

Liberalized Syria banks "on Sound Track"

Reuters

Liberalization is spurring rapid growth in Syrian banking but state banks still dominate the sector since it opened to private investment four years ago, a report by the Syria Report online newsletter said on Monday.

Syria, which has taken limited steps to open its economy after decades of nationalization, now has nine private banks compared with six banks owned by the state. Another nine private banks are setting up in the country, the report said.

"The arrival of new players seems only to encourage an ever expanding market. Although a lot remains to be done, the liberalization of Syria's banking sector is now on a sound track," said Syria Report, a Paris-based independent newsletter covering Syrian economics and finance.

The Baath Party government revamped investment laws last year but kept a 49 percent ceiling on foreign ownership of banks. The Central Bank is working on issuing treasury bills for the first time and Syrian businesses are now allowed to receive loans from foreign banks.

State banks held 82 percent of assets at the end of 2007 compared with 87 percent a year before. The government and a huge array of companies it owns still do business "almost exclusively" with state banks, although nothing in the law forced them to do so, the report said.

Total assets rose 12 percent last year to \$34 billion, still 40 percent that of neighboring Lebanon, which has a solid banking tradition and a financial secrecy code. Private Syrian bank assets rose 59 percent in 2007 compared with 5 percent growth in the balance sheet of state banks.

But a small capital base and restrictions on lending have kept loans by private banks small at \$1.5 billion at the end of 2007, although the figure is almost double that of 2006, the report added.

Monetary regulations require banks operating in Syria to deposit a proportion of their capital with the central bank at zero percent interest, which prevents benchmark rates and "closes the long-term lending market," the report said.

"The government is moving to create a more favorable lending environment. The introduction of treasury bills and bonds this year should, in theory, provide banks with the tools they need to carry out long term lending," the report added.

The restrictions, as well as U.S. sanctions, have discouraged non-Arabs with limited knowledge of tightly controlled Syria from investing in the sector. Foreign shareholding in Syrian banks remains entirely Arab, especially from Lebanon and the Gulf, the report said.

Washington imposed sanctions on Syria in 2004 for its support of anti-U.S. groups in the Middle East. No U.S. banks or individuals are allowed to do business with the Commercial Bank of Syria, the country's largest bank. Americans are also banned from dealing with Rami Makhoul, Syria's biggest businessman.

Gulf investors, the report said, were focusing on opening Islamic banks, hoping to capitalize on a religious revival in Syria, but it remained to be seen whether price-sensitive Syrian clients would do business with Islamic banks "perceived to offer them less favorable terms than traditional banks."

Syria has two Islamic banks. One is Cham Bank, partly owned by Kuwait's Investment Dar. The other is Syria International Islamic Bank, in which Qatar International Islamic Bank QIIB.QA has a stake.

The country's largest private bank is Banque Bemo Saudi Fransi (BBSF), with assets of \$1.7 billion. The bank is a joint venture between Banque Saudi Fransi 1050.SE and Banque Bemo of Lebanon. Bemo was founded by the Syrian merchant Obaji family, who set up in Lebanon to counter damage to their business from nationalization in their homeland.