

Chapter Five

Economic Policies & Economic Reform Components

Economic Policy Framework

Investment programs will be implemented according to the social market economy approach embodied in the 10th FYP, through public investment spending on one hand and through attracting private sector and foreign capitals on the other. In addition to focusing on optimal deployment of public resources, public sector restructuring and prioritized project trade-offs, the FYP will include a band of policies and procedures to ensure private sector participation in funding and implementing the FYP programs.

When choosing the best policy options that cohere with the Syrian conditions, attention was paid to how the chosen tools can be efficiently utilized. The government has two kinds of tools:

- Direct: providing conducive environment, modernising legislations and remove market barriers;
- Indirect: public finance and monetary, financial, credit and commercial policies.

Macro policy concepts witnessed significant development during the 9th FYP. Focus has shifted from planning further expansion of sector outputs to designing reform policies that would establish a conducive macro environment and remove barriers affecting growth at the sector levels.

These changes were accompanied also by developing a number of macro economic tools. Macro policy began to focus on modern tools of the public finance (government revenues and expenditure), debt revision mechanisms, monetary and financial policies, trade policies, foreign reserve management and interest rates. Issues of barrier removing and institutional development began to play a central role in the national economy.

Building on that, the 10th FYP is based on a band of macro policies (funding, financial, monetary, investment, industrial and commercial) that will ensure the realisation of its objectives. Tackling macro policies and ensuring harmony among them is very important in ensuring:

- The realisation of stability, growth and employment goals;
- Reduction of the negative direct and indirect implications of such policies to the lowest level;
- Realisation of the FYP objectives within the planned timeframe.

The chosen macro policies require the modernisation of economic administration. The competent management is vital to realise the expected outcome. That's why

policies should be developed as initiatives rather than reaction measures against problems and crises; they should go hand in hand with the institutional reforms.

Public finance, monetary and financial and trade policies constitute the core of reform policies, or even the core of the economic reform program stipulated in this FYP, which also allocates a special section for the administrative reform program.

Public Finance Policy Reform

Background

The public finance function is not limited to generating government income; it is rather a significant tool to affect various macro indicators such as saving and investment levels, prices and costs, and resources allocations and use. Serious implementation of a proper public finance policy would enhance growth and savings, which in turn will increase the government revenues.

The state budget is the main public finance tool; it is one of the most important macro policies affecting the economic and social conditions; it reflects the level of government interference. Revenues and expenditure policies are also important in enhancing long term growth through efficient resource allocation, macro economy stability and justice in wealth redistribution. The budget affects growth and development also through the basic services provided by the state.

The public finance policy in Syria has been characterised by heavy reliance on oil. This may expose the economy to shocks triggered by the fluctuation in world prices. Moreover, oil production is expected to decline during the coming period, where the Syrian economy will enter a critical era that with new requirements and challenges. It is not right to say that the state/public budget role will shrink; the government is rather expected to give more support to various sectors to enhance the economic and human development, provide social services, ensure proper infrastructure, increase welfare, reduce poverty, ensure balanced regional development and get ready to face future changes through the institutional modernisation.

Building on this, the government should achieve high growth rates, which require deploying more resources given that the current resources cannot satisfy the above requirements. Since it is inevitable to bridge this gap to ensure sustainable financial balance based on growth and social justice, it is necessary to reconsider the public budget (revenues and expenditure) as well as the tax-related legislation and administration; otherwise we will not be able to change economic policies and solve the problems of unemployment, poverty, economic balance in the light of the recommendations extended by the 10th regional conference of the Baath Party.

Public Finance performance during the 9th FYP (2001-2005)

Revenues

Government revenues consist of 1) self-revenues such as the sovereign income including taxes and non-tax income (SOEs profits, external grants) 2) loans to cover the deficit, which represents the gap between actual revenues and actual spending. The tax revenues during the 9th FYP were low compared with Arab and foreign countries of similar structures, due to tax evasion.

Table (1): Revenue structure during the 9th FYP

	2000	2001	2002	2003	2004 est	2005 est
Million SYL						
Total revenues	245 574	306 288	301 658	311 563	347 667	357 600
Oil revenues (except royalties)	111 485	176 743	140 647	15 0 766	165843	156486
Public sector taxes	50 503	94 846	73 326	77 000	84 700	79 921
State oil companies surpluses	31108	44656	37275	45426	57 922	55 788
Tax revenues (except foreign trade duties and with royalties)	74 093	72 616	90 698	91 120	99 058	107 351
%						
Tax revenues/GDP ratio	0,08	0,07	0,09	0,09	0,08	0,09
Total revenues/GDP ratio	27,16	31,45	29,68	29,19	28,89	28,86
Oil revenues/GDP ratio	12,33	18,15	13,84	14,13	13,78	12,63
Income tax revenues/GDP	4,86	3,63	4,15	4,22	4,52	5,06

Tax revenues

Total tax revenues during the 9th FYP represented 8.5% of GDP (and 10.5% if foreign trade taxes are considered), which is remarkably low at least compared to potential. In many rich as well as poor countries this percentage goes over 20%. This low rate in Syria is the result of widespread tax evasion/avoidance and also of tax holidays provided to enhance private investment, though these holidays have not yielded the desired outcome given the deteriorating private investment levels.

Tax evasion leads to lower direct/indirect tax revenues. Direct tax revenues during the 9th FYP (and before) represented 5.4% of GDP¹. Indirect tax revenues remained 4%. Foreign trade duties represent a low portion of total taxes (2.24% of GDP).

¹ The tax on the Syrian Petroleum Company (5% of GDP) has been added to oil revenues since it has the same nature.

Wide tax evasion significantly weakens the role of tax administration especially in an old financial system. The current tax system include four types of income tax, four types of property tax, nine indirect taxes on consumption (7 of them levied on individual commodities such as sugar, cement, electricity ..) and five foreign trade taxes. If we add different tax holidays, we can imagine the level of the system complexity.

Non-tax revenues

These constitute 14.5% of GDP and come from SOEs (mainly oil companies) profits and oil duties. Oil revenues represented two thirds of the GDP during the past five years and have now come to a peak and begun to get down. The expected deterioration is 10% annually during the next five years unless new oil/gas reserves have been discovered. Even though, a proper reserve should be maintained for future investment expansion and to avoid importing oil in the future.

External aid are so low. They constitute 0.21% of GDP, compared with 20% in Jordan. However, this is a positive index reflecting the Syrian economy independence and low reliance on external aid.

Structural weakness in budget revenues

The remarkably weak structure of the tax system reflects its complexity and the mistrust between tax authority and taxpayers, which require immediate reform of the tax system and implementation bodies so that it can pump additional resources into the budget and make an alternative for oil revenues.

Government spending

This comprises current expenditure and investment expenditure, which both amounted to 31% of GDP in 2003. The MOF assumes the responsibility of allocating current funds to salaries & wages, administrative spending and public debt service It also estimates and manage the revenues. SPC assumes the responsibility of allocating investment funds. Coordination is weak among budget-related bodies especially the MOF (Public Debt Fund, Price Stability Fund and the Treasury), SPC (investment spending) and the Central Bank (deficit funding). This problem leads to data discrepancy, low quality revenues/expenditure estimates and hence budget funding/deficit.

Current spending during the past years was 19% of GDP, with more than 50% going to salaries and wages (10% of GDP) and transfers (subsidies) constituted 5.4% of GDP. However, public sector pay structure (average income) is still weak and does not motivate the employees. Here comes a critical equation for public finance: while there is pressing need to increase average salaries, there is equal need to rationalise spending on salaries especially in terms of tackling the over-employment and rationalise administration in the public sector. Positive factors in

this regard could be the low level of spending on public debt service (3.2%), which means there will not be great risk in deliberate borrowing increases according to budget requirements.

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Subsidies

Subsidies and aid amounted to 2.6% of total expenditure in 2003. subsidies to supply commodities reached 28 billion SYL. However, this aid is indiscriminately distributed among citizens, while the aim should be to support groups with lower income.

Oil products subsidies were 38 billion SYL, mostly to fuel oil (34 billion SYL) given a surplus of 12 billion SYL from benzene and a world price of \$30 a barrel. With the boom in world prices (&50 a barrel), these subsidies will increase to 113 billion SYL, which will represent a heavy burden on government budget. However, due to the contradicting economic and social aspects, this issue need special consideration before taking final action and implementing the reforms in this field.

Table (2): Public expenditure during the 9th FYP

	2000	2001	2002	2003	2004 est	2005 est
Million SYL						
Total expenditure	264928	289161	324361	336818	352257	383506
Current expenditure	170033	179091	188643	189118	207754	228992
Salaries & wages	85251	92582	100636	104934	113098	121896
Debt interests	12200	12500	13700	8084	11000	18000
Transfers	54186	54486	54627	57156	63555	67891
Public investment	94895	110070	135718	147700	144503	154 514
%						
Salaries & wages/ Total expenditure ratio	32,2	32,0	31,0	31,2	32,1	31,8
Total expenditure/GDP ratio	29,3	29,7	31,9	31,6	29,3	31,0
Total revenues/GDP ratio	27,16	31,45	29,68	29,19	28,89	28,86
Deficit/GDP	2,1	-1,8	2,2	2,4	0,4	2,1
Developmental revenues/GDP	10	11	13	14	12	12

Services

Most government services including health and education are provided free of charge. A great part of the service expenditure (whether investment or current) is classified as social income or long-term investment in human capital, which is no less important than physical investment, since the man is the purpose and substance of sustainable development and source of productivity and competitiveness.

However, human capital indicators in Syria are still moderate. The education system has not updated its capacities, nor modernised its curricula nor prepared its teaching corps and students according to scientific and vocational developments. This is negatively affecting the levels of human cadres and labour skills. The same can be said in the health sector: despite the expansion in investment volume, the quality side is still neglected, which has affected the service quality and human resources performance. That's why reforming and rationalising both the education and health sectors in addition to other service sectors has become among the most critical reform component in the 10th FYP.

Public investment expenditure

Compared with the 8th FYP, the 9th FYP investment budget had increases a little (42% of total expenditure or 12% of GDP instead of 11% in the 8th FYP). However, the public investment efficiency kept deteriorating because of the low productivity, retarded technology, the absence of renewal and replacement in the equipment used by the public sector, low management skills and lack of accountability. Obviously this is negatively affecting all sectors not only the public sector.

Budget deficit

The budget deficit to GDP ratio was low (around 3%) during the period (2001-2005) if we add oil revenues to total revenues. However, if we exclude oil, the deficit will increase greatly and is still increasing. This means that relative improvement in overall budget deficit is hiding an increasing non-oil deficit, which is a very serious situation in the light of the retreating oil production. Current research show that the deficit under the current policies will reach 10-13% of GDP in less than 10 years (see Figure 1), which will greatly increase the public indebtedness.

Budget deficit increases during (1992-2000) coincided with increasing growth and inflation levels, while the deficit decline during the 9th FYP coincided with retreating growth and inflation levels. It is difficult to prove a positive relationship between deficit and growth rates in the long run because such relationship is not mechanical, and should be studied within a more comprehensive framework when drawing the financial policy. Higher deficit resulted from spending increases may invigorate production cycles but this cannot go for a long time; in the longer run, it will harm macro balance and seriously increase the inflation levels. In a word, public spending increases do not automatically trigger production increases.

Moreover, the deficit during the 9th FYP eased because of the high oil prices i.e. increased oil revenues and did not reflect any decreases in government spending or deflation policies. Actually, spending increased during that period, and the realised surpluses came as a result of increased oil revenues, trade protectionist policies and the retreating private investment which might have absorbed such

surpluses. The availability of such surpluses means that the balance of payment will not be harmed by reasonable increases in public and private demand during the coming period, but in the longer term, public spending should be harmonised with production capacity.

Figure (1): Budget deficit as % of GDP (1993-2013)

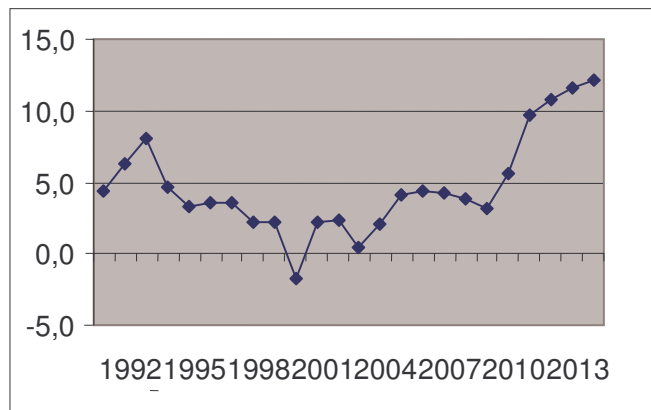
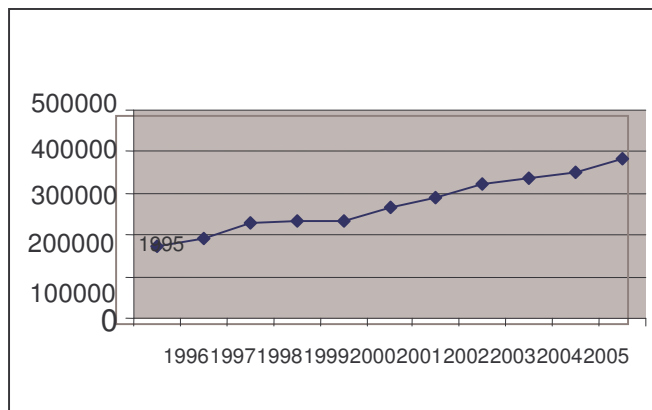


Figure (2): Total expenditure (1993-2005)



Public debt

The foreign debt dropped during the 1990s, and now represent no burden on the state budget or balance of payments. The foreign debt service is only 6% of total exports, and its interests constitute only 3% of budgetary resources. So, the government can resort to more internal/external borrowing in the future at reasonable level that will not affect the macro balance.

Problems & challenges

The financial policy has achieved success in terms of reducing inflation, maintaining reasonable public debt and budget deficit levels and high foreign reserves levels. The public finance has had the following characteristics during the last few years:

- Open and initiative economic mindset in the MOF culture instead of financial/tax collection approach;
- MOF opening towards the international financial thoughts; this has been interpreted through concluding several financial sector modernisation projects;
- an efficient dialogue has been initiated between MOF and private sector for the good of both sides;
- more developed taxation system based on modern legislations and better and more transparent collection methods;
- many taxes and duties have been cancelled after ending the first phase of restructuring the taxation framework;
- the issuance of tax evasion combating laws with efficient punitive measures;
- better Customs sector in terms of legislations (reducing tariffs to levels compatible with the neighbouring countries) and work mechanisms (improved efficiency of institutions as well as staff);
- increased treasury resources in spite of the tax cuts; promoting the idea that local current resources will increase with the tax reduction because high taxes is likely to increase tax evasion.
- Horizontal coverage of services after the MOF decision to establish financial and tax facilities in big settlement areas lacking such services;
- Foreign debt issues have been settled at favourable conditions, and Syria now is the least indebted country in the region.

These characteristics reinforce the Syrian economy and make it capable of facing future challenges, which need significant efforts and development. Among these challenges we can mention:

- The need to ensure new revenues to replace the retreating oil revenues; otherwise, deficit will increase, production capacity will deteriorate and the Syrian economy will lose macro stability and balance.
- Syria has significant alternative resources in terms of increasing non-oil tax revenues. Such resources are expected in the long term to provide 3 times the current collected amounts or 25% of the GDP (instead of 8% currently). However, this can only be achieved gradually and through institutional and policy reforms.
- Moreover, this development will not be possible without deeply changing the tax system in the following areas:
 1. Replace the current complex and restricted system with a new system meeting the modern standards in terms of its impact on development,

social justice and administrative costs; it is more feasible to focus on a few number of taxes with high return.

2. Reform and modernize the tax administration as soon as possible to increase its efficiency. The current administration lacks human skills and competencies as well as modern management tools.
- Reforming the tax administration and enhancing spending methods is part and parcel of the public sector reform, a long-term, ambitious program comprising great benefits and potential, and at the same time needs in-depth planning efforts and wide participation at all stages. However, weak monitoring on spending and focusing on quantity rather than quality has harmed the expenditure efficiency. That's why rationalising both current and investment expenditure is crucial and should reconsider priorities in coherence with the objectives of comprehensive development especially HRD. The most urgent and difficult issue in this regard is to develop a system connecting incentives to wages and enabling a real raise in public sector salaries while maintaining macro balances and production enhancing mechanisms.
 - The participation of all active powers in the society will wear increasing importance in the future. Enhancing the private sector, stabilizing market mechanisms and building production facilities need deeper government supervision functions in orchestrating the national economy activities, developing the necessary infrastructure and basic services (education, health ..). this assumes that the government developmental role will increase and will give rise to large spending, which makes ensuring the balance between the spending needs and maintaining macro stability among the most critical challenge. This needs proper allocation of roles between financial and monetary bodies, and to ensure the required balance, we should tailor clear institutional mechanisms enabling efficient coordination between financial and monetary policies.

Here we should highlight the crucial importance of macro stability, and the following issues should urgently be addressed:

- The weak coordination between economic and monetary policies;
- The foggy economic role of the MOF financial policy and the overlapping of MOF activities with other ministries;
- The interlacement of public debt among the MOF, CB, CBoS and other public business and administrative bodies;
- Providing subsidy to those not deserving it;
- Covering the SOEs losses;
- Weak human skills in the financial sector;
- Traditional structure of the public budget.

Future vision

This vision focus on establishing a flexible and efficient public finance system that can develop horizontally and vertically, remove obstacles and deficits,

complete the tax reform, ensure alternative resources, enhance the efficiency of competent bodies, collect the tax revenues and guarantee efficient resource allocation in harmony with macro policies.

The 2025 vision envisage developing social market mechanisms, enhancing public sector efficiency and increasing the role of government economic bodies in conducting economic activities while maintaining social aspects of justice, employment, social protection and fair allocation of subsidies. The public finance policy will be an important mechanism/tool to realise this in addition to being a means to develop market mechanisms as a whole.

Long-term objectives

Ensuring development necessary non-oil resources during the coming 10 years is the very foundation of all future economic and development policies; otherwise, the government will not be able to provide basic public services, build immune institutions and ensure conducive business environment. This can only be achieved through the following:

- Reform the tax system and administration. Success stories in many countries show that a good system should contain limited number of taxes namely three:
 1. A unified, simple tax for all sorts of income;
 2. Unified indirect tax such as the VAT;
 3. Customs tariffs according to the WTO and EU-Med association agreements; these tariffs should have a wide base and reasonable rates. However, we can increase certain tariffs after removing the non0tariff barriers.

We can judge the tax system viability and soundness only through its implementation capacity. That's why it is important to simplify the tax system and reform the tax administration to avoid tax evasion, prepare and implement comprehensive reform in different public sector components with the aim of allocating resources to support the economic development and social justice.

- Ensure economic stability and maintain government credibility since the latter depends on macro stability. This objective leaves room for sometimes the financial policy (in coordination with the monetary policy) to revive the economy through supporting the demand and expenditure. Still, the most important relation between the public finance policy and development is the provision of collective services and basic institutional structure that can enhance production, labor and investment i.e. through supply support, income redistribution and poverty reduction.
- Macro economic stability would help maintain deficit at reasonable levels and limit booms in indebtedness and inflation. It would also help depend on local debts available in other government sectors based on controlled procedures, standards and training programs and on specific incentives. This should be accompanied with a visibility and awareness program.

The Syrian economy enjoys significant foreign reserves and reasonable indebtedness levels, so it can raise expenditure and deficit in the short term to support growth and employment provided the deficit will ease after ensuring confident increases in tax revenues.

Objectives

The 10th FYP objectives are:

1. increase revenues flexibility through expanding the tax base and optimal resource deployment,
2. ensure more justice in national income redistribution.
3. economic and political stability.
4. improve living standards and give subsidies to those in need.

Quantified objectives

An integrated reform scenario has been formulated covering the period (2006-2010). It shows the possibility of maintaining macro stability together with increasing public spending in spite of the oil revenues reduction. Spending can be raised to a level that will cause limited increase in deficit (4-5% of GDP) provided the deficit will return to 3.2% of the GDP in 2010 while maintaining reasonable indebtedness.

This scenario require significant increases in the tax revenues (from 10 to 16-18%) of which 4-5% come from indirect taxes and 12-13% from direct taxes, which means an annual increase of 10% in tax revenues. In spite of that, the tax burden will remain much less than potential compared to similar countries, and in 2010 we can reach 7% for non-oil revenues and 7.5-8% for oil revenues.

Expenditure increases will help raise the pay, reconsider the civil service facilities and public sector and establish a system that will link incentives to production.

Investment spending will increase from 12% of GDP in 2005 to 14% in 2010. Investment efficiency will be increased through:

- give priority to project with higher growth potential and harmony with development trends.
- Prepare a scientific feasibility for investment spending.
- More efficient and independent monitoring.
- Restructure the production SOEs.

Current spending will become 20.5-25% of GDP, administrative and transfer costs will be rationalised and salaries will be increased provided the budget deficit should not exceed 5% of GDP in 2010.

Public debt will increase from 37% in 2005 to 41-44% in 2010. the government will continue subsidizing certain food stuff and heating materials.

Strategy

The 10th FYP will represent a starting point to achieve those tasks. During its first year major reforms will be launched (new legislations, restructuring tax system/administration, public sector reform). These represent major programs that go beyond the 10th FYP timeframe.

In public finance reform the strategy will focus on:

- a. Adopt a new budgetary system and limit the supervision and leadership functions to the MOF.
- b. Reconsider subsidies and introduce new approach in providing aid to those in need.
- c. Restructure the Public Debt Fund and turn it into a development bank specialized in financing the public sector economic activities.
- d. Control government spending.
- e. Restructure the SOEs and sole their accumulated losses, and regulate the public debt securitization.
- f. Reconsider the structure of government employment, continue improving the government employees' salaries and living standards. This will also apply to retired people.
- g. Improve the tax system efficiency through controlling tax evasion, issuing modern legislations, establishing direct contact with taxpayers and introduce punitive measures.
- h. Continue restructuring the tax system and administration and modernise the levying and collection methods by focusing on transparency and stop arbitrary tax assessment and collection.
- i. Introduce new taxes (VAT, unified tax, wealth tax) and cancel the current taxes.
- j. Develop an integrated program to train the tax personnel, complete the work automation to help handle tax proceedings quickly.
- k. Reform and reduce the tariffs to support the Syrian products and issue the rationalized tariff.
- l. Training the Customs staff, automate Customs operations, and introduce the one-stop shop to the Customs Directorate and its regional departments, and provide the borders centers with necessary staff and equipment.

Figure (3): Budget deficit during the 10th FYP

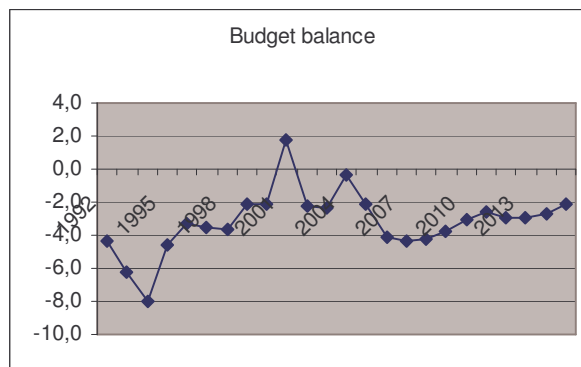


Figure (4): Tax revenues during the 10th FYP

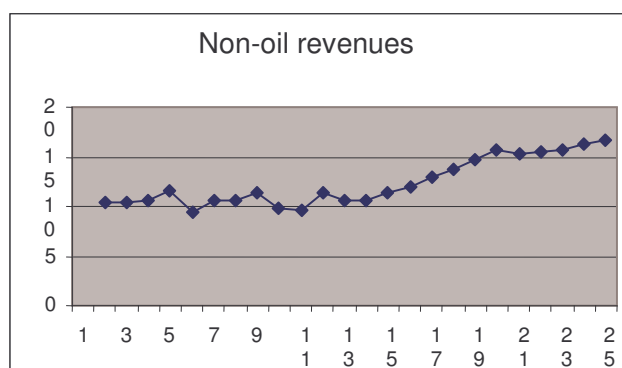
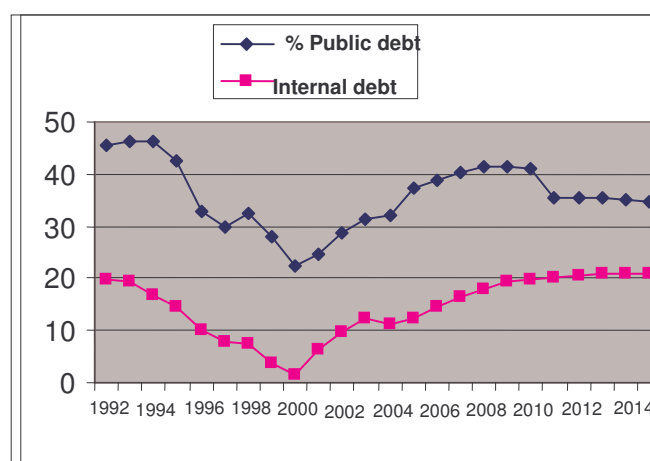


Figure (5): Public debt during the 10th FYP



Policies & Action Plan

- Amend the Basic Financial Law and the relevant accounting regulations for economic, administrative and banking sectors, and introduce the concept of a budget based on reservation rather than on the cash basis.
- The possibility of drawing a state budget covering more than one year.
- Organize the public debt through issuing the necessary legislation in 2006 and start disentangling the financial problems gradually.
- Reform the Treasury Department and automate its work methods.
- Control current/investment public spending and combat waste and consummative expenses.
- Adapt direct and indirect taxes to foreign trade structure and protect local industries taking into consideration the GAFTA Agreement and WTO provisions.
- Modernise levying and collection methods during (2006-2007).
- Continue modernising the tax regulations.
- Create a new budget structure and introduce the double entry accounting.
- Add non-covered income-generating areas to the tax base in order to gradually reduce the income tax.
- Reconsider the tax exemptions including those provided through investment promotion laws, and stipulate this in the tax legislations so that exempted amount will be deducted from the taxables of the relevant year.
- Issue a tax proceedings law instead of arbitrary assessment.
- Unify the public expenditure administration in one body (MOF).
- Reconsider the current tax statement to reestablish trust with taxpayers.
- Establish a large taxpayer unit LTU.

- Create the unified tax code.
- Restructure the tax sector and set up a hierarchical body with a general administration chaired by a general manager having the necessary mandate.
- Continue establishing financial and taxation facilities in big settlement areas (every settlement exceeding 20,000 people should have such facilities).
- Handle pensioners' salaries through ATMs during (2006-2007).
- Modernise the General Establishment for Insurance & Pensions and complete the automation project in its governorate branches.
- Introduce the VAT after defining the items to be subject to it and after assessing the potential social impact on the purchasing power of poorer groups.
- Amend the tariffs while preparing to join the WTO.
- Establish private-public partnership in developing revenues policy.
- Build an integrated information system that would help follow up and monitor reform policies and their applications on new income policy.
- Launch a taxpayer awareness program to disseminate information about legislations, exonerations, due dates etc.
- Enhance the monitoring capacity of evasion combating units and increase their number at local and central levels.
- Enhance professionalism among tax administration staff through a proper training program.
- Make the tax system more transparent and more practical by removing tariff barriers, income tax and VAT.
- Use the financial police as is the case in other countries.
- Introduce performance indicators at certain units in order to be generalized at a later stage.
- Introduce a system linking incentives to productivity and fix salaries accordingly.
- Activate the tax dispute settlement courts, with proper institutional arrangement that would ensure collection after issuing verdicts.
- Reevaluate the public expenditure to increase its efficiency.
- Reevaluate the social security institutions and increase their effectiveness.
- Give priority to development-oriented projects.

In the non-tax revenues area:

- Introduce the cost analysis to public sector products and services to increase the government share in non-tax revenues.
- Reconsider the support policy and plan more just aid distribution, where support should go to highly efficient, high-tech sectors and to R&D center and business incubators.
- Restructure the SOEs, and calculate the investment return and evaluate their performance during the first two years.

Government spending management

Background

The government responsibility in the socio-economic transition process requires rational management of spending in different areas. Expenditure policies should consider rationalizing the spending and the deficit levels that can be tolerated while expanding investments.

9th FYP performance

the government current and investment spending expanded during the 9th FYP but it did not realize the planned results. Monitoring focused on field implementation rather than the achieved results not to mention the absence of accountability. Actual investment spending did not reach 70% of the plan while the current spending exceeded the plan. The calls for a rationalized management to help increase salaries and reconsider subsidy expenditure.

Problems & Challenges

- Current spending exceeds investment spending very much.
- The lack of a state budget system based on performance and results.
- Lack of a prioritizing system in the project preparation process, which is ad-hoc and arbitrary.
- Lack of commitment in restructuring the SOEs, which causes money waste and operation losses.

Future vision

Government spending management should be transparent and accountable; decisions related to resource allocation, public expenditure and budgeting should be based on scientific and objectives criteria.

10th FYP

Objectives

Establish a new budgeting system that can contribute to allocating national resources according to sector priorities and in coherence with the 10th FYP objectives, where public spending will create an economic and social results to accelerate the development process and increase the revenues.

Quantified objectives

- Realize a national saving level of 29% of the GDP;

- Narrow the public expenditure gap (between current and investment spending) to 4% of the GDP, which will enable an investment rate of 14% the GDP.

Strategy

1. Develop a spending expansion policy based on affordable deficit levels;
2. develop efficient administrative and functional mechanisms to help provide competent skills in public spending;
3. develop a public budget/public spending system that distribute the central budget to sectors and governorates, and divulge authority in spending, accountancy, monitoring, reporting, publishing financial information, always sticking to transparent, result-oriented criteria.

Policies & action plan

- **Adopt a spending expansion policy based on affordable deficit (in relation to Strategy 1)**
 - Establish a sound mechanism for continuous monitoring and follow-up to ensure the implementation of planned activities in coherence with the financial limitation and decided procedures/criteria and within the timeframe.
 - Implement an efficient, result-oriented performance evaluation system.
 - Reform the accountancy system to ensure transparency in preparing and publishing data about the available assets, to avoid corruption.
 - Develop new government procurement criteria to avoid mismanagement and corruption.
- **Efficient spending management and budgeting process (in relation to Strategy 2)**
 - Adopt a sector spending policy according to the new system that will revise the public spending and develop a medium term (3 years) timeframe for expenditure priorities to ensure consistency with the FYP goals, achieve better productivity and reduce expenses.
 - Restructure the SOEs and give them financial and administrative autonomy so that they introduce market rules and ensure self-financing.
 - Maintain financial discipline through a highly efficient accountancy standards and information system.
 - During the first year of the FYP, pilot sectors will be chosen to implement the public spending performance evaluation system, to be expanded at a later stage.
- **Allocate public funds according to return (in relation to Strategy 3)**
 - An annual budget on the medium term (3 years) will be prepared in coherence with the allocations of priority sectors/projects.

- Chosen projects will be the base according to which budgetary funds will be allocated, while implementing an efficient monitoring and follow-up system in projects with strict timeframe.
- Stress the decentralization approach in public finance management; the governorates should provide the citizen services previously provided by the central government.

Monetary Policies

Background

While central banks in developing countries are trying to modernize their monetary policies and improve the tools used to carry out these policies, they also try to strengthen their autonomy to ensure more efficient and more transparent realization of objectives. They are gradually giving up the direct policies focusing on monetary variables towards indirect policies that control already agreed inflation levels; from monetary policies highly affected by financial policies towards more autonomy in handling the CB monetary policies in coherence with the government economic objectives; from traditional, authoritative tools such as controlling the discount rate and obligatory reserve level, fixing a ceiling for crediting levels, and controlling the debit/credit interest rates towards indirectly affecting the pricing mechanism and continuously updating the monetary tools; and finally from strict control over the monetary objectives towards open and timely announcement of these objectives.

Now that a new planning approach based on social market concept has been in place, Syria urgently needs a policy that can keep pace with this change. Last year's reforms did not come within an integrated framework and did not yield the expected outcome. This may be explained by the transitional period and the interlacement between new and old methods of economic planning and administration. This should be taken into account while developing the 10th FYP monetary policies and implementation tools.

The monetary market is currently subordinate to the public finance, a situation most Arab countries have begun to abandon. This situation has deprived the economy from different accumulative resources not only from local savings, because most Syrian financial activities go to financing the budget deficit. The Public Debt Fund work mechanism adds to such a situation. Despite the fact that four private banks have already started operation and there two other to come soon, the private sector is still suffering big shortage in funding sources.

Other negative aspect is that the administrative factors are still controlling the monetary market realities:

1. Interest rates are still defined administratively, and this creates a gap between nominal and actual interest rates, which discourage local investment. Until recently, interest rates would keep the same level for a long time, and with the

lowering inflation level, this will increase the actual interest rates and hence increase the investment cost and weaken investment demand on savings.

- the Syrian pound exchange rates are administratively defined and maintained fix, which encourages the informal exchange market leading to more dispersion in foreign exchange resources. This is aggravated by the system of allocating foreign currency resources to private sector imports.

On the other hand, the monetary sector is suffering from inconsistency between its own policies and government policies in general (especially those related to production, distribution, investment, consumption etc.), which block the economic authorities from achieving the planned goals. The most significant example on such inconsistency is the adoption of deflation policy while aiming at economic expansion.

This has accumulated foreign currencies to an amount that can cover 29 months of Syrian imports, depriving the country from available monetary sources.

Going through the above imbalances during the last decade, we can fix the following realities:

- Money supply grew faster than GDP (see Table 1).
- Increasing growth of foreign assets compared to total assets. Worth mentioning here that this growth in foreign currency levels was accompanied by a decrease in foreign currency deposits compared to total deposits (11%) during the same period (see Table 2).
- The financial reform programs were based on micro levels, where the banking sector and financial policy were tackled at the sector level, i.e. isolated from other financial market activities (investment, insurance, stock market), which affected the possibility of activating this sector.
- Activating aspects related to the credit policy (credit tool), where trade (wholesale and retail) and agriculture have received the lion's share of local banks crediting facilities while the share of industry was low. This lasted so long that it has weakened the banking sector contribution to economic restructuring. Moreover, the public sector received a remarkable share of banking credits.

Table (1): Money supply during (1991-2004)

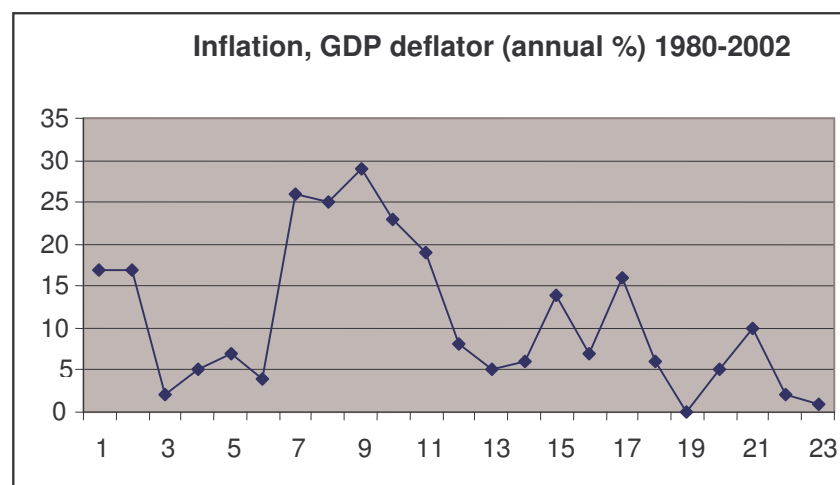
Year	1991	92	93	94	95	96	97	98	99	2000	2001	2002	2003	2004
Money supply change average (M2)	20.7	17.0	22.0	1.2	1.3	1.0	1.4	10.0	12.2	20.0	24.7	1.0	1.1	11.1
Actual growth rate	10.9	10.3	11.0	7.7	0.1	4.0	1.3	1.0	3.7	0.60	5.12	5.92	1.10	2.04

Table (2): Foreign currency assets compared to total assets

Year	91	92	93	94	95	96	97	98	99	2000	2001	2002	2003
Foreign assets/total assets ratio	1,0	11,7	21,9	30,2	38,1	44,3	48,4	52,3	57,7	67,7	71,8	70,0	81,8

In general, the Syrian monetary system is in bad need for reform and reconstruction. It is currently depending on a limited, inconsistent banking network and has never kept up with the rapid development witnessed by similar systems around the world. It lacks core components such as skills and technologies. The monetary policy is still subordinate to the public finance in that it focuses on supporting the public sector in the first place instead of supporting economic development in general. Given these facts, we can talk about the absence of a real monetary policy in Syria, which has led to the absence of a conducive legal and regulatory environment for the financial institutions.

In spite of the current stability and big foreign reserves, the current policy will not guarantee stability and inflation control forever. It is well known that Syria has, during the last two decades, witnessed a number of periods of fluctuations and high inflation that have increased the poverty levels. It is known also that the state budget deficit is covered to a large extent by the Central Bank i.e. relation between deficit and inflation levels is fixed in Syria.



Building on the above remarks, the 10th FYP will depend on the monetary policy and the related reforms and modernization in the banking and financial system. All experiences show that a developed banking and financial system is a must for development, without which no development in production, investment and export can be achieved. Realizing this needs a group of reforms to be started during the 10th FYP and may last beyond its timeframe. After fulfilling such reforms, Syria can seek more in terms of expanding its financial and monetary market beyond the national borders.

5-3-1) Evaluating the monetary policy performance during the 9th FYP

The 9th FYP raised the problem of lacking efficient financial institution capable of tackling the accelerating economic changes. The 0th FYP strategic objectives included realizing balance, reducing inflation and supporting foreign reserves. The economic policy managed to achieve some of these objectives, but it froze the foreign reserves without investing them in vital areas.

The 9th FYP managed also to unify the exchange rates and make them closer to reality. The financial authority tried to strengthen the financial sector through a new legislation that established the Council for Money & Credit which assumed the monetary and financial policy in addition to modernizing the financial sector. Other legislations aimed at enhancing the CB autonomy and the role of banks, and started the process of establishing the stock market with all necessary inputs (legal, supervision, skills etc.)

However, those measures have not created an efficient and consistent atmosphere; on the contrary, they increased the system complexity. The realized achievements could not change the banking structure nor the underlying monetary policy; they could not provide the necessary mechanisms to ensure stability and enhance and finance development. The following point show what we mean by this:

- The total amount of banks deposits is still weak in spite of the increase in private sector deposits (from 30% of total deposits before the year 2000 to 35% 2003 to, which is still weak compared with the neighbouring countries).
- The public sector received more than 60% of total credits, with limited growth in the credits provided to the private sector. The credit facilities are not distributed according to a clear development vision. For example, trade receives 40.5% of such resources and agriculture 21.3%, while industry gets less than 4%. The government is continuing the policy of direct borrowing from the CB (306 billion SYL in 2003 and 310 billion in 2004). The banks loans provided to the government dropped from 154 billion SYL in 2003 to 123 billion in 2004.
- The banking framework has not witnessed enough development and is still characterized by weak efficiency, small number of banks (6 strictly specialized public banks), difficult access to services, absence of competition among the banks and costly and low quality banking services. Authorising private banks was a step forward, but it is still limited. The turnover of the operating private banks is very low compared with that of the public banks. In 2004, total deposits at the public banks were 300 billion SYL while private banks loans were only 5 billion SYL. The private banking is not expected to grow enough so long as necessary legislation and guarantee mechanisms are missing.

Finally, the 9th FYP achieved “positive” steps forward including the unification of exchange rates and allowing citizens to deal with foreign currencies, but this

change has advantages and disadvantages at the same time. While ensuring some flexibility for the national economy, it is expected to increase its fragility facing internal and external shocks. Usually, when there are crisis symptoms, demand on foreign currency will increase sharply and may trigger a serious crisis. To face such threats, the monetary and financial system needs good, highly credible institutions with clear mandate. The currently weak coordination among the concerned parties does not serve the harmonization of monetary and financial policies and the exchange policy, and that is another task to be addressed by the 10th FYP.

Problems & Challenges

Based upon what was presented above, the problems and challenges of the monetary policy are deep and structural, but they are clear and can be summarized as below:

- a. Lack of monetary policy that is coordinated with the development policy and other macro policies, or independent from the public finance policy or complementary to it, in addition to unwise methods to invest the financial resources.
- b. The lower inflation rate does not reflect the presence of consistent policy and tools. There is immediate danger to return to high inflation rates, so long as the monetary policy is subject to the wishes of the public finances.
- c. In spite of the growth of the monetary mass, the monetary derivatives remained low which reflects a shallow finance system and small or inefficient banking system unable to provide the financing services required for development.
- d. Non completion of legislations and laws governing the monetary policy and banking system, lack of coordination and harmony between all institutions and parties responsible for the monetary policy and banking system.
- e. The current exchange rate allows a great deal of flexibility, but the structure and nature of existing institutions do not guarantee credibility and immunity that are required in case of internal or external shocks.

5-2-5) Monetary Policy Vision

The monetary policy and financial system are very important in achieving the short and long-term development objectives. Hence it is imperative to change the monetary policies and systems and to develop and build the related banking and financial systems. Agreement shall be reached regarding sound distribution of responsibilities and set out fixed mechanisms for coordination among the systems. And since the monetary policy can only handle one strategic objective at a time within clear future vision, it will firstly seek price stability and avoid inflation. This approach shall be coordinate with the level of economic activity and employment.

Success in this approach requires financial markets and instruments (monetary and capital) that are strong, active, and transparent with clear laws and mechanisms. The advantage of these instruments is their ability to secure financial services that are of high quality, accurate, speedy. These are services

that are required by all economic production sectors. The complete effective achievement for long term strategic vision requires more than on FYP. This requires the deployment of enough resources to prepare highly efficient and advanced staff and administrators, and to support and build various required institutions, including legal institutions which necessary to protect the rights of all parties.

5-2-6) 10th FYP

Objectives

The 10th FYP aims at implementing a monetary policy that will restructure the institutions and functions and guarantee the Central Bank independence. This has a special importance for the monetary system in Syria, because it is characterized with a great deal of multitude and interlaced responsibilities which hinders the normal operations and affects credibility. The CB functions are distributed among three or more institutions: the central Bank, the Commercial Bank of Syria and the Money and Credit Council. This multitude poses a clear danger that must be overcome. Thus what is required is to formulate a basic law that defines the basic structure for the banking organization and clearly and comprehensively outlines the functions of the Central Bank. And to declare that the monetary policy aims to stabilize price levels. The Monetary and Credit Council can be assigned a consultative and coordination role in preparing monetary and financial policies.

Relevant here is the legislative reform and issuing a set of legislations and laws related to banking monitoring and accounting methods. The said legislations must be clear and capable of organizing the functions of different financial institutions and to achieve prompt and flowing operations and improve and activate the investment atmosphere.

Reform of the monetary system and its apparatus requires building capacities and operations and adopting various programs and projects: train, retrain and qualify staff, establish more banks and branches and allow competition by foreign banks, organize and strengthen the interactive ties between banks, strengthen operations related to foreign trade, replace the currently used banks accounting system with an international system to be used by all banks, implement a media awareness program, develop the potentials of economic and financial analysis capabilities of the Central Bank and committing to Basle 1 and Basle 2.

Quantified Objectives

1. Finance the deficit of the balance of payments by foreign reserves, and keep the latter at the level of 18 month of imports.
2. Increase deposits by 50%.
3. Priority to increase lending to private sector by 10% annually.
4. Inflation rates should not exceed 5% and interest rates should be carefully used to affect the monetary mass.
5. Control the exchange rates and stabilize them within the CB margin (5%).

6. Issue government bonds to finance the budget deficit, instead of direct borrowing from the CB.

Strategies

The 10th FYP strategies include committing to the convention of good practices in the field of transparency of monetary and financial policies, as approved by the Arab Monetary Fund and International Monetary Fund. Therefore, the proposed development to the monetary policy framework shall take into account the following principles:

- Transparency and clear rules and procedures for all.
- Declaration and availability of information that are possible to publish.
- Easy management and implementation.
- Timely interaction with market trends and economic performances indices.

In order to achieve all these principles, the 10th FYP plan will review the CB internal organization of monetary policy management, targeting three objectives:

- Provide sufficient, accurate and timely information, and guarantee the availability of human and technical capacities and expertise capable of analyzing data and information that will provide basis for formulating monetary policy.
- Avoid interlaced specializations with other CB units or departments and promote full clarity regarding the roles of the existing or introduced units.
- Involve the CB senior management in the process of decision making regarding implementation of monetary policy and ensure implementation efficiency by the CB executive units.

The 10th FYP strategies related to the monetary policy will ensure the availability of success factors at both macro and micro levels.

At the macro level, the following will be secured:

- Settle disentanglement between the financial and monetary policies by increasing the CB capacities, enhancing its independence and limiting its relation with the Treasury to the annual surplus and the legally permissible seasonal financing.
- Establish full agreement rules between the CB as the part responsible for implementing the objectives of the monetary policy whilst the other government departments are responsible for drafting and implementing financial policy, economic policy, exchange policy within the overall economic policy of the state.
- As long as the objective of price stability must be defined within the framework of a total agreement between the Central Bank and the government annually, it is important not to view price stability as a fixed figure to be achieved by both parties. Hence it is required to define the price stability

within the range that cannot be expected, if we wish to achieve the price stability.

- Prior to defining the range for price stability, agreement must be reached between the central Bank and the executive authority about the scale to be used for measuring the degree of price stability.
- This policy will be implemented within the short term strategy and immediately after approval of the 10th FYP in order to remove the existing distortion at the foreign exchange market.

At the micro level

The 10th FYP will exercise tighter control on the monetary variables and ensure efficiency of changes by using indirect tools. This can be verified via the following:

- Guarantee the quality of information.
- Guarantee the promptness of information flow.
- Guarantee the efficiency of conduits of monetary policy.
- Efficient decision making, both in quality and timing.
- Neutralizing the effects of foreign shocks.

Within this comprehensive transformation framework of the monetary policy within the coming five years, the strategies defined for the Plan are as follows:

1. Transform the CB from the passive to the active role and issue legislations required to support its independence.
2. Define the operational, intermediate and final functions of the new monetary policy.
3. Define tools of the new monetary policy.
4. Set up a modern system for financial, monetary and material information.

Policies and Work Programs

- Transform the CB from passive to active role and issue legislations to support its independence (association with strategy 1)
 - Transform the CB from passive to active role and issue legislations to support its independence.
 - Enable the CB to perform its role in achieving the targeted growth rate of monetary cash via interfering at the money market to arrive at the targets regarding the level of excess of banks requirements which will largely limit variations in the interest rate, regardless of the trends of variables changing the surplus levels.

A work program of effective and well studied transformation will be established so that the transform will be effective and positive regarding the trends of interest rates and will contribute to the objective of the flexibility of monetary indices in directing the activity.

- Activate the legal frame and transfer it to the form that will give mandate for the implementation of the new monetary policy. This involves drafting a revised law of CB role to ensure its independence, define its objectives in achieving price stability, safety of the banking system and contribution in achieving the sustained economic development within the state general economic policy. And to confirm the special role of the Central Bank in setting the monetary, credit, banking policies and supervise their implementation.
- Define the operational, intermediate and final functions for the new monetary policy (association with strategy 2)
 - A general framework for the new monetary policy will be adopted which will include the functions and objectives starting from daily operation, intermediate objective and their effects on the final objective, as follows:
 - The final function of the new monetary policy will be defined and the CB will be assigned to implement it and keep prices stability. Hence, price stability will be the monetary basis to projections regarding price increases and inflation in Syria. There will be a team of experts to help explaining work programs at the Bank that are required to meet this objective.
 - Regarding intermediate function, the CB role will be to monitor the effect of money volume on the final objective that is the price stability measured by the average period growth rate in local liquidity level M2 as representing the available money in general in Syria, due to the close relation between monetary volume and inflation rates.
 - Regarding the operational function. The CB will work on controlling the growth of local liquidity by indirectly affecting the basic factors that affect the degree of monetary stability. The indirect effect on the total monies will materialize through affecting the trends of nominal interest rates within the Syrian market at short term, being the operational objective of monetary policy.
- Define tools of new monetary policy (association with strategy 3)
 - The CB will develop the use of indirect tools of new monetary policy in order to activate its capacity to control the trends in monetary variables that affect the intermediate and final functions of the monetary policy.
 - Tools related to reserve ratio will be developed and legislative amendments to Central Bank law to approve the principle of paying revenues to the banks to be decided by the bank board of directors against keeping bank accounts corresponding to the reserve ratio, with the exception of some types of savings and other assets.
 - Open market operations will be approved in directing the prices of short term nominal interest rate in the market as a function and operational objective of the monetary policy whereby it helps to manage the liquidity in the economy, in addition to the fact that it gives dealers at the money market the necessary indicators on the trends of monetary policy.
 - The following courses will be introduced for this end:

- Agreements on reverse re-purchasing.
- Repurchase of government bonds.
- Final purchasing of government bonds and funds permits.
- Foreign currencies exchanges.
- Deposit or debit certificates.

These operations will be carried out via tenders or bilateral agreements. Dates will be informed in advance to the participating parties.

- Review the existing facilities submitted by the CB which will greatly help to pump or absorb liquidity from the market.
- Introduce new mechanism to finance deficit in state budget and direct the state treasury to adopt a system of "major clients" in the market of issuing government bonds. The State will resort to this system of borrowing from the market which will help pricing of the government debt according to the conditions and trends of the bonds market.

This system will increase the CB capacity to handle the tools of open market and will limit the Treasury from financing any deficit on the government bonds market as a part of the capital market and away from the banking finance.

- Set up modern systems for financial and monetary information (association with strategy 4)

In order to control the functional levels of the monetary policy, the CB will commence during the Plan the following:

- Establish an electronic network for the CB to be the direct channel with the Syrian banks.
- Set up electronic clearance chamber as the first step towards comprehensive, real time settlement.
- Set up networks to connect Syrian banks branches with their headquarters and these headquarters with the CB network.

Introduce electronic data entry instead of paper records at the Treasury bills market.

Finance, Insurance & Real Estate Sector

Background

Due to many reasons including economic planning and management, big volume of the public sector, the financial and insurance sector has not witnessed significant growth during the past years. Its contribution to the GDP is modest (4%) compared to other countries. This reflects the low level of sub-sector indicators (credit facilities to private sector constitute about 13% of the GDP, while the insurance sector contribution is merely 0.5%).

Syria needs a new financial and insurance strategy different from those of the previous 5-year plans. This sector is able to become one of the major drives of the national economy and a source of value creation instead of savings collection to finance government deficits. At the beginning, a comprehensive vision should be developed to cover all the sector institutions rather than partial policies for individual institutions. Building on this vision, we can develop a financial policy stipulating different procedures aimed at enhancing growth, employment, efficiency and diversification in this sector, and tailor a strategic plan with short, medium and long term objectives that help develop this sector on both macro and micro levels (banks, insurance firms, stock markets and other active institutions).

Until now, the financial sector has failed to play its expected role in the economic reform process. Foreign trade liberalization has advanced with quicker pace than financial sector reforms. This might have negative impact on the exchange rate of the Syrian Pound and on different economic sectors due to the vital role of this sector in providing necessary funding to modernise production sectors, enhance their competitiveness and enable them to benefit from foreign trade liberalization to create competitive edges for the Syrian economy. The availability of local and foreign currency resources as well as the low foreign indebtedness provide a valuable opportunity to achieve the necessary reform.

The low growth in the financial sector deprives the private sector from necessary development resources. Private sector access to funding is still very limited due to the lack of financing and credit channels and of appropriate financial products. This has led to a situation where the public sector banks accumulate cash surpluses while the private sector resorts to its own resources or to foreign banks, which collect higher interest rates to cover cross-boarder risk.

Saving increases are not being interpreted into investment increases due to the inability of the banking sector to turn them into investment through credits, the matter that hurt various production areas including the private sector.

During the last two years, the Central Bank began to change the interest rates after decades of frozen rates. However, adjusting these rates is only one factor to increase savings and investment. Other most important factors include the

existence of a variety of financial institutions with varied financial products, instruments and assets to suit the different groups of savers. This is very important to increase savings and, hence, investment. While the number, reach, and diversification of the financial institutions are important, the volume of the financial assets is the most important. At this level, the financial sector is still unable to provide reasonable quantitative and qualitative assets.

In spite of issuing a new insurance legislation, obstacles are still impeding the insurance sector from creating the necessary services. No connection has yet been established between this sector and the financial sector as a whole; the statements of the Syrian Insurance Company (the only official insurance operator) do not show its obligations and they do not meet the international accountancy and auditing standards. Insurance sector is an important supporter to the banking sector and developing it would positively affect both the banking sector and financial sector as a whole.

The Syrian financial sector consists of the following institutions:

1. The Central Bank of Syria (CB);
2. Six specialized public banks;
3. Four functioning private banks;
4. Two private banks are expected to start before the end of 2005;
5. The Syrian Insurance Company (SIC);
6. The Public Debt Fund (PDF);
7. The Establishment of Social Security (ESS);
8. The pension funds of professional trade unions.

The performance of the financial sector during the 9th 5-year plan

The 9th 5-year plan witnessed three main developments:

1. The issuance of a set of legislations such as the law of money laundering, the law of private banks, the law of banking secrecy, the law of Islamic banks, the law of insurance, and the law of the commission of stock market supervision.
2. Establishing 6 private banks for the first time since 40 years.
3. Initial authorisation for 6 private insurance companies.

The government has adopted several procedures as well as overall and executive policies aiming at the gradual liberation of the financial sector such as the foreign currency exchange policy and the policies relating to commercial banks. However, these policies are still partial and do not deal with the financial sector as a whole.

The hesitant reforms in the Public Finance and its relations with the public sector banks and the Central Bank have characterised banking sector with following during the 9th 5-year plan:

1. Domination of the public banks (esp. the Commercial Bank of Syria) over the banking sector;
2. The inability of the Central Bank of Syria (CBS) to play its full role regarding the monetary policy;
3. Unavailability of monetary policy tools;
4. Lack of well-trained and competent human resources;
5. Low investment rate;
6. Low crediting to the private sector;
7. Poor saving channels;
8. Domination of the informal sector in financing the business community.

Problems and challenges facing the financial, insurance, and real estate Sector

Like other Syrian economic sectors, the financial and insurance sector suffers from several problems and challenges affecting its performance. The first problem relates to the national economy structure and environment. The second relates to the public sector monopoly, the malfunctioning of this sector, and the challenges imposed by increasing competition of the neighboring financial markets, which have a relatively long history in banking, financing and insurance and have made important steps toward economic liberalisation, making them more attractive to Syrians. Finally, there is the poor communications and technology infrastructures.

The main characteristics of the Syrian financial sector are:

1. It suffers from a refrained demand, which results in a low flow of the financial resources of the official financial sector and in distortion in the distribution of the financial resources by the different economic sectors, which leads to a severe decrease in the rates of savings, investment, and production growth, lower than the potential levels the Syrian economy might achieve.
2. prevalent deflation in the sector, which lowers crediting levels and impedes investment in production assets. This in turn has created pressure on investable resources due to other reasons than market and pricing mechanisms; that's why credits are offered only to those capable of submitting collateral and mortgage.
3. Domination of cash transactions due to poor and limited banking services, which results in huge amounts of cash in circulation..
4. In spite of the existing control system over foreign currency, 80% of imports are done through unlicensed currency exchange dealers and through the neighbouring markets. This situation clearly identifies the necessity of developing the financial sector.
5. Interest rates that are not sensitive to inflation or exchange rates.
6. While the public banks and CBS have benefited from the technical assistances of several donors, this has not been done through a comprehensive reform program.

7. The structure of the liabilities of the Syrian banking sector indicates a high percentage of demand deposits compared to deposits and a high percentage of unclassified debts.
8. Foreign currency assets constitute more than 50% of total assets and high proportion of credits are granted to the public sector.
9. The government finances the deficit through loans from the public banks, which create pressures on the financial resources available for the private sector.
10. Low professional training and expertise of banking personnel.

These characteristics are maintained due to many problems including:

- The interlacements between the financial institutions and the PDF on the one hand, and between the PDF and the economic public sector on the other hand.
- The slowness of the institutional reform.
- The absences of a wide-based financial sector willing to take risk.
- The absence of a sovereign credit-related assessment of Syria; that's why relations with international financial institutions (IFIs) are not based on sound bases, opening the door for risk exaggeration.
- The absence of an objective statistical system able to provide a real view of the performance of the national economy in general and the different institutions in particular.
- Absence of international accounting standards. The financial statements of public financial institutions do not accurately reflect their financial status.
- The absence of cooperation among those in charge of the public debt management.

A futuristic vision of the financial, insurance, and real estate Sector

The futuristic vision of this sector is based on an achieved reform of its institutions and infrastructure during the first phase so that it can meet the internal needs of the national economy and, later, on identifying the strategic position of this sector with respect to the Arab region in general, in a way that enables the Syrian financial markets to play a regional role in the future and to be linked to other Arab financial markets, which may enable Syria to attract the surplus cashes in the Gulf Region and invest them in the development plans of the national economy.

The development process of this sector is expected to extend over several 5-years plans, three plans at the first estimation, due to hopes and ambitions linked to this sector within the reform context.

The most important factor of the success of this sector is to reorganize the public finances, the public debt structure, and government financing methods in general. This requires the availability of the following conditions:

1. A shift in the role of State's institutions from business licensing to market creation;
2. A developed financial supervision and control authority in place;

3. Stability of price rates;
4. Harmony between the roles of the different institutions active in this sector;
5. Control over the public finances;
6. Increased benefits and competitive behavior at the commercial banks;
7. A tax system that does not discriminate among the different financial intermediaries.

Long term objectives

The extent of the openness of the Syrian economy and the good performance of its administration are among the determinant factors as regards what one might expect from this sector, taking for granted the stability conditions of the region. The other important determinant factor in this respect is the volume of the Syrian economy and its capacity to absorb and invest the financial resources.

During the two successive plans, and until 2015, the financial sector shall be able to contribute to the economic development, serving the national economy and enabling it to face the challenges and to benefit from available opportunities and to achieve competitive edges. This shall be done through achieving the following:

- Gradual openness to reach full liberalization and ensure full freedom for the financial institutions to work according to the most modern international methods and to make of Syria a regional financial centre.
- Identification of the strategic position and role of the Syrian financial sector within the Arab World.
- Contribution to the economic growth through supporting a sustainable reform process of the financial sector aiming at facilitating the access of the different economic sectors to finances necessary to enhance their respective roles in the national economy.
- Enhance the financial mediation as a tool to finance public sector investments, in order to ease dependency on funding through the public budget, foreign debts or inflation.
- Development and restructuring of the existing financial institutions, and development of an enabling environment for their continuous growth.
- Develop the Syrian capital market to provide enough resources to finance the infrastructure development.
- Stabilize the exchange rate of the Syrian Pound through achieving a surplus in the balance of payments by increasing capital and financial inflows.
- Gradual outward openness of the Syrian capital market within the context of globalization.
- Propose huge investment projects that put together the international expertise, foreign and local financial resources, and local human resources.
- Syria to be in the lead of the financial and insurance sector in the region.
- Savings rate increased through increased revenues of investment.
- Increased cash for investment, making it more attractive to invest in Syria.

Establishing a Council of Financial Services

After developing the stock market and the insurance sector and accomplishing the development of both private and public banking institutions, a Council of Financial Services shall be established, aiming at:

- Making of Syria a regional centre providing advanced financial services not only to Syria but also to the Arab region.
- Establishing the Damascus Financial Centre to provide customised, services to Syria and the whole region. This Centre will contain financial, commercial, and housing facilities, including:
- Coordination between the different institutions active in the financial sector;
- Continuous development of legislations in line with international standards;
- Sustain the competitiveness of the Syrian financial market with respect to other regional countries.

The 10th 5-year plan

General sector objectives

1. Increased competitiveness of both the Syrian economy and the Syrian financial sector with respect to neighboring countries;
2. develop the financial market and increase the actual volume of the financial sector and its contribution to the GDP;
3. increase credits to the private sector;
4. Improved quality and reach of financial services;
5. Develop human resources in the financial sector;
6. Create new jobs in the sector;
7. Provide diversified financing for entrepreneurs;
8. Develop the financial sector to become able to interact with the monetary policies;
9. Encourage foreign capitals to enter the Syrian market;
10. Collect long term savings to finance public and private projects;
11. Reorganize the institutions to improve their functionality and enhance financial mediation activities;
12. Modernize the legislative framework to allow the entrance of financial institutions providing financial products and services.
13. Encourage non-cash and e-transactions.

Quantitative objectives on macro and sector levels

1. Increase the financial and capital flows into Syria up to 100 billion SYL.
2. Increase the financial/insurance sector contribution to the GDP up to 10%;
3. Increase the private sector credits to 30% of the GDP;
4. increase the loans by the CBoS to the private sector to 100 billion SYL;
5. Create 10,000 new jobs in the financial/insurance sector;
6. increase the banking deposits to the same volume of the GDP;
7. increase the insurance installments to 20 billion SYL;
8. finalize the establishment of the stock market;

9. Establish real estate mortgage firms and increase the pawn amounts to 20 billion SYL
10. increase the net financial assets/GDP ratio;
11. increase the liquid assets/GDP ratio;
12. Increase the number of financial intermediaries in the market and authorise new investment funds and leasing companies;
13. Increase the corporate shareholders to reach 5% of adult population.
14. issue 200,000 credit cards;
15. establish 1000 ATMs;
16. Increase the number of bank branches to 400.

8.6.3 The strategy

The current plan will tackle the above issues through developing the overall sector objectives and policies by benefiting from the experiences of other countries, which achieved high growth rates in the financial sector and were able to achieve the desired economic change within less than 3 decades.

This sector will contribute to accelerating the structural reform to increase the economic growth rates through expanding and diversifying the production and exports before the end of oil reserves, and to absorb the increasing numbers of newcomers to the labor market, which call for an annual employment growth of 4.5%.

- **Strategies relating to the 1st objective**

1. The government should act as market creator rather than business licensor;
2. The government should act as policymaker rather than policy executor;
3. The government should continuously evaluate the competitiveness of the Syrian economy in comparison with regional economies and then develop proper policies to maintain this competitiveness.

- **Strategies relating to the 2nd objective**

4. Restructuring the financial sector, making it more competitive;
5. Increase the liquid money/GDP ratio;
6. Amending regulations to license more financial institutions;
7. Introduce market mechanisms to the public financial institutions;
8. Introduce new banking and financial activities such as development and investment banks, venture capital and investment funds;
9. Developing the legal framework of this sector as a whole.

- **Strategies relating to the 3rd objective**

10. Removing the obstacles to enable the private sector to benefit from bank financings;
11. Restructure the Public Debt Fund;

12. Provide commercial funding to the public sector, and establish an investment bank specialised in financing public sector activities;

- **Strategies relating to the 4th objective**

13. Increase the number of bank branches throughout the country;
14. Increase the number of banking services;
15. Provide e-banking infrastructure;
16. Provide Islamic banking products;
17. Develop and modernize technology and communications among financial institutions;
18. Expand e-commerce applications.

- **Strategies relating to the 5th objective**

19. Laying out the foundations of financial sector institutional, legal, and operational modernization through improved management and HR skills;
20. Develop the HRM function in different financial institutions to become a strategic partner working with their respective top managements to achieve the respective objectives, instead of just focusing on management of personnel affairs and files;
21. Encourage Syrians to get internationally accredited professional certificates, and develop Syrian certificates in line with international standards;
22. Encourage Syrian vocational institutions to work under license of international ones;
23. Introduce university specializations that help develop the financial sector and markets, including financial engineering;
24. Establish a fund for scholarships to study the needed specializations, on the condition of working on Syria or paying back the costs;

- **Strategies relating to the 6th objective**

25. Increase the number of financial institutions;
26. Develop new vocations relating to the financial sector;
27. Training and qualification;
28. Disseminate the entrepreneurship culture.

- **Strategies relating to the 7th objective**

29. Establish funds for venture capital;
30. Encourage the financial institutions to provide this finance;
31. Develop the NGO's promoting entrepreneurship.

- **Strategies relating to the 8th objective**

32. Develop an institutional framework for the work of CBS and the Ministry of Finance;

33. Provide the necessary tools for financial and monetary policies;
34. Develop the Syrian financial markets.
35. Collect long term savings to finance public and private projects;

- **Strategies relating to the 9th objective**

36. enhance the cost recovery in FDI project to promote Syria as an investor-friendly country;
37. Increase the transparency of the financial sector and its practices;
38. Enhance the good governance of the financial institutions and government departments relating to this sector;
39. Transparency and reliability of financial and monetary statistics;
40. Develop legislation;
41. Increase the number of products and services.
42. Provide conducive legal and institutional framework to securitize the financial assets;

- **Strategies relating to the 10th objective**

43. Accomplish the establishing of the stock market;
44. Provide professions and financial and consultancy services necessary for the financial market, such as business assessment and account auditing.
45. Provide financial products that make the long term investment more attractive;
46. encourage long-term investment by providing tax incentives;

- **Strategies relating to the 11th objective**

47. Develop the role of CBS;
48. Organize the relation between CBS and the rest of financial institutions;
49. All the public banks to be supervised by one authority: CBS;
50. Organize the relation between CBS and the Ministry of Finance to ensure better management of the public debt;
51. Delegate the management of the short term public debt to CBS.

- **Strategies relating to the 12th objective**

52. Establish a "Commission on Banking and Financial Laws and Legislations Modernization" from among CBS and public and private institutions relating to this sector;
53. Endorse a law for finance leasing;
54. Endorse a law for SMEs financing;
55. Endorse a new legislation to promote the profession of legal accountant and the establishing of Syrian accountant firms that can provide the necessary professional services during this phase of economic development in Syria;
56. Develop real estate mortgage legislations;
57. Endorse a legislation concerning e-signature;

58. Amend the legislation of evidence to enable the use of e-instruments;
59. Endorse a legislation for private pension funds;
60. Establish commercial courts to increase trust in the financial sector;
61. Develop the Law of Social Insurances.

- **Strategies relating to the 13th objective**

62. establish a company for e-payment system;
63. Channel government employees' salaries through the banks;
64. increase the number of credit cards.

FYP implementation will adopt the project Cycle Management (PCM) approach to ensure the realisation of various quantitative and qualitative goals. The national program for financial sector modernisation will be launched in parallel with the institutional development program to satisfy the following objectives:

1. Follow up the implementation of various FYP goals;
2. manage the FYP implementation process;
3. coordinate efforts of different legislative and executive bodies;
4. coordinate among different modernisation projects to avoid inconsistency and overlapping;
5. promote the 10th FYP projects and seek the necessary financial and technical aid.

Reforms on the policy, legal and institutional levels

The public Debt Fund

Objectives

1. Increase the efficiency of using the financial resources of the national economy;
2. reduce the cost of financing the government needs and obligations;
3. Enhance the efficiency of public debt management;
4. Enhance the role of CBS as the government's financial consultant and in managing the issuance of public debt bonds;
5. Ensure a special channel for financing the economic public sector, separate from the financing of the administrative public sector;
6. Distinguish between the objectives and responsibilities of public debt management and the monetary policy.

Policies and action plan

1. introduce international practices in public debt management;
2. Restructure the PDF, restrict its role to the management of the governmental debt;

3. Establish a commercially-driven investment bank to finance the projects of the economic public sector;
4. Turn the PDF debts into shares owned by the investment bank and at its disposal;
5. Encourage the investment bank to financing through issuing medium and long term development bonds to finance economically profitable projects of the economic public sector or the joint-sector;
6. Make the government guarantee to public projects selective and given according to the project strategy;
7. The investment bank to be the sole financing resource for the economic public sector regarding mid and long term financing;
8. Enhance the role of CBS as a financial consultant to the government and in the management of issuing public debt bonds;
9. Endorse a law to turn the public debt into bonds, and issues public debt bonds;
10. The Ministry of Finance should focus on developing strategies and planning, while the CBS should focus on public debt management;
11. Establish a coordination unit between CBS and the Ministry of Finance to handle the coordination between the financial and monetary policies;
12. Develop the management of government liquidity, since the liquidity management and the best practices are important to ensure sound management of the public debt;
13. Coordinate between the PDF and CBS;
14. Issue Islamic instruments by the government to finance the development process;
15. Restrict the undeclared subsidization of bank interest of the banking sector to the PDF;

Banking activities

CBS

Objectives

1. develop the CBS capacities and increased its independence;
2. regulate the exchange market and enhance CBS role in the management of foreign reserves and exchange market to maintain the purchasing power of the Syrian Pound through suitable monetary tools;
3. Encourage the entrance of foreign banks of good expertise in financial markets to transfer technology, transparency, and professionalism of these banks to the Syrian financial market;
4. Stabilize the currency exchange rate to make the country more attractive to investments;
5. Increase the revenues of the investment of foreign currency reserves.

Policies and action plan

1. Re-establish the Monetary and Credit Council to enable it perform the role and technical responsibilities assigned to it according to this plan;
2. Cancellation of the Foreign Currency Bureau and changing it into a department within CBS, headed by CBS Deputy Governor;
3. issue a sovereign credit-related assessment of Syria based on objective criteria;
4. establish a committee for open market transactions;
5. establish a department for international cooperation and financial stability;
6. establish an operational unit to invest foreign reserves in international markets;
7. Restructure the Treasury Department and separate the issuance function from the current account transactions of the banks;
8. Comprehensive automation of CBS through one single LAN;
9. Establish the "Commission on Modern Banking and Financial Technologies and IT" to develop a strategic plan for the payment and settlement system in the Syrian financial sector;
10. Develop the CBS human resources and focus on banking-related training;
11. Develop a unified accounting system at the different units of CBS;
12. Encourage CBS to audit its accounts according to international standards and to adopt the international accounting standards;
13. Develop the Statistics and Studies Department to get timely and accurate information that help manage the monetary policy;
14. Develop the CBS capacity on financial and monetary analysis to enable the Monetary and Credit Council to formulate the monetary policy;
15. Endorse a new law of foreign currency;
16. Revise Law 23 of 2002 to give more autonomy to CBS;
17. Collect and restrict foreign currency reserves by CBS;
18. Explain the nature of the unclassified debts in the CBS balance sheet and the status of customers' loans and deposits, and also the status of government debts and deposits and to classify them in its accounts and in other public banks accounts, and encourage issuing bonds in exchange of these debts;
19. Activate the CBS discount desk;
20. Establish a unit for the management of the monetary policy within CBS;
21. Develop the use of the financial tools by CBS, especially the interest rate, to achieve the objectives of CBS;
22. Encourage CBS intervention through the following monetary tools only:
23. Liberation of foreign currency account and making it legal through Syrian laws;
24. Develop a system to evaluate the banks performance by the CBS;
25. Issue a unified accounting system for all banks, based on international standards;
26. Establish a risk management center;
27. Develop a payment system under the CBS supervision to reduce credit risks and provide an e-system to immediately recognize balances before accepting cheques;
28. Balance of payments: change the exchange market management from managing the individual current account items to a comprehensive management of the main BOP sections.

Public banking sector

Overall objectives

1. Increase the public banking sector competitiveness;
2. free it from non-banking supervision bodies;
3. free it from the Public Finance domination.

Policies & action plan

1. develop the banks procedures, regulations and services, namely:
 - a. enhance the risk management skills and manage the risks on sound basis;
 - b. upgrade the accountancy system, financial reporting and information system to satisfy the requirements of both: users and the Central Bank of Syria;
 - c. develop new banking and financial products.
2. upgrade the management structure and skills.
3. review the branches network with special focus on customer care and service provision.
4. develop marketing programs to increase revenues, and carry out standardised revision for the branches profitability.
5. review and modernise the monitoring systems (management, monitoring and coordination).
6. modernise the credit management.
7. implement "Basle I" criteria;
8. develop the assets and liabilities management, budget structure and risk management framework.
9. handle internal auditing as per international standards.
10. train staff at different levels and tailor sustainable training programs for banking cadres.
11. consider the possibility of merging certain banks to increase competitiveness and reduce administrative expenses.
12. review the public sector debts and turn the non-working debts into government bills.

Commercial Bank of Syria

1. Turn it into a comprehensive bank;
2. Review the CBoS foreign assets and harmonise them with the CB instructions;
3. increase its credit facilities to the private sector;
4. develop the Bank risk management to increase crediting on sound technical bases;

Real Estate Bank, Saving Bank, Popular Credit Bank

1. restructure these banks into comprehensive banks;
2. activate the Saving Fund to collect savings and invest them in the available business channels.

Industrial Bank

Restructure the IB with a strategic partner (Arabic or European bank) to turn it into a development bank with the main aim of financing public and private business projects according to the following:

1. finance projects that increase exports, foster young entrepreneurship and create new jobs.
2. allow the bank to own stocks.
3. provide credit at low interest rates.
4. issue development bills with state guarantees to finance the public and private sectors.
5. enhance the Bank focus on lending stock companies at lower interest rates.
6. launch a micro finance program.

Private banking sector

Objectives

1. develop a crediting market among the banks.
2. change the deposits structure towards increasing medium and long-term deposits.
3. encourage the banks to finance projects in various sector including short-term credit to the business community, and not limit their activity to foreign trade.
4. enhance e-payments and e-banking and build necessary infrastructure.
5. develop the banking legal and regulatory framework.
6. increase the banks crediting capacity as well as the credit amounts.

Policies & action plan

1. establish a deposit guarantee institution.
2. link capital efficiency to operational risk and implement Basle 2 by 2012.
3. amend Law 28 of 2001 and allow the establishment of investment banks.
4. regulate the legal relation between banks and their customers.
5. upgrade the banking legislations to cover different types of banking accounts.
6. develop legislations that help the banks recover their debts.
7. issue a new law for cheques and payment tools.
8. issue a new legislation for credit cards.
9. issue a new legislation for e-transfers.
10. establish a money transport company.
11. prepare the necessary infrastructure for e-payment and e-banking.

12. encourage the establishment of credit assessment firms.
13. develop a banking arbitration system.
14. issue a system for certificates of deposit (CDs).

Investment banks

Objectives

1. develop a system that pump civil savings into the business sector, which will lead to an active and sound economy.
2. develop new investment channels to use the frozen deposits which reflect the weakness of the banking sector..
3. develop funding tools other than stocks.

Policies & action plan

1. encourage successful companies to issue credit bills or debts that can be securitized.
2. facilitate the pawning operations.
3. encourage the funding of private projects.
4. encourage the banks to insure the underwriting on corporate stocks.

Islamic banking

objectives

1. try to move a great portion of Syrian people savings to the Islamic banks.
2. encourage the Islamic bank to provide as many Islamic products as possible.
3. provide wide scope of banking services to engage civil savings with the business sector.
4. increase the Islamic banks liquidity.
5. reduce the volume of informal financial market.

Policies and action plan

1. authorise more Islamic banks after ensuring a conducive legal and regulatory environment.
2. facilitate the securitization of Islamic banking assets.
3. issue a new legislation for crediting contracts.
4. provide conducive environment for securitizing Islamic banking assets.
5. issue Islamic bonds by the government to enhance the development process.
6. create Islamic portfolios.

Real estate pawns

Objectives

1. expand the social security net under the slogan: “a house for each Syrian family”.
2. enhance the efficiency of housing credit.
3. provide housing loans at easy interest rates for wider social strata.
4. provide housing long-term credits (up to 30 years).
5. diversify the financial products to finance the real estate sector.
6. enhance the efficiency of housing sector financing.
7. increase the liquidity of banks with real estate investments.

Policies and action plan

1. develop new securities to create new sources in the real estate sector.
2. develop the real estate pawning market to enhance the efficiency of housing financing.
3. encourage the establishment of firms specialised in real estate pawning.
4. create a council for real estate financing.
5. classify the pawning costs as tax deductible for free professions.
6. ensure conductive legal and judiciary framework for real estate pawns and issue a new legislation for financing real estates and their pawns.
7. reduce the real estate registration costs.
8. ensure the securitization possibility and issue Islamic securities.
9. establish a fund for the guarantees of real estate pawns.
10. encourage the banks to buy shares in the real estate financing companies.
11. encourage the establishment of consulting firms including legal firms and estates assessment firms.
12. provide a conductive regulatory environment for leasing ending in ownership.
13. encourage the establishment of real estate investment funds.

Insurance

background

2005 was a turning point in the Syrian insurance sector; there was a real start towards establishing a developed insurance market to handle its very important role in the development process supporting other saving/investment processes at the national level, which maximize success chance.

Per capita insurance indemnity is \$ 7, and the sector contributes to 0.3% of the GDP.

Long term vision

Upgrade the Syrian insurance sector to satisfy international standards and cover the insurance demand of wide Syrian groups through new innovative policies focusing on providing insurance services to the business community, supporting social security and disaster prevention and on building an insurance culture.

Quantified objectives

1. The current insurance sector contribution to the GDP is 0.3%; it is planned to increase it to 1%.
2. increase the insurance premiums to 20 billion Syrian pound by the end of this FYP.
3. increase the per capita premium to more than 500 SYL.
4. create 2,000 jobs in the insurance sector.

Objectives

1. turn the insurance into an active sector providing insurance against different economic and social risks.
2. develop and expand the sector to become:
 - a. competitive and reliable;
 - b. a major channel to collect financial savings.
3. enhance the sector contribution to economic growth through investing its surpluses in private and public development projects.
4. increase the sector contribution to investment projects.
5. enhance its role in supporting the Balance of Payments with the insurance interests outcome.
6. build technically competent staff and sound investment programs.
7. maintain public and private production means.
8. make the sector more reliable by issuing necessary legislations.
9. provide enough guarantees for banks to increase their crediting transaction.

Policies and action plan

1. go on licensing new companies and increase the number of those providing different insurance services:
2. develop the regulatory framework of the insurance sector and complete the necessary legislations to ensure a conducive environment.
3. encourage borrowing with the guarantee of life insurances.
4. encourage insurance companies to handle the role of financial broker through investing their surpluses in real estates, government and private sector bills.
5. develop the profession of actuary accounting and establish an association for Syrian actuaries.
6. foster alliances between banks and insurance companies to disseminate insurance services through banking branches.
7. enhance cooperative insurance.
8. ensure proper investment tools such as:
9. foster transparency and good governance.
10. encourage universities to teach insurance and actuary accounting.

11. restructure the Social security establishment to satisfy international standards.
12. encourage the establishment of Syrian reinsurance companies to increase the percentage of maintained insurance premiums.
13. develop the leasing legislation to enable insurance companies to invest in the real estate sector.
14. issue a special law ensuring balance in the relations between insurance companies and insured parties.

Syrian Insurance Company

background

For decades, the public SIC has been the only insurance services provider in Syria. The SIC currently operates in the following areas:

1. certain real estate;
2. deposit a major part of their money in public banks;
3. have shares in the capital of certain insurance and reinsurance firms;
4. invest its foreign currency reserves.

Objectives

1. liberate the Syrian insurance sector and increase its competitiveness.
2. modernise its work mechanisms.
3. free the sector from the domination of non-specialised supervision bodies.
4. free it from the domination of the Public Finance.

Policies and action plan

1. restructure the SIC to meet international standards.
2. upgrade the accountancy systems and audit the SIC accounts according to international standards.
3. introduce actuary accounting.
4. provide all sorts of insurance services and enhance life insurance.
5. invest the SIC money according to international standards.
6. develop human resources.

Social Security Establishment

background

the SSE was established in 1959. It covers around 88% of government employees and 36% of private sector workers. Critical statistics show that the SSE has accumulated a huge surplus (about 40 billion SUL in 2004) through refraining from paying its obligations towards thousand of subscribers. The SSE

used to shift this surplus to the Public Debt Fund and until recently it had not received any remuneration in return of these surpluses. However, the amendment on the Social Security Law has enabled the SSE to invest part of its money.

That is why it is urgent to restructure this important institution to activate its role in the financial sector and in increasing the saving levels. Such restructuring would enhance the private sector confidence and help it improve its coverage to this sector. Otherwise the SSE will remain crippled.

Objectives

1. increase the enrollment coverage of private sector workers.
2. activate the SSE role in the financial sector.
3. enhance the SSE role in providing social security.
4. increase its competitiveness with the opening of insurance sector, which will provide pensioner's services to private sector workers.
5. disengage the interlacement between the SSE and the Public Finance.

Policies and action plan

1. reconsider the Law of Social Securities to cover more groups such as agricultural workers, sea transport etc.
2. modernise and improve services as well as work methods and procedures, to increase the enrolment levels among private sector workers and settle the government sector obligations.
3. treat the SSE assets and private money.
4. separate senility insurance from other types.
5. introduce actuary accounts to assess the SSE obligations towards pension and senility subscribers.
6. invest the SSE money in treasury bills, real estates, companies and other sound investments.
7. introduce international accounting standards while preparing its financial reports.
8. benefit from good practices of other countries.
9. reconsider the contribution of both employer and employee to the social security tax.
10. make reconciliation with the Public Debt Fund and prepare necessary documentation for the SSE debts to the Fund.

Stock market

Preparations are currently going ahead to launch the stock market.

Objectives

1. provide additional investment channels through increasing local savings.
2. develop the financial sector so that it efficiently interact with the monetary policy.
3. encourage more foreign capitals to flow into the country.
4. develop new financial derivatives and encourage financial engineering products.
5. provide medium/long term funding to production and service sectors to expand business activities and support transition to social market economy.
6. provide investment outlets, which enhance the Syria's image as investor-friendly.
7. enhance the efficiency of resources distribution by developing mediation institutions.
8. encourage the national capital into more contribution to the property risk and promote stock companies.

Policies and action plan

1. finalise the procedures of establishing the stock market including legislation issuance.
2. build necessary infrastructures to establish and expand the stock market.
3. develop a promotion scheme for the stock market.
4. enhance transparency in transactions.
5. create a conducive legal framework with the best international legal and regulatory practices to assure various financial institution.
6. provide the best investment, settlement and clearance services.
7. encourage the establishment of joint investment funds that sell their stock and invest in the stock market.
8. establish holding companies that raise their shares for public underwriting to expand ownership.
9. rehabilitate the SOEs to enable them to float part of their stocks.
10. develop an Islamic issuance market and a secondary market (develop Islamic investment funds and Islamic capital market)
11. encourage the establishment of financial and investment consulting companies.
12. create new university specialisations such as financial engineering to support the development of the stock market.
13. enhance investment awareness and introduce the stock market to the education curricula.
14. develop a code of ethics for stock market players.
15. create and organise new professions: consultants, lawyers, financial analysts, brokers, sworn auditors ..
16. prepare the relevant laws, regulations and behavioural codes.
17. establish proper regulatory environment that guarantee the investors' interests.
18. ensure proper taxation system that could facilitate turning family companies in stock companies.
19. issue legislation to regulate Islamic securities transactions.

Quantified objectives

1. expand the capitalist market so that 5% of the population become investors or shareholders within the coming 15-20 years.
2. increase the market capital to 50 billion SYL during the coming 15-20 years.
3. increase the secondary market transactions to 50,000 during the coming 15-20 years.
4. increase the stock market volume to 50% of the GDP during the coming 15-20 years.

Expected sector outcome during the 10th FYP

1. increase the GDP growth rates.
2. Improve the performance of different economic sectors through providing the financial resources necessary for modernisation.
3. create remunerative jobs in different professions.
4. expand the production means ownership by encouraging people to buy stock companies shares.
5. disseminate financial awareness among the citizens for better use of economic resources.
6. increase women's economic participation.
7. turn Syria into a regional financial center.

Barriers and threats

- Deterioration of regional security situations.
- Lack of coordination among the ministries and agencies while implementing the proposed policies and program.
- Lack of seriousness in restructuring the public financial institutions and the Public Debt Fund.
- Lack of developed supervision and monitoring authority.
- Lack of prices stability.
- Lack of public finance discipline.
- Absence of competition among commercial banks.
- Discriminative tax system in dealing with brokers and mediators.
- Lack of official involvement in the Plan.

Follow-up & Performance Indicators

1. sector contribution to the GDP.
2. subsector statistics.
3. number of newly authorised financial institutions.
4. number of stocks and companies registered in the stock market.
5. number of individual bank accounts; number of bank branches for each 1000 citizen; number of bank accounts that ...

6. number of financial products provided by the sector.
7. number of sector employees.

Executive Matrix

FYP will be implemented through two phases. The first will focus on reforming the sector framework and build the necessary infrastructure, while the second will realize the FYP strategic objectives. Both phases will include short and medium term implementation steps. The short term frame will last 6-18 months while the medium term frame will last until the end of the FYP.

Phase One:

1. Establish the Commission of Modernising Financial and Banking Regulations between the CBS and the concerned public and private bodies;
2. establish the Financial Services Council which is expected to supervise the FYP implementation in the finance and insurance sector and also the financial sector modernisation project.
3. Establish the "Commission on Modern Banking and Financial Technologies and IT";
4. issue treasury permits;
5. issue treasury bills;
6. centralize the CBS foreign reserves;
7. establish a deposit desk at the CBS and activate its discount desk;
8. enhance the payment and clearance system among the banks;
9. develop a secondary market for treasury permits and bills at the CBS.

National Program for Financial Services Development

The FYP project management approach will depend on fulfilling quantitative and qualitative objectives through customized programs. The National Program for Financial Services Development will have the following objectives:

1. ensure the implementation of the FYP quantitative and qualitative objectives.
2. manage the implementation process.
3. coordinate among different regulatory and executive institutions.
4. coordinate among different projects to avoid overlapping and duplication.
5. promote the 10th FYP projects and programs, and support the fundraising and technical assistance processes.

National Program for Financial Services Development

This Program will consist of the following projects that can be adjusted according to the implementation conditions:

1. modernising the Central Bank of Syria.

2. develop and restructure the public debt management.
3. establishing the investment bank.
4. establishing the stock market.
5. modernising the Syrian Insurance Company.
6. develop and restructure the public banking sector.
7. modernise financial and banking legislations.
8. national program for banking culture dissemination.
9. national program for HRD in the financial sector.
10. national program for financial culture dissemination.
11. develop the open market transactions.
12. develop the electronic payment and clearance and e-banking.
13. establish a special e-card payment network among the banks.
14. national program for developing research and statistical unit in the financial sector.
15. national program for developing the governance culture in the financial sector.
16. develop the real estate pawns.
17. modernise the ESS.
18. modernise the SIC.
19. SME financing program.
20. micro finance program.

Real Estate Sector

Background

Investing in the real estate sector, which is a major component of the national economy, is very important because it has interrelations with many industrial and services sectors and can create many new jobs. For years, it has suffered from constraining taxation system and ignorance. Figures show that the construction sector contributes to 3% of the GDP. A major step towards economic opening was the preparation of the real estate investment law with the aim of freeing this sector from the legislations that have for years impeded its development.

The real estate sector has the following characteristics:

1. Lack of master plans for all regions and cities, and the absence of construction schemes for different regions.
2. no regulated market for real property, and no major real estate investment companies and institutions.
3. good infrastructure: Aleppo and Damascus airports have well-established networks; railway lines connect the major Syrian cities; there are two ports (Latakia & Tartous) with medium level services.
4. the interest of major Arab investment groups in investing in the real estate sector in Syria.

Syria is about entering a new stage of economic transition, and the real estate sector should be provided with every success factor. That is why this FYP will provide a conducive environment for real estate investment in Syria.

Objectives

1. Increase the real sector contribution to the GDP;
2. create new jobs;
3. attract Syrian, Arab and foreign companies into this sector;
4. increase investment flows into the country which will positively affect the Balance of Payments;
5. change the old view of the real sector as an “inflationary activity aimed only at providing housing and basic commercial requirements” into a sector that should play an efficient role in economic development;
6. increase the total demand.

Strategy

The 10th FYP will deal comprehensively with the real estate sector which includes:

1. Housing sector;
2. non-housing sector;
 - a. administrative towers;
 - b. shopping centers;
 - c. industrial;

- d. tourist clusters;
 - e. entertainment clusters;
 - f. institutions: universities, hospitals ..
3. multi-function projects.

I) Develop the strategy and activate the government policies

Objectives

1. Develop a guide for institutions activities related to this sector (regulatory or enforcement bodies).
2. provide the financial and monetary policy-makers with a guide so that the produced policies reflect future trends of this sector.
3. reduce costs.

Policies & Action Plan

1. Develop an overall policy reflecting the government vision that the real estate sector is a major player in economic development within the scope of national economy objectives.
2. seek the aid of consulting firms and university public policy centers.
3. modernize the sector's legal framework:
 - a. Repeal Law 3 of 1976 forbidding land trade;
 - b. Reconsider Law 19 of 1974 concerning building organisation;
 - c. Reconsider the law of housing cooperatives;
 - d. Taxation laws;
 - e. Agricultural reform laws;
 - f. Expropriation laws;
 - g. Rent laws;
 - h. Real estate pawning laws;
 - i. Funding laws;
 - j. Arabs/foreigners' ownership laws.

II) Develop the government administration role

Objectives

1. Reconsider the master plans and regulate state and public property.
2. turn the administration role from licensing to market making and investment promotion.
3. reconsider the expropriation law and the expropriated property.
4. ensure conducive work environment for housing cooperatives.
5. ensure transparency in licensing and incentives.

Policies & Action Plan

1. Accelerate the licensing process.
2. simplify administrative procedures.
3. train human resources.
4. regulate the market.

5. improve real-estate related services (consulting, banking and financial, legal, property assessment, publicity & promotion).

Trade Policies

Internal Trade Policy

Background

The main task of internal trade is to achieve integration and coordination with productive sectors to ensure the production orientation; implementation of balance and stability in local market and prices; and availability of the main materials and production requirements for the economic process effectiveness.

The 9th FYP had several procedures aimed at enhancing the internal trade, including:

- Implement government policy to subsidize the key materials (bread, sugar, rice, oil etc.) and meet people's needs.
- Buy wheat, barely, lentils, chickpea and citrus fruits directly from the producers to encourage and support them.
- Secure the required equipment for lab analyses in the Ministry labs according to the provisions of combating fraud law 158/1960 and its amendment in law 47/2001; establishing ambulant units for calibrating bridge-balances and developing the necessary maps.
- Conduct new researches about the pesticides residue on foodstuff, in the field of antibiotics and hormones.
- Support the cooperative sector by allocating the investment funds in order to expand and improve cooperatives offices.
- Encourage and organize many exhibitions for inventors, and develop innovation and creation centres.
- Merge many firms of internal trade (meat, vegetable, storage and freezing) with General Establishment of Agricultural Products and Livestock Storage and Distribution, and the retail firm and shoes firm with General Consumer Establishment.
- Amend supply and pricing law, some provisions of fraud law and supply violation settlement.
- Increase the cereal storage capacity, announce carrying out 21 small metal cereal-containers (Saoma'a); build several stores, cereal-containers and small cereal-containers to alleviate storage outdoors; modernize the machinery in containers, mills and auxiliary bakeries and industrialize some mill's spare parts using local expertise.
- Separate cereal-containers firm from seed centre and feed factories.
- Amend the decree relating to property protection, and join to several international treaties such as: Stockholm Charter for Protecting the Industrial Property; Patent Cooperation Treaty; International Registration of Trademark Agreement; WIPO Establishment Agreement and Nice Agreement for World Classification of Goods and Services.

In spite of these, many weaknesses still impede the internal trade movement, the most important of them are:

- No integrated and coherent plans among marketing and productive economic sectors;
- Lack of scientific studies on local market requirements and the absence of public institution able to intervene when imbalances exist;
- Absence of market institutions capable to organize producer-consumer relation and deal with market mechanisms;
- Unavailability of alternative entities, under the absence of supply control, to preserve producers and consumers rights;
- Lack of competition while some persons and firms monopolize the marketing operations;
- Lower products' quality of private and public sectors, because there are no consumer protection committees;
- The real difficulties in merchandizing products, because there are no efficient marketing and distribution institutions;
- The financial and administrative laws regulating the public marketing institutions' functioning are inappropriate to the current economic developments.
- The price policy is far from its key function as an instrument to increase production and redistribute incomes.

Thus, we find that internal trade sector could not fulfilling all its tasks, so it is necessary to review these tasks in the light of the changes in this sector and the need to develop a new vision appropriate to social market economy.

Future Vision

Create structured and effective local market vision that provides, through market institutions, domestic, imported and strategic goods without monopoly and speculation; ensures the consumer rights and prices stability; achieves balance between demand and supply in the markets; protects producers rights and guarantees innovators and inventors rights.

Strategies

- Build effective market institutions.
- Foster communication and integration between marketing and productive sectors.
- Create competitive market without monopolization.
- Achieve equilibrium between prices and wages levels.
- Protect consumer and producer rights.

Policies

- **Restructure the entities organizing internal trade functioning (Strategy 1)**
 - Prepare qualified and trained manpower to arise internal trade operation
 - Reconsider Trade Law so as to demonstrate the roles, tasks and structure of market institutions
 - Develop the accounting and administrative systems suitable for institution functioning
 - Promote the transparency and visibility of laws and instructions that regulate the institution functioning
- **Foster communication and integration between marketing and productive sectors (strategy 2)**
 - Make available the consumer goods in local market, with securing strategic reserves of key goods to face the emergencies.
 - Change the production structure to be appropriate to develop consumer types with competitive prices.
 - Facilitate transport, communication and shipment services.
 - Develop cooperative associations and give them the full freedom of work, management and investment.
 - Upgrade the applied selling methods (e-payment, by instalments)
 - Open new external markets for the local products surplus to local market needs.
- **Strengthen market forces and competition environment and eliminate monopolies (strategy 3)**
 - Eliminate government and individual monopoly (quota, import and export)
 - Amend Trade Law and accelerate issuance of e-commerce Law
 - Issue the Company Law
 - Issue the Law of Combating Dumping and Subsidy
 - Amend intellectual, trade and industrial property protection decree
 - Issue the Competition Law
- **Achieve equilibrium between prices and income (strategy 4)**
 - Develop pricing guidelines and mechanism ensuring adequate profit margins for production/marketing players.
 - Improve services (health, social and cultural) delivered to the citizens
 - Reconsider the current subsidy policy and channel subsidies to those in need.
 - Apply the economic calculation principle through providing sound basis for calculating prices basing on actual costs
- **Protect consumer rights and property rights (strategy 5)**
 - Study consumers' behaviour and monthly and annual income balance; and study the possible monetary changes affecting the consumer balance.
 - Estimate the income flexibility according to goods and products prices in local market.
 - Implement the law of replacement between several consumer products and services; and demonstrate how much alternative goods are available, when the prices increase and the incomes relatively stay fixed

- Raise the consumers' awareness, inform them about their rights and maintain their benefits
- Activate the consumer protection associations
- Maintain an active government role in facing market failures
- Empower inventors to reserve their rights and patents

Proposed Programmes

1. Restructure the internal trade institutions; adjust their tasks and decrees; turn them into trade institutions operating according to economic efficiency principle and eliminate the laws that constrain competition (import restrictions, commissions etc.).
2. Create body for research on local and external promotion and marketing policies
3. Publish a package of obligatory laws under which private and public sectors should operate
4. Introduce local policy mechanisms that are represented by strengthening market economy mechanisms and legislations and organizing local market affairs
5. Ensure food security through importing or producing local market need of key materials and positively intervening, at crises, to control local demand and supply
6. Follow up consumer prices index 'CPI' stability and explore potential changes in monetary incomes that affect the consumer equilibrium
7. Comply with the standards and specifications
8. Issue consumer protection and food safety legislations
9. Introduce quality concepts in some Ministry institutions
10. Provide financial and moral incentives and help inventors protect their rights and patents
11. Follow up facilitations and simplify measures that guarantee intellectual, trade and industrial property rights

Foreign Trade

Background

The foreign trade reflects the local production structure and the extent of equilibrium and imbalance in it. For Syrian economy, foreign trade has been marked for a long time by a stereotyped nature that was predominant in most developing economies. It has specialized in exporting agricultural and raw oil materials, depriving it of benefiting from the added values which could have been achieved by industrializing these materials and exporting them as consumer products. Furthermore, most imports were intermediate inputs, due to the production structure and the composition of Syrian industry as assembly industries, in addition to the imports of capital goods and essential consumer materials, especially the pharmaceuticals and foodstuff.

The economic development has not achieved, over the last 50 years, its goals of adjusting the production structure, but the industrialization system (assembly industries as stated) has deepened the external imbalances' gap and increased the dependency on importing local product inputs, even some exported goods have contained a high foreign component.

Due to production imbalances, the trade suffered from an obvious structural imbalances in goods and services (Trade Balance), and the surplus of the current transfers balance was rectified. However, the result was an imbalance of the balance of payments (BoP). These factors reflect many key troubles such as liberalizing money markets and exchange rates, because they show direct effects on imports and exports prices and capital flow. This requires gradual progress and rational consideration of mutual effects among the real and monetary macro-variables as a whole. This means that rectifying the foreign trade imbalances should be initiated by rectifying the production structure imbalances and the unbalanced relation between income and consumption (saving), within the macro, sectoral and regional framework, in addition to the necessary institutional reform.

There were also several multilateral agreements (GAFTA, Syrian-European Association Agreement) and bilateral agreements which would extend the market and activate both internal and foreign trade, and then the production activity.

Trade Policy Performance Evaluation in 9th FYP

The 9th FYP did not include a framework for the internal trade policies. But it addressed only foreign trade, as described in the previous section. The internal trade, nevertheless, was practically present. For foreign trade, there were two strategies for export and import, but they were not implemented. Additionally, there was a set of procedures, which were introduced for facing the emergent crises, on the position of both imports and exports; some policies elements that were adopted in order to open the market to the world and considering the extent

of foreign exchange rate affectivity and effects; and adopting foreign trade reform through financial policy instruments (e.g. customs tariffs and subsidization). Some of reform procedures which have been carried out during the 9th FYP (2001-2004) include the following institutional reforms:

- Eliminate all advance approvals relating to export of most materials (except a few strategic ones).
- Eliminate the principle of obtaining the licences and approvals of export and its investments as a whole.
- Eliminate the General Establishment for foreign trade commissions for export.
- Permit the private sector to export all products of industrial public sector under MOI, except ginned cotton and its residues.
- Disconnect the linkage between import and export.
- Liberalize all products imported from member Arab States in GAFTA and exempt them from customs tariffs, import licences and consular fees.
- Exempt agricultural exports from profit income tax.
- Permit exporters to cede their export proceeds that are duly preserved in the bank.

Customs Tariffs

Because of the negative impact of tariffs during the past period (weakening the local production competitiveness, increasing the costs of imported inputs and thus the production costs), foreign trade authorities found that Syria compliance with Arabic and World agreements provides an opportunity to reform tariffs, starting from decreasing tariffs of imports and unifying the USD exchange rates. To achieve consistency between tariffs and exchange rates, and because its outcome was little (7% of imports); the tariffs were reduced by 3%. The reform removed not only tariff barriers, but also administrative, non-tariff barriers, which had been up to 22% of imports.

Threats & Opportunities

To be an engine of growth, trade liberalization faces many challenges, including:

- Monopolies of both public companies predominant in some internal and foreign trade activities and private agents who import some high-demand goods into the local market.
- The control on the prices of a wide range of local goods, and fixing them by financial policy instruments (subsidy and indirect taxes...)
- The lack of financial resources of public budget required to ensure a sustainable pricing policy for key goods, especially rationed goods, and to subsidize differences between local and external prices, together with differences between formal and informal exchange rates (in neighbouring countries).

- Low competitiveness of Syrian products in local and external markets, and the same applies to goods where Syria has traditional competitive advantages like the textile industries.
- Inefficient management of both private and public businesses, and lack of marketing expertise.
- Complex administrative procedures in addition to inconsistent rules that affect the traders' projections (importers and exporters in particular).
- Insufficient coordination among trade, monetary and financial policies.
- Insufficient coordination with free trade agreements partners in the field of double taxation, taxes and distributing the benefits to rectify the foreign exchange rates).

The Vision

Ensure the stability of exchange rate through achieving sustainable BoP surplus; managing the foreign sector according to EU-Syria AA, WTO and GAFTA requirements; reducing trade deficit and current account deficit through diversifying exports at geographic and goods levels; keep the foreign reserves at reasonable strategic limits through providing continuous BoP surpluses resulting from foreign capital flow and make SYP convertible gradually.

The present plan aims at keeping the current account deficit under 8.2% of GDP and maintaining enough foreign exchange reserves so as to cover 18 months of imports at least.

10th 5-Year Plan

Objectives

The main BoP objectives are to face export challenges (weak and uncompetitive production base; inefficient infrastructure of transport and communications and low export awareness of most exporters) through serious programmes aimed at improving producers and exporters' awareness, enhancing production, upgrading services, and improving environment and behaviour to attract tourists. Other BoP objectives include facilitating capital goods import; technology transfer and efficient utilization; creating conducive FDI environment to attract foreign, Arab and expatriate investments into productive and service sectors in order to reduce the trade balance deficit resulting from the decrease of oil export and drastic increase of imports as a result of investment extension and, finally, creating an investor-friendly climate via keeping the SYP stability.

Quantified Objective

- Reduce BoP deficit to 6.6% of GDP by the year 2010.
- Keep the current account deficit under 8.2% of GDP.
- Maintain enough foreign reserves to cover 18 months of imports at least.
- Enable the exports to cover 80% of goods and service imports.

- Increase non-oil exports from 11% in 2005 to 13.7% in 2010 by an annual growth rate of 13.4%, so it reaches to 15.9% of GDP in 2010 against 5% for oil exports.
- Increase the public sector exports by 10% during the 10th FYP.
- Increase the private sector exports by 15% per year.
- Increase the imports by 8% for public sector and 12% for private sector, which represent the actual growth rates during the past period.
- Increase service exports (tourism, transport and others) by 18% per year and service imports by 8%.
- Increase received payments by 5% and revenues by 8% in the income account and transfers by 10%.
- Increase FDI from 1.4% of GDP in 2005 to 2.9% in 2010 to reach \$1 billion.
- The public trade investment without tourism, according to the 5% scenario, amounts to SYP 20,195 millions, and SYP 20,685 millions according to the 7% scenario.

Strategy

- Diversify exports at commodity and geographical levels and develop promotional plans to open new markets.
- Enlarge the financial market role through allowing the foreign capital to indirectly finance local enterprises, in order to improve the private sector accessibility to funding sources.
- Ensure foreign capital flow through investment and income generation.
- Develop Syria as an international financial and trade centre.
- Develop the key services in order to support and extend the trade.
- Liberalize the trade regime gradually.

Policies

- **Diversify exports and develop marketing and promotional plans to maintain traditional markets and enter new markets (in relation to Strategy 1)**
 - Support the export-oriented industries to empower them facing competition in the world market, and give priority to import capital goods and raw materials not available in Syria.
 - Improve exports through providing special incentives to industries using local inputs, with institutional procedures to control the exports quality and ensure they satisfy the international standards (establishing independent quality control agencies).
 - Conduct the necessary studies on the raw material provision and industrializing to serve the export-oriented industries.
 - Support local industries with high added value, including food, textile, garment, traditional and handicraft industries, pharmaceuticals and medical herbs and leather industries.
 - Invest in increasing productivity through technology transfer.

- Establish a national institution (Syrian Enterprise & Business Centre “SEBC”) that will support export-oriented SMEs.
- Establish industrial warehouses like some Arabic States (Egypt, Tunisia, and Morocco).
- Develop the operations of temporary admission for re-exporting, through exempting them from tariffs and fees and providing necessary facilitations the tariff recovery system (drawback system).
- Secure raw and intermediate inputs at competitive prices for export-intended goods.
- Establish special production lines for export in the local (private and public) companies.
- Concentrate on exporting services such as tourism and transport, and consider them an important source of foreign currency and job creation, through:
 - Encourage tourist investment and improve tourist services.
 - Promote tourism.
 - benefit from Syria’s tourist advantages.
 - Improve the tourist services.
 - Alleviate shipping and transport costs and take suitable measures to increase efficiency, reduce controls and procedures and improve the railway.
 - Encourage the establishment of private transport companies (land, air and sea).
- Prepare the political and economic climate for Syrian exports to enter promising markets, through;
 - Identify new promising markets and form delegations of economic and political leaders, businessmen, exporters and producers in order to explore and open new markets and conduct meetings and transactions.
 - Conduct economic and trade agreement, develop mechanisms and channels that provide opportunities for Syrian exports to enter the external markets, activate the signed agreements (GAFTA, EU-Syria AA and free trade area with Turkey) and remove the obstacles preventing implementation.
 - Form joint foreign and Arabic committees and organize periodic meetings in order to increase economic and trade cooperation.
 - Foster and develop the Syrian products’ traditional markets.
- Develop promotional and marketing programmes for Syrian products and create the appropriate mechanisms to develop non-oil exports through:
 - Establish the export promotion agency to prepare studies on foreign markets, build an export databank which will provide investors with suitable information and develop an export credit and insurance facility.
 - Pay special attention to the local and foreign (private and public) specialized Fairs due to their positive role in promoting the Syrian product.
- Organize Syrian export promotional missions in all targeted markets.

- **Further liberalization to encourage foreign capital flow (Strategy 2)**
 - Review the present exchange rate system in order to implement timely appropriate reforms.
 - Introduce flexibility elements into the capital calculation coefficients gradually.
- **Encourage investment in foreign currency (Strategy 3)**
 - Take institutional arrangements and organize incentives and guarantees required to channel the saving flows coming from Syrians working abroad into productive projects and investments.
 - Attract foreign investors via promotional plans and information on the benefits of investing in Syria by investment credit institutions.
 - Establish legal restraints in order to control money laundry, and prevent illegal monetary flows.
- **Develop Syria as regional and international financial and trade centre (Strategy 4)**
 - Create enabling environment, economic services, infrastructure and guarantees required to put Syria in that position; amend legislations and laws to ensure high certainty and reliability for investors. For this end, the following legislations will be issued during 2006: anti-dumping and indirect subsidy law, start-up industries protection law, competition law and the laws regulating the capital flow.
 - Upgrade the foreign trade regulations, especially Decree 60/1952 organizing MOET work in the foreign trade field, Decree 1947/1953 and its amendments regulating the import licences issuance, Decree 151 and its amendments regulating the agents and foreign companies' branches and property protection law.
 - Design and automate one administrative document instead of the many trade documents.
- **Develop the key services to support and expand trade (Strategy 5)**
 - Upgrade the key structure to serve export in the following areas (transport, communications, marketing, finance and export risk credit)

1. Transport and communications:

Reduce the foreign market access time and cost, through:

- Rehabilitating the key transport structure as one of export development and promotion cycles through providing land and air fleet supplied with all instruments and facilities required to export process.
- Develop and modernize shipping and discharging procedures (time and cost) in the ports and allow private companies to establish centres for gathering containers and other goods.
- Work rapidly to achieve the e-commerce project.
- Encouraging competition in mobile phone and internet services and develop the wireless networks in order to improve the bandwidth available for trade purposes.

2. Marketing

- Promote marketing companies aimed at marketing the Syrian products in foreign markets and provide businessmen, exporters and producer with the opportunity to formally communicate with businessmen and importers abroad in order to establish such companies.
- Set up axial centers for facilitating goods flow into a large possible number of countries.
- Establish economic contact points, in cooperation with private sector, with countries of common interests with the national economy, to work as databank for local exporters providing them with information and studies on world markets.
- Develop database on the national production and exports.

3. Export Finance and Credit

- Establish a set of funds (export financing & export credit). Supporting export sector by funding and credit, through providing the low-interest credits for exporters and establishing an export credit fund responsible for credit operations of goods /services export against trade and non-trade risks, is very important, because it enables exporter to open new markets and create better conditions for competition in foreign markets.
- Prepare and qualify banking and economic personnel in order to upgrade their competency and providing the developed software and technologies in client-satisfied manner.
- **Liberalize Trade Regime gradually, in coordination with MOI and other relevant ministries and authorities (Strategy 6)**

There are several steps aimed at liberalizing trade and developing regulations and laws appropriate to social market economy, including:

- Reconsider the negative list with a view to liberalizing its materials import and keeping some of them prohibited for specific reasons (security, health, environmental, religious...). While these materials are still prohibited in Syria, they are allowed in the Arab GAFTA signatories and exempted from tariffs. So, the continuation in prohibiting them will deprive the treasury from important resources, in addition to trials to import them as industrial goods originated in Arab states.
- Cancel the industrial quota system; allow all importers to import raw materials with low or no tariffs and then eliminate the prime minister's decision 1953/1985 and its amendments.
- Consolidate the methods of paying all materials' and goods' values through activating the real credit facilities system, in cooperation with the Central Bank, Commercial Bank and other authorized banks.
- Cancel the advance approval requested by public bodies' for import process and consider the tests (health, agricultural, veterinary, environmental...) at

clearance as enough, i.e. enhancing the technical prerequisites of imported items.

- Remove the commissions imports originally restricted to the public sector and remove the restriction and limitation systems.
- Eliminate the condition of importing through Syrian ports, because it increases the cost paid by end-consumer, in addition to many problems facing importers.
- Eliminate import licences, in general, now that the import forms (requests) with GAFTA partners have been eliminated, and exempt imported industrial inputs from these licences in accordance of annual quota.
- Provide the facilitations required to enhance Syrian Free Zones.
- Provide necessary facilitations to attract capitals and promote investment in different areas (industrial, agricultural ..)
- Draw a plan to promote export processes with focus on exporting Syrian manufactured goods (then semi-final) to ease reliance on raw export as far as possible, while maintaining export quality and ensuring they satisfy the foreign markets' tastes and needs, and open new markets assisting in addressing the trade balance imbalance and increasing the economic growth rate.

Customs Tariffs

- Use tariffs as an unique instrument for protection the national production, affecting positively the national economy and its competitiveness in local and foreign markets, through:
 - Reduce tariffs gradually to protect the national production and face local and external competition.
 - Decrease tariffs categories to six instead of the numerous categories currently in place.
 - Develop safeguard mechanism suitable to protect the local industry once introducing the competition arena (impose temporary charge on all imports of concerned product).

Non-Tariff Barriers

- Remove all non-tariff barriers and replace them by tariffs in order to protect non-prepared sectors against trade liberalization, without affecting the Syrian companies competitiveness, and focus on these barriers, in accordance with world agreements relating to foreign trade, in case of PoB imbalances.

Foreign Investment

Foreign investment is one of the key resources on which the tenth 5-year plan depends, due to the local resources limitation. It is also necessary for accelerating manufacturing processes and tourism, services and infrastructure sectors development.

Foreign investment is a high priority in the plan, because the foreign capital, technology transfer, and management skills can help develop the production and service infrastructure and explore new markets for the Syrian products. For Syria being a destination of foreign investment, the 5-year plan considers the necessity of designing and delivery of competitive programmes comparing with similar countries in the region.

FDI Situation

Syria, in accordance with the available data, ranks last among all countries in east and south of Mediterranean regarding openness upon trade exchange and FDI (it scores 15%, while Tunisia scores 40%). Although investment law No. 10 was issued many years ago, FDI is still weak and concentrated in oil exploration and production. Investment attraction seems weak (2% total FDI in Mediterranean countries during 1999-2003). FDI flow was also limited during the same period and ranged from \$150 million to \$263 million; and as a percentage of total carried out investments, it was not more than 3.7% in 2001 and dropped to 1.9% in 2003.

Foreign and joint investment projects were up to 121 projects with total value up to SYP130 billion (\$2.6 billion).

Problems & Challenges

- The inadequacy of laws, legislations and technical and service infrastructure required to promote foreign investment that represent constraints and increase the uncertainty.
- The procedures and administrative constraints complexity; the transactions and decision-making slowness and trained workforce and skills weakness in the foreign investment area.

Long-Term Perspectives

One of the main challenges that will face Syria in 2025 is to become a financial centre, a source for export and exporting materials and an FDI destination. These will only be ensured by legislative, procedural and institutional reforms, which will assist in pushing the social transition process into the right direction, increasing the income rates, improving the social and economic welfare and assisting in poverty reduction and resources misdistribution.

Tenth 5-Year Plan

The main 10th FYP objective in this field is to increase the FDI share in financing the development efforts and making Syria reliable and safe.

Strategy

- 1- Facilitate FDI flow, along with administrative and legal reform in order to ensure transparency. Solving the existing problems in FDI industries and projects, whether run by Syrians or foreigners, will be handled through specific measures.
- 2- Review labour and investment laws and relevant sectoral legislations in order to ensure more adequate investment environment, establish and activate a higher council for foreign investment and consider it as management for monitoring, following up and providing guidelines to promote investment.

Policies

- **Administrative and legislative reforms (Strategy 1)**
 - Implement urgent reforms during 2006, including the removal of administrative barriers, and investment law amendment that will give the foreign investor the necessary incentives.
 - Simplify processes required to make FDI promotion programs more effective and competitive, in order to ensure transparency and provide incentives necessary for attracting FDI.
 - develop insurance systems characterized with simplicity, reliability, and transparency for free transfer money resulting from investments.
 - Provide the right of standing before the court through creating special courts for investment and trade claims or through standing before international ones (joining the international agreement on investment dispute settlement).
- **Review Labor laws (Strategy 2)**
 - Conduct the necessary studies, related to labor relations, to provide incentives for foreign investment and compare that with the neighboring countries.
 - Introduce sufficient flexibility into labor laws with the adherence to ensuring all parties' interests.
- **Design and implement investment promotion programs (Strategy 3)**
 - Identify the fields of relative advantage forming attractive investment opportunities. By this, information that assists in the promotion process of foreign investment is printed, published and distributed through more than one modern media and IT channel.
 - Develop high-level rehabilitating and training programs to prepare commercial attachés in the Syrian embassies, especially in promising markets in order to attract more investments.
 - Prepare manuals for staff in institutions dealing with foreign investors.

While carrying out the strategies, policies and action programs relating to internal and foreign trade development and providing the economic and legislative environment to extend local and foreign investment participation, the MOET will play a key and direct role, and aims at:

- 1) Participating with the authorities concerned in economic policies development, formulating and implementing economic reform programs to move toward social market economy and further integration into world economy.
- 2) Modernizing legislations (issuance of trade law, trade firms, e-commerce...) to move toward knowledge economy based on economic and trade information technology and its dissemination speed in order to keep pace with the age of IT and market openness.
- 3) Participating in achieving the strategic balance in the foreign economic relations, achieving a surplus in the BoP and trade balance; setting up programs to improve their performance and address their imbalances; ensuring the exchange rate stability by achieving a sustainable surplus in the BoP; enhancing the Syrian BoP capacity and improving the Syrian position against the world.
- 4) Developing non-oil exports.
- 5) Participating with authorities concerned in managing foreign sector, partnerships and negotiation and preparing the partnership commitment requirements according to the provisions of the European association, WTO, and GAFTA.
- 6) Participating with the concerned authorities in trade and economic relationships development, conducting agreements to increase trade exchange and technical and economic cooperation with the Arab and foreign countries and enhancing the existence of Syria in Arab region and world.