



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

Syria

October, 2021

Operating Environment:

Arab Republic of Syria (“**Syria**” or “**the Country**”) has been severely impacted by continuing regional instability. The World Bank estimated that Syria lost USD300bn in GDP in 2011-2018, with the assumption that in the absence of war annual GDP growth would be 5.3%. GDP in the year 2021, is estimated to have contracted further in real terms as a result of decline in real private consumption.

Syrian economy has been severely hit over the last ten years with loss to infrastructure, both physical and social. The County had been the target of sanctions over the course of years the latest of which, Caesar Act, took effect in June 2020 and which allows the United States to freeze the assets of any person or business dealing with the incumbent Syrian government.

Syria received 256,800 doses of the COVID-19 vaccine, the first COVAX delivery of vaccines to reach the war-torn country. This delivery of AstraZeneca vaccines (from the Serum Institute of India) will be given to frontline health workers across Syria.

SYP had been devalued heavily and successively by the Central Bank of Syria (CBS) to reflect the deteriorating macroeconomic dynamics stemming from civil war, Western sanctions, and more recently a financial and economic collapse in Lebanon where Syrians are believed to have billions of dollars locked in Lebanese banking system, that have imposed tough capital controls since late 2019.

USDSYP parity has risen to 1,256 as of year-end 2020 from 436 at the end of 2019. In April 2021, the USDSYP was lifted to 2,512. Thus, the Syrian currency has officially lost around %83 of its value since the end of year 2019.

Syrian Government approved a general budget for the fiscal year 2021 at 8,500 billion Syrian pounds (SYP), an increase of 4,500 billion SYP or 113% over the previous years. Even though the budget depicts sizable increase in nominal terms, the actual allocation in FCY terms point to contraction given the sizable devaluation of SYP. The main portion of the fiscal expenses (82%) is planned to be spent on social support programs, such as fuel and food subsidies, as well as the salaries of civil servants.

Banking Sector

General economic situation and international sanctions have been the key factors hindering the recovery of the banking sector. The sector has also been negatively impacted by currency volatility and gap between official and black-market rates which increased the use of informal channels.

The Syrian Banking System comprises 20 banks, 6 of which are public while remaining are private banks. Meanwhile, there are three Islamic Banks. Total assets of the Syrian Banking Sector grew by 105% in the year 2020¹ mainly due to SYP depreciation and we noted decline in sector assets in USD terms. On the other hand, asset growth for Islamic Banks registered at 114% during the year and this segment comprised 14% of total banking assets. Separately, asset growth for the private banks² reached 119% while declining 25% in USD terms. Meanwhile net earnings of this segment declined by 24% to SYP23.7bn on adjusted basis after excluding the gains booked on FCY position of the banks. On average, return on average assets (RoAA) was realized at 0.55%.

In May 2021, Presidency of the Council of Ministers issued a decree permitting the establishment of a private Islamic bank³. Islamic National Bank will have a paid-in capital of SYP25bn, owned 49% by a Lebanese holding company, 10% by Industrial Bank of Syria, and 25% will be offered to public subscription through initial public offering in the stock exchange.

¹<https://b2b-sy.com/news/1033354002/>

²Private banks commanded 19% of total banking assets in the year 2020

³<https://b2b-sy.com/news/1033354295/>

Exchange.

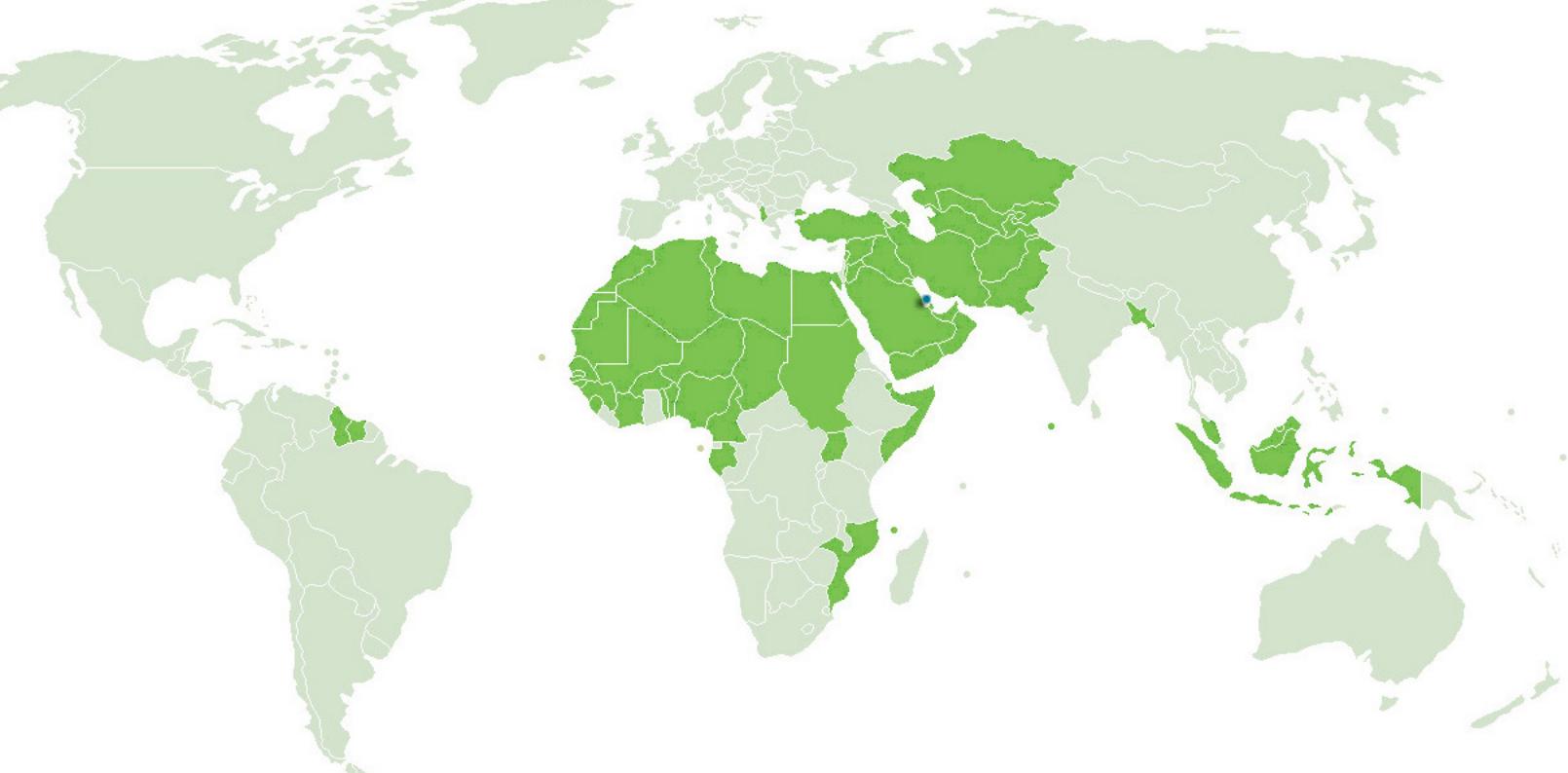
Since 2018, a credit push was evident in government policy with both private and state-owned banks encouraged to resume financing in order to boost economic activity in the country⁴. The establishment of Credit Guarantee Corporation to support financing to SMEs and providing flexibility to banks in the way they set deposit rates, could be cited as key initiatives in this regard.

Following the spread of Covid-19 pandemic, forbearance measures of CBS included 3-month deferral of financing repayments in March 2020. In addition to control volatility of SYP against foreign currencies, CBS decided to suspend all types of financings in March 2020. The Banks were able to resume financing operations in September 2020 with CBS's new decision. The CBS allowed for direct financing facilities exclusively for financing agricultural sector, SMEs, and real estate financing.

Reserve requirements for Syrian banks amount to 5% of total deposits. However, banks are allowed to reduce these reserves in proportion to financing they provide to SME, tourism, green and agricultural projects, microfinance institutions and people with special needs. For example, if the exposure to aforementioned segments is between 16% to 25% of whole exposures, then required reserve ratio is reduced to 4%. In May 2020, the Central Bank of Syria has increased interest rates on US dollar and euro time deposits to attract more foreign currency into the banking sector.

In 2020, excess liquidity of the Syrian banks grew by 44% in aggregate to SYP2.9trn as the sector remained prudent on financing and investment.

⁴<https://cadmus.eui.eu/bitstream/handle/1814/71543/QM-09-21-177-EN-N.pdf?sequence=1&isAllowed=y>



الوكالة الإسلامية الدولية للتصنيف

Islamic International Rating Agency

AFS Tower, 2nd Floor, Hooora 320, Manama, P.O. Box 20582, Kingdom of Bahrain

Tel: +973 17211606, Fax: +973 17211605

Website: www.iirating.com | Email: iira@iirating.com

All of the information contained herein is obtained from sources believed to be accurate and reliable. IIRA does not audit or verify the accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. This rating is an opinion and not a warranty of the rated entity's current or future ability to meet contractual obligations, nor is it a recommendation to buy, sell or hold any security. This is a fee paying client and the rating has been conducted at the request of the customer. Copyright @ IIRA. All rights reserved. Contents may be used by news media with credit to Islamic International Rating Agency.