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Picking up the pace: Syria's banking reform

A long overdue modernization of Syrian banking procedures and financial sector reform has begun to pave the way for the return of private banks to the country. The necessary exercise in reform is not expected to be easy and critics note that economic reform cannot be separated from political openness.

Nevertheless, recent legislation is set to transform what has been a decades-old state monopoly in virtually all areas of financial services. Law No. 28, signed on April 16, 2001, marked a turning point in allowing private banks to operate in Syria, provided that a 51% stake is Syrian-held. Law No. 29, passed in the same year, guarantees banking secrecy, and the more recent law No. 23 of 2002 has established a Credit and Monetary Council.

A two-day seminar held in Damascus this May highlighted some of the issues the newly-developing sector will face, with neighboring Arab banking delegations furnishing their share of know-how.

According to Fahim Moudad, Lebanon's second deputy governor at the Central Bank, "the deregulation in financial services is considered a basic condition that goes with the development of the financial sector, and in our opinion, that requires the availability of a

number of fundamentals. The most important are the deregulation of interest rates, privatization of public sector companies, allowing new entrants into the financial sector and doing what is possible to maintain a stable macro-economic infrastructure in order to reap the benefits of financial deregulation."

The Banking System

Nationalized in 1963 after the ruling Ba'ath party came to power, Syria's rudimentary banking sector has consisted of a Central Bank working alongside other specialized sector banks concentrating on industry, housing, agriculture, savings, insurance and general business. But the Central Bank's monetary policy has been largely limited due to government-imposed price controls, a multiple exchange rate system and exchange controls.

Credit and Monetary Council

In order to strengthen the bank's role in time to meet the introduction of private banks, Law No. 23 was introduced to establish a Credit and Monetary Council, entrusted to undertake comprehensive monetary reforms. Those measures include stabilizing the Syrian pound's exchange rate and maintaining its free convertibility into other currencies (see [Table 3](#) on page 3).

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