتصادية. تركز هذه الدراسة في القسم الأول (النظري) مراجعة مفهوم الدين الخارجي وأهم أسبابه ومؤشراته والحلول المقدمة لمشكلة الدين الخارجي. في القسم الثاني (العملي) تعرض الدراسة بتوسّع تطوّر حجم الدين الخارجي في سورية والأعباء الاقتصادية الرئيسة له. للمزيد من الفائدة، تقدم الدراسة مقارنةً لبيانات الدين الخارجي في سورية مع متوسط مثيلاتها في ثلاث مجموعات من الدول هي مجموعة الدول منخفضة الدخل والدول النامية ودول الشرق الأوسط وشمال أفريقيا. وجدت الدراسة أنّ سورية تفضل الاقتراض طويل الأجل وبشكلٍ خاص من مصادر ثنائية. تبين أنّ مستوى الدين الخارجي تراجع في سورية خلال كامل فترة الدراسة، إلا أنّ مؤشر الدين الخارجي إلى الناتج المحلي اتخذ مساراً تصاعدياً بعد عام 2011 لكنه بقي أقل من مستواه في مجموعتي الدول منخفضة الدخل والدول النامية. أما مؤشر الدين الخارجي إلى الصادرات فقد كان منخفضاً خلال فترة ما قبل الحرب\الأزمة على سورية لكنه ارتفع بسرعة بعدها.

الكلمات المفتاحية: الدين الخارجي، سورية، مؤشر الدين إلى الناتج المحلي، مؤشر الدين إلى الصادرات تصنيف F34, H63:JEL

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The Size and Economic Burden of External Debt in Syria

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□ ABSTRACT □

There is a vast literature on external debt, but somehow it is a neglected topic in Syria both in academic and policy making discussions. This study focuses in the first (theoretical) part on reviewing the concept, main reasons, indicators, and solutions of external debt. In the second\applied part, the study shows the development of external debt in Syria and its main economic burdens and comparison of external debt data in Syria with three categories of countries that are low income, developing, and Middle East and North Africa countries. The study found that Syria favors long-term borrowing mainly from bilateral sources. The level of external debt declined in Syria throughout the period of study. The ratio of external debt to GDP increased after 2011 but remained below than that in the categories of low income and developing countries. The ratio of external debt to exports was low in Syria prior to the crisis\war period but increased dramatically since its beginning.

Keywords: External debt, Ratio of external debt to GDP, Ratio of external debt to exports, Syria. **JEL classification**: F34, H63.

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Introduction

Recent economic history of the world indicates that total economic self reliance is an illusion so far as available economic resources obey the property of relative scarcity. A review of the distribution of financial resources among world countries reveals that some countries have relatively abundant financial resources (surplus group), while other countries are relatively poor of these resources (deficit group). This case creates a need for lending among the former group and for borrowing among the second one.

The inadequacy of financial resources required to finance economic activities is a dilemma for planners and policy makers and creates a need for external borrowing\debt. This situation becomes more chronic in the case of developing countries that need to finance a series of big capital intensive investment projects mainly in infrastructure especially at the onset of the development process.

Studies show that external debt (borrowing externally from non residents and\or international organizations and\or other countries) is somehow an old phenomenon in the modern economic history and dates back to the first half of the 19th century, but has become wide spread among world countries (Kabakly, 2014).

Currently, world bank data shows that by the end of 2018 total external debt was about 8 trillion dollar, and on average the stock of external debt increased by 5.2% in low and middle income countries and by 15% in China. On contrary, some large indebted countries like Russia, South Africa and Turkey managed to mitigate their levels of indebtedness. In addition, in 2018 short-term external debt grew by 12% and reached 2.2 trillion dollars accounting for 28% of total external debt. Alongside, long-term external debt grew by 3%. Regionally, countries in the Middle East and North Africa (MENA) documented the fastest accumulation rate of external debt stock (6%) and among these countries Egypt was in the front at a rate of 17%. A completely different scenario shown by countries in Europe and Central Asia where external debt declined by 5.5% between 2017 and 2018 (World Bank, 2020).

Syria is classified by the World Bank among the group of low income countries. As most other developing countries, it relies to some extent on borrowing both domestically and externally to fill the gap in the domestic financial resources. Form historical view, Syria used to depend more on external borrowing in the period before 2000 compared to the period after it[1]. Moreover, Syria paid extensive efforts to reschedule and settle its debts due to the former socialist countries, and since then the country committed itself to limit external borrowing. This altogether led to a sharp decline in the economic burden of external debts. To accomplish this task the remaining of the study is divided into two main parts. The first part shows some theoretical aspects of external debt, while the second part examines changes in the size of external debt in Syria and due economic burdens. To have more meaningful results, changes in external debt in Syria are compared with three groups of countries.

I. Research problem:

Syria is preparing for rebuilding and developing its economy and the country already suffers of lacking adequate financial resources both in domestic and foreign currencies. The situation would more exarcebated due to the financial requirements of the rebuilding process, which could make external debt an inevitable option. However, the use of this source could have serious medium and long run adverse effects on economic, social and political sides. Given that, there is a need for in-depth research to study the recent history

[1] **See section 9 of this paper**

of external debt in Syria and analyze its trends and burden. This exactly is the task this paper addresses.

II. Research hypothesis:

- ✓ The level of external debt in Syria is not a serious problem.
- ✓ The ratio of external debt to exports in Syria is low compared to other countries.
- ✓ The ration of external debt to GDP in Syria is still within safe limits.

III. Research questions:

- How much was external debt in Syria during the period 1990-2018?
- How did the ratio of external debt to GDP change during the period of study?
- How did the ratio of external debt to exports change during the study period?
- Are economic burdens of external debt in Syria consistent with other countries?

1. Literature review:

There is a voluminous yet still growing theoretical and empirical literature on external debt. Scholars addressed many different aspects of this topic covering issues related to the size, evolution, growth, types, causes, implications, and interactions of external debt in both developing and developed countries.

It is expected for the topic of external debt to be an integral part of the literature on economic crises in general and financial crises in particular. Sachs (1985) compares the economic performance of debtor countries in Latin America and East Asia in the aftermath of the international debt crisis in the early 1980s. The study argues that differences in economic performance between the two regions can be accounted for by the differences both in exchange rate management and trade regime. Concerning debt and borrowing, the key difference was unrelated to the extent of external borrowings but centered on the answer to a key question i.e. (how borrowed funds are used?). Contrary to the Latin American countries, the East Asian ones used borrowed funds to finance the development of a resource base in tradable goods capable in the future of shouldering the responsibility of debt servicing. The seminal work of Furman and Stiglitz (1998) addresses several intertwined questions about the East Asian crisis during the second half of the 1990s. In their paper they tried to collect evidence and insights from that crisis to provide accurate answers to their questions, they discusses the issue of external (short-term) debt. The study argues that the East Asian crisis was unique in terms of its key determinants that differ compared to previous crises. The study indicates that large short-term debt exposure rendered these countries more vulnerable to sudden withdrawal of confidence. UNCTAD (2015) shows that swelling financial capital inflows in the context of rapid and excessive global expansion of liquidity is a key driver of growing indebtedness around the world. The report indicates that external debt in developing countries is characterized by high vulnerability to fluctuations in private financial markets because of two factors, firstly the growth of complex and ambiguous financial and debt instruments, and secondly, the deep changes in the structure and composition of external debt in these countries. In a very recent study, Badi et al. (2020) employs machine learning models to provide robust prediction of fiscal crises placing substantial importance on public debt both alone and in conjunction with other variables. The findings indicate that financial crises can be better predicated using levels of public debt where the likelihood of crises increases sharply beyond a threshold level of debt.

Searching for the determinants of external debt occupies a sizable part of the relevant literature. Lusinyan and Buch (2000) provides a summary of the theoretical literature on the determinants of short-term debt coupled with a theoretical model of the risks and benefits of this debt. In addition, the study includes an empirical part in which it uses data

provided by the Bank for International Settlements (BIS) to identify the main determinants of short-term debt in the case of 55 recipient country. The results show that GDP per capita and the size of the financial sector have positive effect on short-term bank loans. Medani (2008) presents an assessment of the Sudanese government attempt to reduce poverty and the effects of external debt and its sustainability on these efforts. To provide some policy based recommendations concerning the problem of poverty and growth in the Sudan, the study carries an empirical investigation of the relationship between growth, debt and peace in the Sudan and provides further proof of the debt overhang hypothesis. Negative effects of external debt on GDP and private investment in the case of Iran are documented in Safdari and Mehrizi (2011) who estimates a VAR model of five variables (gross domestic product, private investment, public investment, external debt and imports) for the period 1974-2007. Bittencourt (2013) employs different time series analyses to investigate the determinants of government and external debt in nine South American countries for the period 1970-2007. The study concludes that economic growth is an important tool to reduce debt in these countries. The experience of Ghana is studied by Brafu-Insaidoo et al. (2019) that examines the determinants of short-term foreign debt stock in Ghana using annual time series econometric analysis for the period 1970-2012. The study shows that short-term foreign debt is positively correlated with reduced regulatory restrictions on external borrowing, wider disparity between domestic and foreign interest rates, economic growth performance and domestic financial deepening.

One key focus in the literature on external debt is the nexus between this debt and economic growth. Al-Adayleh et al. (2014) investigates the structure of public debt in Jordan and its impact on economic growth over the period 1980-2012. The cointegration analysis reveals that external\domestic debt had negative\positive effects on economic growth. Senadza et al. (2018) employs the system generalized method of moments GMM technique to examine the economic growth effect of external debt in 39 countries in Sub-Saharan Africa using data for the period 1990-2013. The study finds negative effect of external debt on economic growth in the region. Similar results are found by Al-Kharusi and Stella Ada (2018) who trace the link between economic growth and external debt in Oman using ARDL cointegration approach for the period 1990-2015.

The interactions between external debt on one hand and a long list of economic variables on the other hand were the subjects of many other works in the debt literature. A comprehensive empirical analysis of external debt trends in developing countries is provided by Holland (2007) who focuses on the specifics of external debt in these countries with appropriate consideration of the interventions of multilateral international institutions in the debate about sovereign debt. The study confirms that once a country borrows abroad in foreign currency, for several reasons it becomes highly vulnerable. To mitigate the problem, domestic authorities in such countries have to decrease their borrowing alongside with enhancing credibility in their monetary and financial systems. Using multi-country historical data on public debt, Reinhart and Rogoff (2010) searches for a systematic relationship between high public debt levels, growth and inflation. The findings indicate that at normal debt levels the relationship between growth and debt is relatively weak. In countries with public debt over roughly 90%, however, median growth rates are lower by about 1% and average growth rates are lower by several percentage. Furthermore, the relationship between high debt levels and high inflation rates holds for emerging market countries and some advanced countries but not in the group of advanced economies altogether. Reinhart et al. (2012) assesses the association between growth and interest rates and prolonged periods of too high public debt (periods lasting five years

during which the ratio of public debt to GDP exceeds 90%) over the period 1800-2011. The study reveals that in 23 of 26 periods, high debt ratios were associated with extraordinary slower growth. Moreover, public debt overhang is strongly associated with either a huge increase in real interest rates or lower ability to access capital markets. The challenges posed by external debt sustainability in Romania are qualitative and quantitative assessed by Zaman and Georgescu (2015). The study confirms that Romania's financial framework was deteriorated and its achievements in terms of economic development was lowered as a result of increases in long-term external debt stock.

Part I. Theoretical discussion

2. External debt: a conceptual explanation

Borrowing is a widely used option at individual and governmental levels. An individual borrowing usually takes place during the periods when his\her income is insufficient to cover all their consumption expenditure (i.e. borrowing = income – consumption). Similarly, an investor borrows to finance his\her project when their own funds are less than the total cost of the project (i.e. borrowing = investor's funds "savings" – project's total cost). In the same vein, a government needs to borrow in the periods when its budget is in deficit "government expenditure exceeds its revenues". Whether at the individual or the governmental level, borrowing could be from domestic sources[2] (domestic savings), or from external "foreign" sources like other countries, international organization like WB and IMF, and other international establishments and organizations.

To clarify its meaning, the study presents three definitions of external debt[3].

- IMF (2014) "Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy".
- Gerber (2014) "money owed to nonresidents that must be paid in a foreign currency. It includes the debts on borrowings by both governments and the private sector, and long- and short-term debt, where short-term is anything under a year."
- Al-Abbas (2004) "external debt encompasses all medium and long term debts owed or guaranteed by the government including privates sector's debt".

3. How external debt occurs: a comprehensive look

A comprehensive economic analysis is required to reveal how a country may become externally indebted. The definitions of external debt presented above indicate that this debt represents a financial relationship between residents in a country and non-residents. Thus, the starting point to answer the question raised in this section would be explaining the components of the balance of payments that show all commercial, financial and other transactions between the residents in a country and nonresidents[4]. As table (1) shows, this balance has three accounts i.e. current account, financial account, and capital account. In general, the current account is the most important part of the balance of payments with its balance equals the sum of both financial and capital accounts with inverse sign. Items that increase financial inflows are shown with (+) sign and items that increase financial outflows are shown with (–) sign.

[2] For a more detailed discussion on domestic sources of financing, see (Kabakly, 2014).

[3] Providing a critical assessment of the definitions of external debt is beyond the scope of this study, do, for a detailed discussion on this aspect see (Panizza, 2008).

[4] For further discussion and explanation on this point see Higgins and Klitgaard (1998)

Table (1): an example of Balance of Payments

	Value
Current Account	
1. Goods and services	
Exports (+)	
Imports (−)	
2. Investment income	
Investment income received (+)	
Investment income paid (−)	
3. Net unilateral transfers	
Capital Account	
4. Capital account transactions, net (±)	
Financial Account	
5. Net change in the country's assets abroad (increase/outflow (−))	
6. Net change in foreign assets in the United States (increase/inflow (+))	
7. Net change in financial derivatives	
Statistical Discrepancy	
Memoranda	
Balance on current account (1 + 2 + 3)	
Balance on capital and financial accounts (4 + 5 + 6 + 7)	

Source: Gerber, 2014

In the majority of developing countries, the process of economic growth\development requires a long list of non-domestically produced goods that must be imported. Some of these goods (machinery, equipment, tools, and advance technology…etc) are so expensive. On the other hand, these countries' exports are in general limited, less diversified, and of low prices in international markets. Accordingly, these countries suffer of diminishing terms of trade (Medani, 2008) as well as deficits in their current accounts. These deficits in current accounts require, as discussed earlier, counterpart surpluses in the financial and capital accounts. In other words, there must be financial inflows in terms of external borrowing\debt and\or different types of financial and foreign direct investments into these countries[5].

Further discussion about this idea would be based on the following identity:

Total (private + public) savings = investment + current account balance

According to this identity, in any country total saving equals the sum of total investment and current account balance. When investment level exceeds total savings, common in most developing countries, the current account balance should be negative (deficit). In other words, the sum of financial and capital accounts should be positive with the same absolute value. The positive balance of the financial account indicates the existence of financial inflows into the country in forms of foreign direct investment and\or financial investments in domestic securities and bank accounts.

4. Indicators of external debt

In practical use, there is a tool kit of several useful indicators to measure the economic burden of external debt and the ability of a country to fulfill its debt obligations (Abuzaid, 2011; Al-Abbas, 2004):

4.1 The ratio of total external debt to exports:

Generally, exports are the main source of hard currencies (all currencies accepted in international markets for paying for the prices of imports and fulfilling the obligations of

[5] **This is true since the balance of the capital account is always of a trivial value.**

external debt such as US dollar, Euro, British Pound, Canadian Dollar, and Japanese Yen). Hence, economists widely use the ratio of external debt to exports to measure the ability of a country to cover its external debt from its exports' revenues.

4.2 The ratio of external debt servicing to exports:

Given the fact that annually a debtor country has to pay only for its external debt service (i.e. installments and interest payments) but not for total debt, it was agreed that a better measure of the burden of external debt would be the ratio of debt servicing to exports.

4.3 The ratio of external debt to GDP:

GDP represents the market value of all final goods and services produced in a country in a given period of time usually a year. Based on this definition, it is true to view GDP as a measure of total financial resources generated by production process in a country during a period of one year. In other words, GDP stands for solvency of a country, thus the bigger the GDP the more viable a country in fulfilling its debt obligations. Given that, the ratio of external debt to GDP is now an accurate and widely used measure of the burden of external debt.

5. Causes of external debt:

There is no consensus on the factors causing external debt, this may be due to the large number and the widely different circumstances and experiences of indebted countries. Another reason could be the divergence of views and varying interests of scholars of this issue. A review of literature reveals that the following factors are among the most important causes of external debt:

First, government budget deficit: this factor becomes more serious when this deficit accumulates over time for several consecutive years. In this case, few options are available to cover the deficit including domestic borrowing, external aids, external borrowing (Al-Afandi, 2016; Olwan & Taleb, 2019).

Second, current account deficit: as shown earlier this account is the part of the balance of payment where foreign trade, investment income, and unilateral transfers are recorded. When there is deficit in the current account it is most likely a result of a deficit in the trade balance i.e. imports exceed exports. Usually, current account deficit is covered by external borrowing i.e. surplus in the financial account (Matos et al., 2017; Higgins & Klitgaard, 1998).

Third, exports concentration: this is a commonly observed situation in most developing countries whereby a country's involvement in international trade is confined to a few goods especially raw material like petrol, gas and minerals or agricultural products like cocoa, coffee bean, bananas, and cotton etc, or goods with low value added. This situation is hazardous as any adverse changes in international prices of these goods would have serious effects on developing countries causing them to lose sizable part of their exports' revenues, hence, pushing them to use the risky option of borrowing externally (Bjerkholt, 2004).

Forth, economically unjustified external borrowing: it is not unlikely in the context of developing countries to encounter cases where external borrowing is used for diverse purposes such as financing imports of consumption expenditure especially conspicuous consumption. Unlike investment, consumption doesn't generate future financial revenues that can be used to service external debt. The situation becomes more exacerbated when a country borrows heavily and its external debts accumulate over time and\or employs weak macroeconomic policies (Mugasha, 2007).

Fifth, behavior of international lenders: there is evidence from several cases in which the behavior of international (official and unofficial) lenders negatively affects the ability of debtor countries to fulfill their obligations. In some cases lenders both governments and private banks in developed countries continued lending excessively without proper evaluation of the debtors ability to repay (Mugasha, 2007). In addition, lenders often apply

cumbersome conditions that mostly will not be met by debtor countries. Al-Homosh (2011) provides examples of these conditions that include:

- Requiring debtor countries to introduce changes into their economic structures that could be harmful or improper and might lead to economic and social distress;
- Forcing debtor countries to spend part of the loan\debt on purchasing products from the lending country;
- Using loans\debts to justify intervening in debtor countries.

In this context, the conditions that international organizations like the WB and IMF places on their loans stands as clear examples of the improper behavior of the lenders (Best, 2012; Lang, 2020).

6. Possible solutions of external debt problem:

Given that external debt is a financial transaction between a lender and a borrower, most solutions focuses on considering the interests of both parties of this transaction. There are also some solutions that address more the interests of one side (the borrower\debtor) in order to avoid the troublesome situation in which the debtor country declares insolvency and stops servicing its external debts, a situation that is so costly for lenders[6]. Some claim that lenders should, in some cases, forgive debtor countries either partially or totally of their due debts (Mugasha, 2007; Thomas, 2000).

The remaining part of the theoretical section of the study lists some of the main solutions of external debt:

6.1 Reframing external debt**:** this solution aim to considering the adverse circumstances in developing countries that prevent them from fulfilling their obligations. There are different options within this solutions as follows:

A. Rescheduling external debt[7]**:** this option can be defined as "an agreement between the debtor country and its lenders individually or collectively to modify some or all terms of foreign debt contract, the modifications may include one or more of the following items (Al-Abbas, 2004):

- Cancelling part of the debt "forgiveness";
- Renewing maturity dates for remaining\outstanding part of the debt at the same interest rate;
- Reducing the applied interest rate without any changes to the outstanding debt.

This solution is usually the result of a negotiation process between lenders and debtors that is targeted at modifying terms of the debt\loan contract in such a way to (i) enhance to ability of the debtor to repay its debts, (ii) avoid it from going into insolvency, (iii) reduce risk level facing this country, and (iv) reduce the borrowing costs (Mugasha, 2007). A study by (Marchesi, 2003) showed that a country's adoption of IMF program, all in all with its associated conditionality, is treated by private creditors as a signal of good behavior that makes them more welling to reschedule that country's debt. From the perspective of this study, this matter is open to a contradicting scenarios, as it would be good if that country overcame its financial dilemma and progressed well in the long run. However, the country would just switch from one problem to another, if the IMF program helped it solve its debt problems with private creditors but made it more dependent on the IMF and its programs.

[6]The year 1982 witnessed the first debt problem in the world when Mexico declared its inability to fulfill the obligations of its external debtors that were estimated at 80 $ billions. Following that, many less developed countries declared insolvency.

[7] In 1983, 27 countries, of which 16 Latin American countries including Brazil, Mexico, Argentina and Venezuela, managed to reschedule their external debts.

B. Selling debt in secondary market: by using this option, lender party sells the due debt at a discounting price in order to secure part of the outstanding debt. On the other hand, the buyer aims to get from the debtor more than what they initially paid to buy the debt from original lender, or to resell the same debt in the secondary market at a higher price (Mugasha, 2007). Transactions in secondary market related to debt selling are classified into (Gajdeczka & Stone, 1990):

- Loan-to-loan swaps: the trading of one loan for another and usually undertaken by banks;
- Cash sales: when a lender sales a loan\debt to an investor,
- Debt buyback: here a debtor country buys its debt from the lender at a discounted sum;
- Debt conversion: the swap of external debt into equity or domestic debt;
- Debt exchange: transforming external debt from one type into another.

C. Exchanging debt for securities: in some cases especially after selling its debts in the secondary market, debtor countries exchange their debts for shares in public companies or bonds in domestic currency in the hope to get rid of the debt burden and secure good returns to the new lenders (Mugasha, 2007; Al-Abbas, 2004).

Part II: External debt in Syria

7. Size and structure of external debt in Syria:

The study starts with reviewing the size and structure of external debt in Syria based on WB data presented in Table (2) below.

According to table (2) it is possible to infer several important points such as:

- Altogether, total external debt stock decreased by $1701 million from 2008 to 2018;
- The structure of this debt shows an increase in the use of IMF credit from $56 to $388 million, whereas loans provided by the WB remained low at $14 million since 2014;
- Long-term debt constitutes the sizable part of the Syrian external debt in spite of its decrease by $1095 million from $4747 to $3652 million; and
- Short-term debt decreased from $585 million in 2008 to $549 million in 2018.

Table (2): External debt in Syria (2008-2018)
(unit: US $ million)

	2008	**2014**	**2015**	**2016**	**2017**	**2018**
Summary external debt data by debtor type						
Total external debt stocks	**6389**	**4609**	**4420**	**4388**	**4806**	**4688**
Use of IMF credit	56	404	387	375	398	388
Long term external debt	4747	3672	3529	3498	3654	3652
Public and publicly guaranteed sector	4747	3672	3529	3498	3654	3652
Public sector	4747	3672	3529	3498	3654	3652
Of which: general government	4071	3156	3035	3031	3144	3153
Short-term external debt	585	533	504	496	553	549
Summary external debt stock by creditor type						
Long-term external debt	4747	3672	3629	3488	3854	3862
Public and publicly guaranteed debt from	4747	3672	3529	3498	3654	3652

Official creditors	4747	3672	3529	3498	3654	3652
Multilateral	1548	1542	1434	1403	1512	1472
Of which: WB	18	14	14	14	14	14
Bilateral	3200	2130	2095	2095	2142	2180
Use of IMF credit	56	404	387	375	398	388
Source: World Bank (2020)						

More insights can be gained by analyzing the composition of external debt as shown in Figure (1) below.

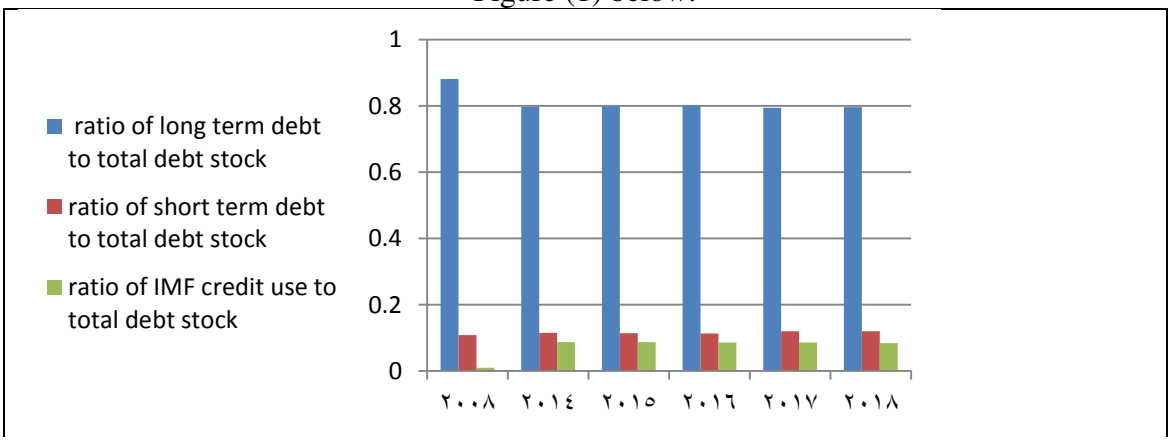


Figure (1): Composition of external debt by time period
Source: Author's own preparation based on World Bank (2020) data presented in Table (2)

Figure (1) shows that Syria depended heavily on long-term external debt which constituted between 79% to 89% of total external debt stock. Short-term debt fluctuated between 10% and 12% of total external debt stock. Although, the use of IMF credit jumped markedly between 2008 and 2014, it declined during the remaining period and its ratio to total external debt did not exceed 1.04%. This structure is less risky compared with situations where short-term debt dominates a country's external debt because long-term debt can be invested in long-term productive projects that generates financial returns needed for debt servicing. In addition, large levels of short-term external debt makes a country sensitive to financial distress when global financial market becomes less liquid and access to these markets become limited[8].

Looking at the data from a different angle reveals that Syria favors borrowing from bilateral rather than multilateral sources as shown by Figure (2).

[8] **There is good evidence on the drawbacks of short-term external debt, for example see Lusinyan & Buch (2000); Rodrik & Velasco (1999); and Furman & Stiglitz (1998).**

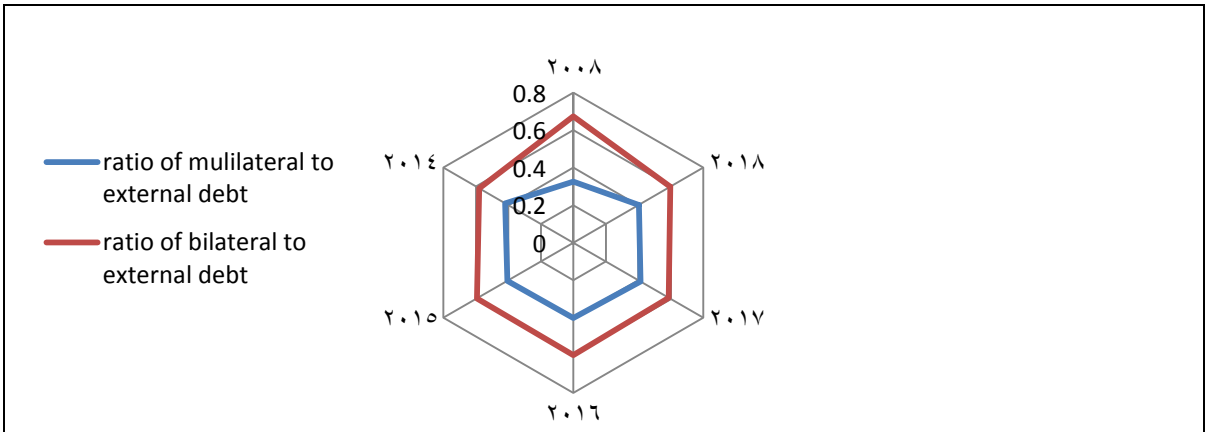


Figure (2): Composition of external debt by source (multilateral, bilateral)
Source: Author's own preparation based on World Bank (2020) data presented in Table (2)

8. External debt in Syria in the long run:

So far, the study presented latest changes in external debt in Syria from 2008 to 2018. However, an in-depth analysis and better understanding require examining the data from a wider perspective. This is the task addressed in this part of the study.

8.1 Total external debt:

Looking at the data from 1990 to 2018, as shown in Figure (3) reveals an interesting path of total external debt in Syria. It is straight forward to notice the contrasting situation before and after 2004 that witnessed a sharp decline in the level of external debt. It is clear that Syria used to depend more on external debt prior to that year and much less then after. Precisely, this trend started earlier in 1998, this mainly was due to the agreements Syria signed with the pervious Socialist countries (e.g. Russia, Bulgaria, Slovakia, and Czech Republic) to settle the accumulated debts Syria owed to those countries. These agreements included forgiving part of the debts, rescheduling the remaining parts for longer periods, and allowing Syria to pay part of the remaining debt by Syrian products and in Syrian pounds (Kabakly, 2014).

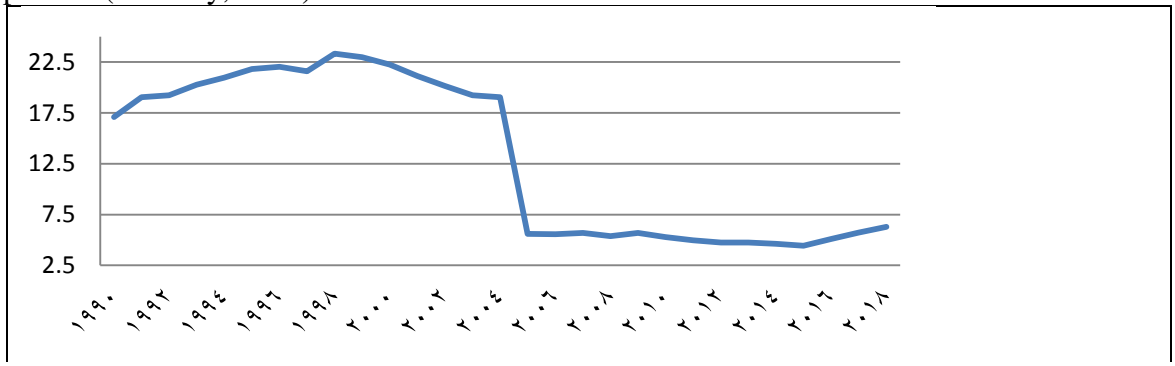


Figure (3): Total external debt in Syria (Billion US $)
Source: Islamic Development Bank, based on WDIs by the WB.
http://data.isdb.org/pxfdrcg/world-bank-development-indicators-wdi-2017-idb-aggregates?tsId=1082720#

8.2 Ratio of total external debt to GDP:

This ratio measures the burden of external debt and the lower its value the less burden the country suffer, however, a complete analysis of the diverse burdens of external debt requires taking into account not only its level but also its structure.

Generally, figure (4) shows a continuous decline in this ratio during the period 1990-2010, followed by a modest increase from 2010 onward.

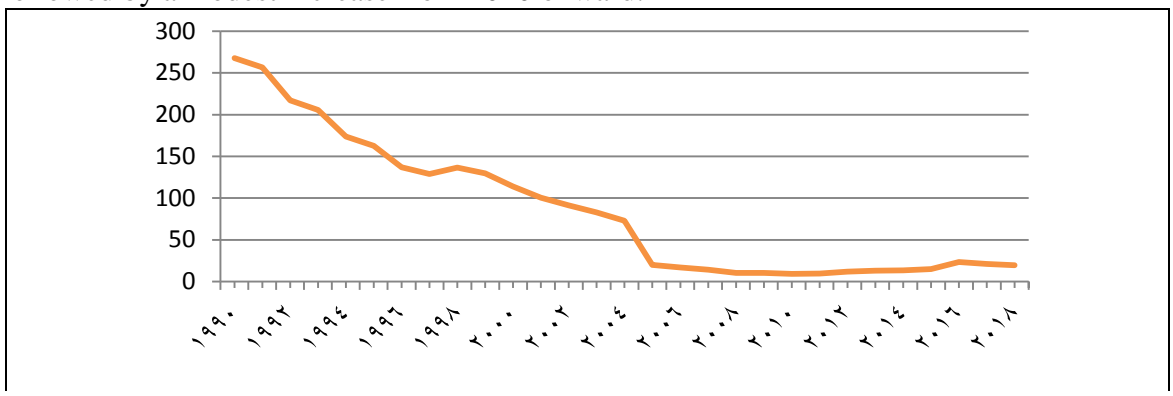


Figure (4): Ratio of total external debt to GDP in Syria
Source: Islamic Development Bank, based on WDIs by the WB.
http://data.isdb.org/pxfdrcg/world-bank-development-indicators-wdi-2017-idb-aggregates?tsId=1082720#

Consistent with the previous discussion, the downward trend in the value of this ratio became more apparent after 2004 for the reasons discussed earlier as well as for the improvements in the GDP level during the same period. The gradual increase in the value of this ratio after 2010 was driven by two factors, firstly the decrease in GDP level during the crisis period that started in 2011, and secondly the increase in external debt during that period especially since 2015.

8.3 Ratio of total external debt to exports:

This is a measure of the burden of external debt as percent of exports, the main source for securing foreign reserves[9], a country needs to pay for its external debts.

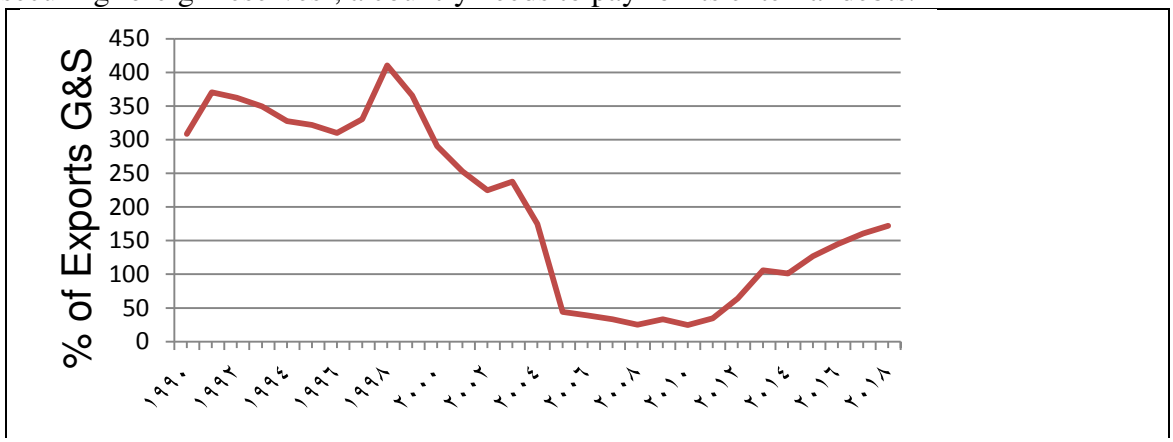


Figure (5) Ratio of total external debt to exports
Source: Islamic Development Bank, based on WDIs by the WB.
http://data.isdb.org/pxfdrcg/world-bank-development-indicators-wdi-2017-idb-aggregates?tsId=1082720#

[9] **Foreign reserves include all foreign currencies accepted in international transactions either for financing purchases of imports or for paying external debt.**

In the case of Syria, data depicted in figure (5) unfolds two important facts about this ratio. First, the value of total external debt to exports were fluctuating all over the period of study; second, in total the ratio followed a downward trend from 1990 to 2010, but an inverse trend during the remaining period.

Once again the negative effects of the crisis became apparent as the burden of total external debt to exports increased steadily since the onset of the crisis in 2011. This trend was strengthened because of the continues decline in exports coupled with the persistent increase in external debt during that period.

9. External debt in Syria: a comparative analysis

The analysis of external debt data for Syria presented in the study so far yielded meaningful insights, however, more complete view and concrete evidence could be generated by complementing that analysis with cross country comparisons between Syria in one hand and some other similar countries in the other hand.

To accomplish this task, the study will compare data for Syria with data for three groups of countries that are low income countries[10], developing countries, and countries in the Middle East and North Africa MENA as show in Table (3) below.

According to Table (3), the study raises the following points:

- The values of total external debt to GDP in Syria fluctuated between a minimum of 9.11% and a maximum of 23.4% with an average of 15.6%. In comparison, the average values of this indicator in other groups of countries were almost double its value in Syria (32.8% in low income countries, 29.4% in developing countries, and 32.4% in MENA countries).
- The ratio of total external debt to exports increased markedly after the onset of the crisis in Syria in 2011 and reached a peak of 171.9% in 2018 with an average of 92.75% during the whole period. In comparison, the later value is less the average of low income countries (119.9%) and developing countries (102.6%) but higher than the MENA countries (62.2%). Going beyond the average values, the year by year comparison reveals that during the whole period until 2011, before the start of the crisis, the value of this indicator was much lower in Syria than all groups of countries. The situation turned upside down after 2011 indicating the adverse effects of the crisis on the Syrian economy.

Table (3): Ratio of external debt to GDP and exports

	Middle East & North Africa MENA		Developing countries		Low income countries		Syria	
2008	% of exports	% of GDP	% of exports	% of GDP	% of exports	% of GDP	% of exports	% of GDP
2009	46.25	27.20	73.15	29.13	110.46	30.64	25.00	10.26
2010	68.77	32.27	102.68	32.06	135.85	32.68	33.00	10.54
2011	59.99	29.53	83.39	29.02	103.63	29.65	24.77	9.11
2012	49.18	26.15	74.81	27.25	89.71	27.96	34.50	9.70
2013	45.41	24.70	79.48	27.26	91.72	27.39	64.00	11.80
2014	48.12	25.90	82.00	27.99	97.44	28.57	106.00	13.00
2015	52.15	26.55	92.31	27.69	103.19	27.99	101.30	13.50

[10] According to the most recent classification by the WB, Syria is among the low income is group that encompasses countries with a GNI per capita of $1,035 or less in 2019.

2016	70.37	30.67	127.65	29.95	119.79	30.91	126.90	14.80
2017	78.16	35.80	139.05	30.45	132.58	33.34	144.70	23.50
2018	78.12	37.68	132.04	29.61	129.38	35.00	160.50	20.90
2008	76.97	36.82	127.86	29.34	130.42	36.00	171.90	19.60
Average	62.18	32.44	102.59	29.37	119.92	32.82	92.75	15.58

Source: World Bank (2020)

10. Conclusion:

The study addressed the issue of external debt in the case of Syria and was divided into two parts. The first (theoretical) part considered the definitions, causes and indicators of external debt as well as options available for indebted countries to organize their debts and avoid indebtedness and insolvency problem. The second part began with reviewing the level and changes of total external debt in Syria as well as examining the long- and short-term structures of this debt and its source (bilateral and multilateral). Finally, there was a discussion of the changes in the ratios of total external debt to GDP and total external debt to exports followed by a comparison of the values of these two ratios between Syria and three groups of countries (low income, developing and MENA countries).

10. 1 The results

- Total external debt stock in Syria declined throughout the whole period of study. Two factors explain this trend, first the commitment of the Syrian governments to solve problems associated with the relatively old external debt due to the former Socialist countries, and second, the desire as well as well to lessen dependence on foreign resources in favor of domestic ones.
- Syria's use of debt provided by multilateral sources (the IMF and WB) is at low and safe levels.
- The ratio of external debt to GDP was low and fairly stable during the period before 2011, but it increased at a faster pace since then. International comparison showed that, during the whole period, this ratio was lower in Syria than in the three groups of low income, developing and MENA countries.
- The ratio of total external debt to exports was also at low levels before the 2011, but increased sharply thereafter. Comparatively, this ratio was lower/higher in Syria than in the other groups of countries before/during the crisis/war period.

These results confirm the three hypotheses of the study.

Data limitation specially form national sources is a chronic issue that hindered studying external debt in Syria. However, currently the WB overcome this problem and released detailed data on external debt in Syria. To the best of our understanding, this study is the first to benefit from this data set and present an analysis of the issue in Syria. More studies are required to fully comprehend this issue. A good extension to this study could be to make use of econometric techniques to assess the impact of external debt on economic growth in Syria. Another important extension is to examine the determinants of external debt in Syria. Finally, differentiating between short-term and long-term external debt is likely to yield more useful and meaningful conclusions.

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