Treasury Bills Ready to Launch in New Year - Economist

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The Syrian government's decision to launch treasury bills will be welcomed warmly by the country's private-sector banks

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The government has finally passed decrees on two important policy innovations—on the exchange rate peg and the introduction of treasury bills—which were first flagged up by Adib Mayaleh, the governor of the Central Bank of Syria, in late 2006. The measures indicate that Syria's financial and economic reform process has maintained some of its momentum, despite the Assad regime's increasing political isolation. However, there have been setbacks in the area of fiscal reform, with plans for introducing valued-added tax back by one year to 2009 and with doubts surfacing over whether a programme to phase out fuel price subsidies will be put into effect.

Following the passage in mid-August of a decree approving the shift of the reference point for the exchange rate from the US dollar, the central bank in early October included a note on its website to the effect that the dollar peg has now definitively been abandoned in favour of the SDR, which is weighted 44% to US dollar, 34% to the euro and 11% each to the yen and sterling. In the three months leading up to the formal announcement of the new peg, the local currency appreciated by about 3% against the dollar, with the rate announced by the central bank moving from S£50.45:US$1 at the end of June to S£48.80:US$1 in mid-October. There has also been a modest depreciation against the euro over the same period to S£69.4:€1 in mid-October from S£68.33:€1 at end-June.

Debt management

The decree on treasury bills offers the prospect of a significant change in both the government's management of public debt and in the operations of Syrian banks. The decree (No. 60) sets out the principles and regulatory framework for issuing treasury bills, with further details to be provided in the form of executive regulations to be announced by the prime minister at a later date based on the recommendations of a government securities management committee.

This committee is to be chaired by the finance minister. Its six other members will include the central bank governor and the chairman of the Syrian Commission on Financial Markets and Securities (the regulatory agency for the stockmarket, which is scheduled to start operations in early 2008).

The decree states that the maturity of the treasury securities must be at least one year, and that they may not exceed 30 years. The proceeds of the issues may be used to finance the general budget deficit, as well as for projects of national priority and for emergencies. The decree also sets limits of 60% of GDP for domestic and external debt, respectively, and of 80% for overall public debt. According to the IMF, Syria's total government debt was equivalent to 35.9% of GDP at end 2006, with domestic debt of 16.5% of GDP and external debt standing at 19.4%.

Besides allowing the authorities more flexibility in managing public debt, the introduction of T-bills will provide much-needed new instruments in which Syria's newly created private banks will be able to invest. These banks have had great success in attracting deposits, but have faced difficulty in placing these funds productively. According to central bank figures reproduced by the IMF, private banks in 2006 captured 70% of the increase in private-sector deposits and contributed 45% of the growth in loans to the private sector. Their share in private-sector deposits reached 25% at the end of last year, whereas they accounted for 14% of total loans to that sector.

Listing rules

Decree 60 states that the T-bills will be tradable on the new financial securities market. The prospects for that market opening as planned early next year have brightened, with several recent indications of progress in laying the groundwork for this development. The stockmarket regulator has issued its first permanent licence to a financial intermediary—Pioneers Securities of Egypt (BME Oct 15th-31st 2007)—and the government has passed a decree laying out the steps for family-owned firms to convert themselves into joint-stock companies.

According to Al Thawra, a state-run newspaper, the regulator has also issued the criteria for listing companies on both the main stockmarket and on a junior exchange (the regulator has yet to publish these details on its own website). For a full listing, a company must have been trading for at least three years and have minimum capital of S£300m (US$6.1m), fully paid up, with at least 300 shareholders. It must also present three years of accounts audited to international standards, with no reservations, and its annual net profit over the previous two years must have averaged not less than 5% of paid-up capital. For the alternative market, a company must have been trading for at least two years, with capital of at least S£100m and at least 100 shareholders. Companies will also be required to submit prompt periodical reports about their activities. The rules will allow for non-Syrian companies to be listed as well as domestic firms.