

# Central Bank of Syria and its Role in the Syrian Economy

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**Abstract—** Syria as a developing country suffered from backwardness of monetary policy and dependence of central bank to government, so monetary authority couldn't attain final aims of monetary policy and on the other hand couldn't stimulate Syrian economy to attain real growth.

But in the recent years Syrian government tends to reform the monetary policy and give some independence to central bank of Syria through modernizing current laws and regulations.

**Keywords—** monetary policy, economy, inflation, currency.

## I. INTRODUCTION

Monetary policy considers important part of general economic policy it can effect and move all economic indexes and variables like (general level of prices (inflation), level of employment and investment, growth rate of GDP (gross domestic product) and national income and distribution of them between individuals and sectors. Central banks in the world consider the monetary authorities that use implementations of monetary policy to attain the final aims of monetary policy (stability the general level of prices and stability the exchange rate of national currency).

### Research hypotheses

In order to address the problem of this research and to facilitate the answer to the questions posed, we can develop a number of hypotheses based on the collected information, so we assume the following:

1- Monetary policy is one of the most important means of economic policy to influence economic activity

2- Monetary policy performance can be effective and efficient only if a set of standards and controls are available

### Research importance

This research derives its importance from the position of monetary policy from the perspective of economic schools, its role in addressing economic imbalances, its position in the economic reform programs supported by the international financial institutions, and the transition

to a market economy, which is more important than the position it enjoys This policy aims at achieving economic stability and driving growth as the most important parts or items of economic policy.

### Research objectives

This research aims at reaching several points, the most important of which are:

1- Highlighting the theme of monetary policy in all its aspects to show its importance and role in economic activity as well as uncover mechanisms and methods of work and everything related to them

2- Attempt to evaluate the performance of the controls or criteria on which monetary policy is based in the national economy in light of the economic reforms adopted

### Research Methodology

A combination of the descriptive curriculum and the analytical approach will be used as the descriptive approach relates to the review of school ideas and the presentation of the structure of the Syrian economy. The analytical approach was based on trying to understand the elements of monetary policy and reform programs, using the foundations and relations based on them, and diagnosing the problems that were raised, as well as trying to put a quantitative expression of the various stages experienced by the Syrian economy.

### First: establishment The Central Bank of Syria:

The Central Bank of Syria was established by Legislative Decree No. ( 87 ) dated 28/3/1953 which included the Basic Monetary System of Syria ( and that modified by the law No. (23) dated 17/3/2002) . The Bank started its operations on the first of August 1956, with its headquarters in the city of Damascus , and 11 branches located in the governorates of Syria(1)

### Second: The Management of the Central Bank of Syria

The bank is managed by the Governor who heads the Administration Committee. The Committee includes one Deputy Governor and three Executive Directors. The Governors insure the compliance with the laws and basic rules and regulations of the Bank

**Third: The Structure of the Central Bank of Syria:**

- ❖ The Central Bank of Syria is an independent public sector establishment operating under the guarantee of the state, and within the guidelines issued to it by the Council of Ministers. The Capital of the bank is fully subscribed by the state (3)
- ❖ The Central Bank coordinates the activities of money and credit establishments within its authorities and general guidelines issued to it by the Council of Ministers in a way that realizes the objectives of fiscal , monetary and banking policies of the state.
- ❖ The Central Bank of Syria is solely empowered to issue, for the account of the state , the paper currency , in the amounts needed to meet the requirements of national economic development and sustained growth , and to facilitate the developmental process in various economic and social sectors . The monopoly of issuing the national currency given to the Central Bank makes it the sole financial institution capable of managing monetary circulation.
- ❖ The bank exercises control over the banking system, and ensures the proper implementation of the provisions of the Basic Monetary Law, and related rules and regulations, and monetary and banking criteria.

**Fourth: independence of the central bank of Syria:**

Central Bank of Syria is subordinate to council of ministers and works within guidelines issued by government.

Arabian monetary fund's has issued book under address(monetary policies in Arabian countries) discusses through it the independence of monetary authorities in Arabian countries in accordance with many indexes that appear independence of Arabian central banks ranged between 0.603 in Lebanon and 0.339 in Mauritania, and Syria occupied before last rank with 0.364(2)

*Table.1: independence of Arabian central banks*

The country	Independence rank
Lebanon	0.603
Saudi	0.502

Egypt	0.500
Algeria	0.497
Libya	0.452
Tunis	0.430
Jordan	0.426
UAE	0.393
Morocco	0.375
Syria	0.364
Mauritania	0.339

Recourse: Arabian monetary funds

**Fifth: Main Functions of the Central Bank of Syria**

The main functions performed by the Bank are:

**1- Issuing the national currency:**

The issuing of national currency is a monopoly of the state (4), and exercised solely on behalf of the state by the Central Bank of Syria. The Syrian Pound is the basic unit of the Syrian currency. The Basic Monetary Law has defined the denominations in which the Syrian banknotes may be issued, as well as, the coins and their withdrawal from circulation and exchange. The basic unit of the Syrian currency is the "Syrian Pound" which is divided into 100 Syrian Piastres. The denominations of Syrian banknotes in circulation are SP 1000, SP 500, SP 200, SP 100, SP 50, SP 25, SP 10, SP 5 and SP 1

*Table.2: currency issued by central bank of Syria,*

*Numbers in billion of Syrian pounds*

year	2006	2007	2008	2009	2010	2011
Notes Issued	209	235	265	292	341	404
Coins Issued	1.9	2.1	2.4	2.4	3.0	3.4
Currency Issued	211	237	267	294	344	407

Recourse: central bank of Syria report 2011

We can notice that currency issued by central bank of Syria increase from 211 billion Syrian pounds issued in 2007 to 407 billion Syrian pounds issued in 2011.

The main reason to issue the currency isn't to finance GDP (gross domestic product) but to finance the deficit of budget that emergent because of badness of fiscal policy follows up in Syria. So growth rate of money supply always is more than growth rate of GDP.

*Table.3: Relationship between growth rate of M2 and GDP and budget deficit*

Number: in billion Syrian pounds (without the rates)

Year	2006	2007	2008	2009	2010	2011
Money supply M2	586	730	865	939	1059	1188
Growth rate of M2	20%	25%	18%	9%	13%	12%
GDP (market price)	904	974	1017	1067	1251	1390
Growth rate of GDP	10%	8%	4%	5%	17%	11%
Deficit of budget	91.6	92.7	106.8	125.3	143.5	103.5

Deficit /GDP	10.1%	9.9%	10.5%	11.7%	11.9%	8.4%
GDP/M2	1.5%	1.3%	1.2%	1.1%	1.2%	1.2%

Resource: central bank of Syria report 2011

-We can notice from table no. (3) That medial annual growth rate of money supply was 16.1% and in the same period (2006-2011) medial annual growth rate of GDP was 9.2% that caused a high inflation arrived to 10% in 2010

- Deficit budget increased from 91.6 billion S.P in 2006 to 143.5 billion S.P in 2010 after that, it declined to 103.5 in 2011.

## 2- The Central Bank is the Bank of Banks (5)

The Central Bank is regarded by the Basic Monetary Law as the Bank of Banks as it rediscounts purchases, reassigns drafts and commercial promissory notes, and

grants loans and advances to finance the activities of various economic sectors, all in its capacity as lender of last resort. These operations are performed through the banks as it is prohibited to deal directly with individuals. The Central Bank, in its capacity as a bank of banks, can monitor and control the implementation of credit policy and assess its appropriateness to requirements of the national economy.

Central bank of Syria defines interest rates through definition of rediscount rate that specified to every bank alone

Table.4: Rediscount rates for specialist Syrian banks

	Loans and Advances			Rediscount
	Long-Term	Medium Term	Short-Term	
Commercial Bank of Syria				
Commercial Transactions Bills				5.00
Industrial Transactions Bills				4.25
Agricultural Transactions Bills				3.25
Financing of Export			3.25	
Financing of Storage & Export of Agricultural Products			3.25	
Financing of Public Sector Commercial Goods Storage			4.75	
Financing of Storage & Export of Wheat and Barley			3.25	
Other Loans and Advances			5.75	
Industrial Bank				
Commercial Transactions Bills			4.25	3.50
Industrial Transactions Bills				2.75
Advances		3.00	2.75	
Agricultural Cooperative Bank				
Public and Mixed Sectors and Individuals	3.00	2.50	2.50	2.75
Cooperatives	2.50	2.00	1.75	2.00
Real Estate Bank				
Housing Institutions and Municipalities	4.00			
Housing Cooperatives	4.00			
Individual Housing	4.50			
Hospitals, Schools and Tourism	6.00			
Vacationing Residence (Individuals and Investors)	6.00			
Popular Credit Bank				
Small Industries Transactions Bills (300 days)				2.50
Small Industries Financing Bills (300 days)				2.75
Small Tradesmen Transactions Bills (120 days)				3.25
Small Tradesmen Financing Bills (120 days)				3.50
Financing of Small Industries		3.00	2.75	
Financing of Small Tradesmen		3.75	3.50	

Recourse: central bank of Syria report 2011

### 3- Issuing national public debt instruments and participating in international financial negotiations

The Central Bank of Syria issues national public debt instruments for various terms ( through Basic Monetary System) , performs all related reissue and refund operations, and, in general, all financial operations related to loans issued or guaranteed by the state. Also it participates in negotiating international payments , foreign exchange , and clearing agreements. Moreover , it enters into all related arrangements required for the implementation of such agreements.

Furthermore, the Bank participates in the negotiations of external loans entered into for the account of the state, and it represents the state in negotiations in the areas of international monetary cooperation .

### 4- Banks required reserves

The Central Bank of Syria may require the banks to invest their required reserves , and their special reserves in securities issued by the state or guaranteed by it, or to invest a fraction of its surplus funds and a part of their deposits in government securities .

### 5- Acting as the government bank, and its financial agent.

The Central Bank is empowered by the basic monetary law to act as the state bank, its cashier and financial agent inside and outside the Syrian territories in all banking , cashier, and credit transactions of the state .

### 6-Managing the Foreign Exchange Bureau for the account of the state .

Syrian Pound is pegged to the United States Dollar, and the Syrian Pound exchange rate with other currencies is derived by reference to their exchange rates expressed in US Dollars in International Financial markets and the pegged rate of the Syrian Pound to the US Dollar.

But in the last months monetary authority tended to peg Syrian pound to other currency as Euro and Yen (6)

- Foreign exchange regulations in effect now allow the unlimited importation of Syrian and other currencies. They also allow exportation of the Syrian currency with resident travellers to Jordan and Lebanon only, with a maximum amount of SP 5000 per person.
- Syrian nationals and residents, leaving to Arab and foreign countries (excluding Jordan & Lebanon) are allowed to carry with them a maximum of US Dollar 2000, or its equivalent in other foreign currencies, per person and each time, without being asked about the source of these funds. The maximum amount is reduced by one half for a child traveller less than 15 years old on the date of the travel.

- Non-resident Arabs and foreign nationals are allowed to export upon departure what they brought with them in foreign currency and other means of payment subject to a limit of US Dollar 5000 or its equivalent in other foreign currencies. For larger amounts, the non resident traveller must show evidence of importing these amounts in the form of a customs declaration.
- The Central Bank of Syria also performs the following:.
- All special operations in foreign exchange, management of international reserves with a view to safeguarding them and ensuring the stability of foreign exchange rates .

There are three exchange rates of Syrian pounds:

- ❖ Official Exchange Rate
- ❖ Neighboring Countries Exchange Rate
- ❖ Non-Commercial Transactions Exchange Rate
- ❖ Export Proceeds:

The Foreign Exchange Regulations allowed the private sector exporters to withhold 75% of their export proceeds in foreign currencies for the purpose of financing their imports or for selling to other importers. The remaining 25% have to be surrendered to the Commercial Bank of Syria.

Exporters of fruits, vegetables and medicines of all public, private, and joint sectors are allowed to withhold 100% of their export proceeds to finance imports.

### 7- Payment for Imports:

Foreign exchange needed to pay for imports of foreign trade public sector establishments is provided through the annual foreign exchange budget. These establishments may obtain their import licenses upon presenting the documents needed for their imports. Foreign exchange needed for imports of the private sector is secured from the sector's own resources as follows :

- Resulting from 100% and 75% of export proceeds in foreign exchange.
- Foreign currency accounts of non - resident Syrian nationals with Commercial Bank of Syria fed with funds resulting from activities abroad.
- Credit facilities from abroad for 180 days.
- Direct payment in foreign currencies to the Commercial Bank of Syria of the value of imports to cover open documentary credits or bills for collection.
- Foreign currencies bought by importers from private sector exporters, or from joint projects through Commercial Bank of Syria , and at the exchange rates contained in the "neighboring market rate bulletin".
- Acquires capital of financial institutions subject to special legal provisions

- All operations of facilitating the transport of establishment and management of clearing rooms.  
currency. Also it may establish or participate in the

Table.5: exchange rates of Syrian pounds

	2011	2010	2009
	December	December	December
Period Average			
Exchange Rates (LS per \$)			
Official Exchange Rate	11.2	11.2	11.2
Neighboring Countries Exchange Rate	...	...	46.3
	49.9	48.6	...
Non-Commercial Transactions Exchange Rate	...	52.2	51.6
	53.4		
Non-Commercial Transactions Exchange Rate			
Euro	66.8	67.6	58.6
Sterling Pound	97.3	100.2	83.2
Japanese Yen	48.7	49.1	43.7
Saudi Riyal	14.3	13.8	13.7
Jordanian Dinar	75.9	73.3	72.3
Lebanese Pound	0.036	0.035	0.036
Egyptian Pound	8.2	7.7	8.1
Turkish Pound	39.760	0.037	0.052
Irakian Dinar	...	...	...
End of Period			
Exchange Rates (LS per \$)			
Official Exchange Rate	11.2	11.2	11.2
Neighboring Countries Exchange Rate	...	...	46.3
	49.9	48.6	...
Non-Commercial Transactions Exchange Rate	...	52.2	51.6
	54.9		
Non-Commercial Transactions Exchange Rate			
Euro	65.0	71.0	63.4
Sterling Pound	94.4	100.6	89.4
Japanese Yen	46.5	49.5	46.8
Saudi Riyal	14.7	13.8	13.7
Jordanian Dinar	77.6	73.3	72.3
Lebanese Pound	0.037	0.034	0.034
Egyptian Pound	8.2	9.0	7.6
Turkish Pound	40.660	0.039	0.037
Irakian Dinar	...	...	...

Resources: statistics of central bank of Syria 2011

### Sixth: Supervision and Control

Supervision over the functions of the Central Bank is exercised by the council of Ministers ,in accordance with the relevant provisions of the Basic Monetary Law while

financial control over the Bank's accounts and expenditures is vested in the Central Bureau for Financial Control .

### Seventh: Current Developmental Projects in the Bank

During the last several years the Syrian economy has witnessed important structural development as a result of economic adjustment policies which all still being pursued. These policies have affected various economic social financial and monetary activities in the country.

The Central Bank of Syria, mindful of the need to monitor and facilitates this important and far reaching economic and social developments has embarked on implementing a new strategy that comprises of several new developmental plans aimed at updating the bank laws and regulations, modernizing current operating methods, by introducing advanced technologies, and utilizing the best computer systems in all bank functions and activities.

## **II. CONCLUSIONS AND RECOMMENDATIONS**

As we seen within the previous pages monetary policy in Syria suffers from various problems, and if we want to refer it, we have to verbalize the role of central bank of Syria to realizes the objectives of monetary policy and through grants central bank of Syria the independence that needed by it to control the monetary policy tools to attain the general economic objectives.

23 laws (basic monetary law) consider important law to refresh central bank of Syria and monetary policy that began to move interest rates since 2003 and control with money supply in harmony with other indexes.

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