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Syria lures foreign banks with reforms

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Damascus is brimming with reformist zeal. Early this month, the Syrian central bank announced two key financial sector reforms intended to encourage large foreign banks to invest in the country and lend to a clutch of major new projects. The raising of the cap on non-Syrian ownership of local banks from 49 per cent to 60 per cent has long been urged by international banks.

The central bank has coupled this with a mandatory requirement on private banks to raise their minimum capital from US$30 million (Dh110.1m) to $200m for conventional banks and $300m for Islamic banks. Some local institutions may struggle to meet the increase. "Going from $30m to $200m is a big step and may be difficult for some to raise on the local market," said Joude Badra, the associate chief operating officer at Bemo Saudi Fransi Finance, the investment bank affiliate of Banque Bemo Saudi Fransi, the first foreign bank to set up in Syria.

For large banks looking to take a majority interest in Syrian lenders, the capital increase is unlikely to present a huge challenge. "This will open the door for international banks like Citibank and HSBC to come to Syria. They didn't want to be restricted to the 49 per cent limit," said Raed Karawani, who heads a law firm in Damascus. Adib Mayala, the central bank governor, expects the reforms to inject at least $2 billion into the financial system.

But the new rules will still test the appetite of foreign banks for Syria, which was only opened up to private banks in 2004, and where state-owned banks still dominate the market. "We're seeing big interest in Syria from major international banks. However, while it was an easy decision for them to come and invest $30m, it's not the same to invest $200m," said Mr Karawani. Existing banks will have a three-year period to implement the capital increase, but newly licensed banks must meet the minimum capital in full from the start.

The minimum capital increases are linked to the Syrian economy's urgent need for financing across a range of sectors, from oil and gas through to power, social housing and transport. A number of infrastructure projects, from the proposed Damascus metro to housing, agriculture and health schemes, are being prepared in the next few years. Many of these will be offered under the public-private-partnership model, and the government wants local banks to provide some of the financing.

But lacking balance-sheet strength, local banks will struggle to extend the required financing. Private banks have only a 28 per cent share of total lending to the private sector. By setting tough new capital requirements, the government has recognised that Syria needs bigger and stronger commercial banks with the clout to lend on a bigger scale. "The increase in capital should enable private banks to increase their share of financing these developments," said Mohammed Abu Arida, the chief executive of Qatar National Bank-Syria.

The authorities will sweeten the deal for the banks with the introduction of mortgages, which will help soak up the excess liquidity on their books. A presidential decree on December 30 established a new regulatory body, the Mortgage Finance Supervisory Authority, with a remit to license mortgage lenders. Mortgages will widen the lending options of banks. "At the moment, our banks have a loan-deposit ratio of just 34 per cent as there are few options to lend here beyond car loans and some corporate loans. But once the mortgage law is introduced, you'll see this number increase," said Mr Badra.

The government is also set on reforming the stock market, which has made a slow start since the Damascus Securities Exchange (DSE) opened its doors in March last year. New regulations to ease listing requirements on the DSE were announced last month. Listed companies on the official market have seen their minimum capital reduced from $6.5m to $2.5m. "This should definitely provide a lift as today we have eight brokerage companies and only 12 listed companies," said Mr Badra.

The moves coincide with a shuffling of the key economic portfolios in government. On January 18, a new economy and trade minister, Lamia Assi, was appointed, the third female cabinet minister in the administration of Naji Otri, the prime minister. Amer Hosni Lutfi, a former economy minister, has been appointed to head the State Planning Commission. Syrian business leaders hope the new appointments will sustain the early momentum behind the reform process. For banks and investors alike, the prize is a growing and still largely untapped market. "There are some big projects in Syria. With the new capital, we can do a lot of good business here," said Mr Arida.

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