Issue 6: March 2025

Syria in Figures

Making Sense of Syria's Economy

What Does the Composition of Syria's Caretaker Government Tell Us?

Our mapping of the Caretaker Government's representation of Syrians by place of birth, age, gender, religion, and military affiliation highlights significant imbalances that impact legitimacy and governance.

Syria's Private Banking Sector: Collapse, Consequences, and a Path Forward

An in-depth analysis of the collapse of the private banking sector, its economic repercussions, and the challenges and steps required for reintegration into the global financial system.

Tracking Regime Cronies: How to Deal with Assad's Economic Networks

How Syria should dismantle Assad-era crony networks while balancing accountability, stability, and justice.

The State of Syria's Domestic Debt

An assessment of the size of domestic debt and to whom it's owed. The country's approach to domestic debt will affect its creditworthiness and access to credit.

External Contribution

A Panoramic View of the Status Quo in Syria and the Emerging US Position

Charles Lister of the Middle East Institute offers an analysis of Syria's ongoing fragile transition, the internal and external challenges it faces, and the evolving position of the US regarding the interim government's legitimacy and the broader geopolitical context.

Interview: Stephen Fallon

How to Re-plug Syria's Banking Sector into the Global System

Reintegrating Syria into the global financial system requires more than just sanctions relief. Major banks remain bound by US compliance rules, and past attempts like INSTEX show that market forces won't move without strong incentives such as tax breaks or subsidies. European governments must treat Syria's financial re-engagement as a security priority, leveraging sovereign-backed institutions and regulatory guarantees.

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MAKING SENSE OF SYRIA'S ECONOMY

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What Does the Composition of Syria's Caretaker Government Tell Us?

After the fall of the Assad regime, a Caretaker Government (CG) was hastily formed to fill the power gap, with the promise of a yet-to-be-formed and more permanent "interim" cabinet. The CG has struggled with several challenges, from legitimacy to governance capacity, and from economic stability to geopolitical positioning.

The composition of the CG and its senior appointments offers a picture of who holds power and the Interim President's approach to governance. This article provides a data-driven analysis of the CG composition and senior government appointments. In total, we analyzed the backgrounds of 21 CG ministers and 154 senior appointees, collected between 8 December 2024 and 20 February 2025. Senior appointees include high-ranking public officials such as heads of public institutions and senior public servants.

We drew on a variety of publicly accessible materials, including official statements purported to be from the CG, often circulated via Telegram. We also weave in insights from well-informed field contacts and, wherever possible, triangulate the information against reputable media outlets and investigative reports.

Our findings suggest that:

- The CG's technocratic capacity is limited; most ministers were educated at local, lower-tier institutions and have no experience beyond the Syrian Salvation Government (SSG).
- Ministerial appointments are dominated by HTS-linked figures, with over-representation from territories formerly held by HTS.
- A stark gender imbalance is evidenced by the complete absence of female ministers and only minimal representation among senior appointees.
- The cabinet is overwhelmingly Sunni, offering little religious diversity.
- Notably, the CG is significantly younger than Assad's late government—a factor that may bring fresh perspectives but also raises concerns about the depth of experience.
- Large gaps in the collected data raise questions about the societal notability of the appointees, especially outside the cabinet.

Qualification and Education Level: Technocratic Limitation

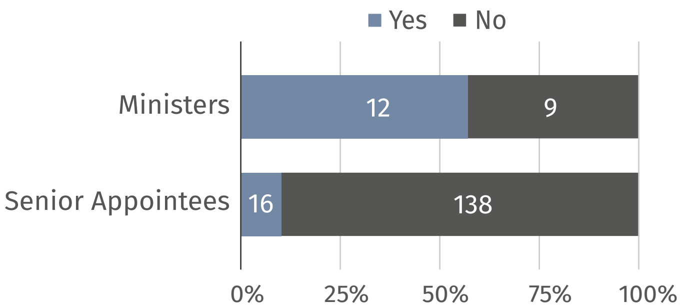
A government's capacity to tackle challenges hinges on the depth and quality of its members. Most CG ministers hold undergraduate qualifications from Syrian institutions, while six pursued postgraduate studies (four from abroad). However, none appear to have attended top-tier universities—according to global rankings—and the educational backgrounds of three ministers remain unknown. Such limited insight into their academic backgrounds might raise questions about the practical competencies they bring, particularly to technical roles such as health, energy, and economics, which demand specialized knowledge and technical proficiency.

Advanced credentials alone don't guarantee effective governance if ministers lack broader institutional experience. Notably, none of the ministers have served in established government bodies or formal political institutions outside the SSG.

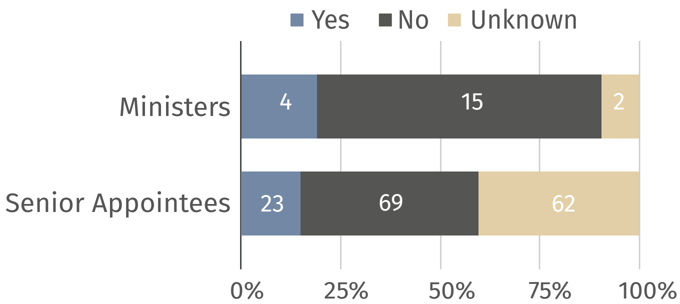
Affiliation: SSG, HTS, and Military Ties

One barometer of the CG's independence from HTS is the extent of its leaders' affiliations with the SSG, often regarded as HTS's administrative extension. Another barometer is independence from other opposition military factions. According to our data, 12 ministers have been affiliated with the SSG. By contrast, the current leadership seems more open to sharing power at lower levels with individuals unaffiliated with the SSG, with 138 senior appointees meeting that criteria. Although a varied base can broaden the government's perspective and enhance its legitimacy, the strong HTS presence among ministers raises questions about the CG's autonomy and policy latitude.

SSG Affiliations: Ministers vs. Senior Appointees



Military Affiliation: Ministers vs. Senior Appointees

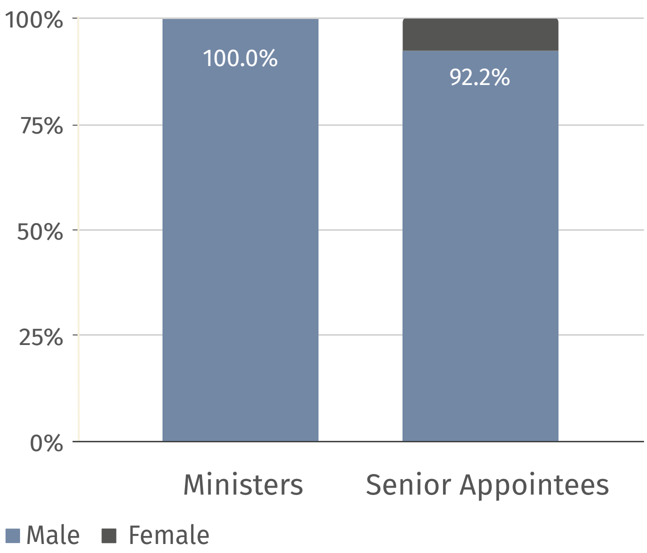


With regard to military affiliation, the figures reveal a considerable "unknown" category, especially among senior appointees. While a military background need not preclude effective governance, it points to the enduring role of armed actors in Syria's policy and political realms. Taken together, these affiliations shape the internal dynamics of the CG and external perceptions of legitimacy, particularly as it attempts to chart a transitional path in a deeply fragmented society.

Gender Representation: A Stark Disparity

One clear measure of inclusivity is the degree to which women occupy leadership positions. In the CG, the numbers are stark: 100% of ministers are male. Among senior appointees, women account for only around 8%.

Gender Representation (Ministers & Senior Appointees)

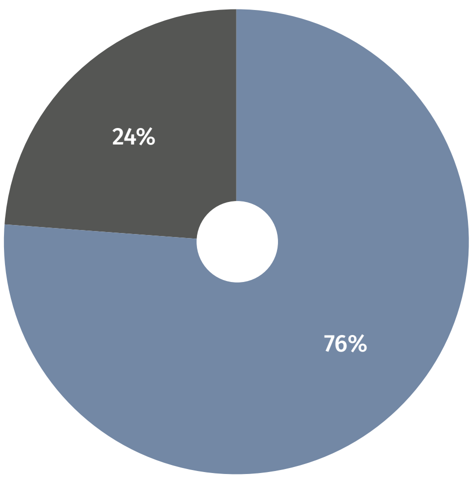


This gender gap raises concerns over the breadth of perspectives guiding Syria's transitional governance. When women are absent or underrepresented at the highest levels, policy discussions risk overlooking issues that often affect half the population, which can impede the CG's ability to respond effectively to the complex social and economic challenges facing the country and can weaken its support among women.

Religion and Sect: A Predominantly Sunni Government

Regarding religious inclusivity, the CG reveals limited variety: all 21 ministers are Muslim—primarily Sunni, with five of unknown sect. Senior appointments are similarly homogeneous, with only three Christians and one Druze among 154 officials.

Religion & Sect (Ministers)



Such a narrow representation of Syria's heterogeneous society raises questions about the CG's ability to represent all groups in governing the country. If such disparities persist, they may also trigger unrest as minorities feel excluded from decision-making.

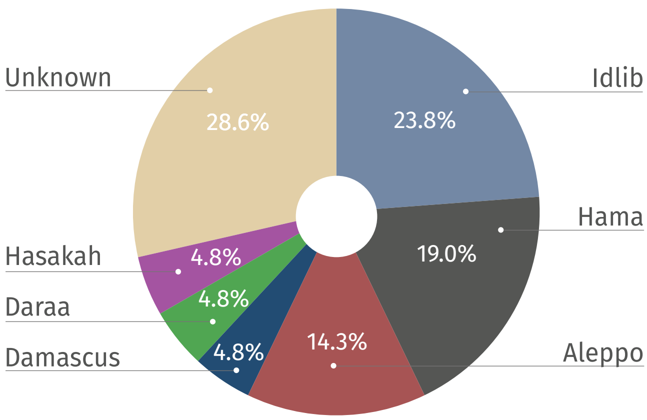
Age Distribution: Fresh Blood?

The CG leadership is noticeably young, indicating a generational shift in how governance is approached in new Syria. The 14 ministers with known birth dates have an average age of 45.4 years, compared to 56.3 years in Assad's last cabinet. The decade-plus difference might be viewed as both a risk and an opportunity. While age can reflect experience, younger generations may bring a fresh perspective. However, it remains to be seen how effectively this translates into policy formation and governance.

Geographic Distribution

Areas historically controlled by HTS are over-represented in the cabinet at the expense of other governorates—especially Latakia, Tartous, As-Suwayda, and Damascus, which were under the regime's control before its fall. The underrepresentation extends beyond formerly regime-held areas to include areas currently controlled by the Syrian Democratic Forces (SDF) in Raqqa and parts of Deir Ezzor.

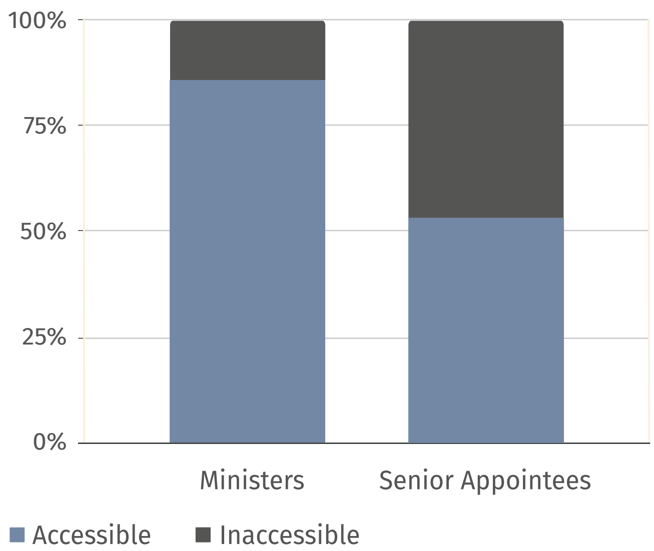
Geographic Distribution (Place of Birth)



Visibility: Accessibility of Data

Transparency is a cornerstone of effective governance, yet our findings reveal notable gaps in the information available about new government officials. We classified the information relating to an official as "inaccessible" whenever the key details of date of birth, education, geographical origin, and religion or sect were all missing. According to our data, three ministers and nearly half of senior appointees lack this essential information, underscoring the limited societal notability of these individuals and raising questions about transparency and the criteria for their appointment. Six other ministers lack only their geographical origin; because of only the one missing variable, they were categorized as “accessible” for our purposes.

Visibility & Accessibility of Data



What Comes Next?

The significant gaps in representation identified in this article can in part be excused due to the extraordinary circumstances under which the appointments were made, attempting to fill a power vacuum that was created following Assad’s downfall.

As Syria approaches the transition to a new interim government, which has been in the making for weeks, Syrians and the international community may not look at the new appointments leniently if critical representation gaps persist. Will loyalty eclipse competence, or will we see a stronger focus on experience and technocratic capacity? Will there be improvements in transparency and a better balance in representation, be it geographically, religiously, or in terms of gender? Will traditional power structures persist, with HTS and its old guard continuing to dominate? Or will a more inclusive, more technocratic government emerge?

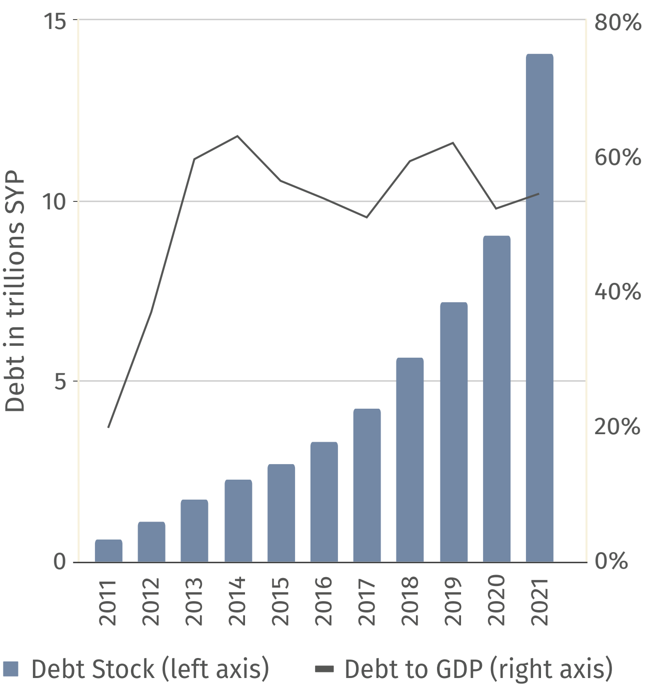
We will soon find out. Our next issue of *Syria in Figures* will map the new government and share the comparisons with you.

The State of Syria's Domestic Debt

Our article in the previous issue of Syria in Figures discussed external debt and highlighted how official data does not reflect the full picture, as Damascus' borrowing from Iran and Russia during the conflict was not captured in official statistics. In this article, we broaden the picture by examining Syria's domestic debt. However, the same lack of transparency persists in the public-facing data, which is why we had to rely on limited information from multiple sources. Karam Shaar Advisory also accessed primary data from the Central Bank and the Ministry of Finance.

At the onset of the conflict, Syria's reliance on debt as a means of funding fiscal spending was minimal. However, during the conflict domestic debt became more frequently used, taking the domestic debt-to-GDP ratio from just under 5% in 2011 to over 50% in 2021, the latest year for which we managed to obtain official data.

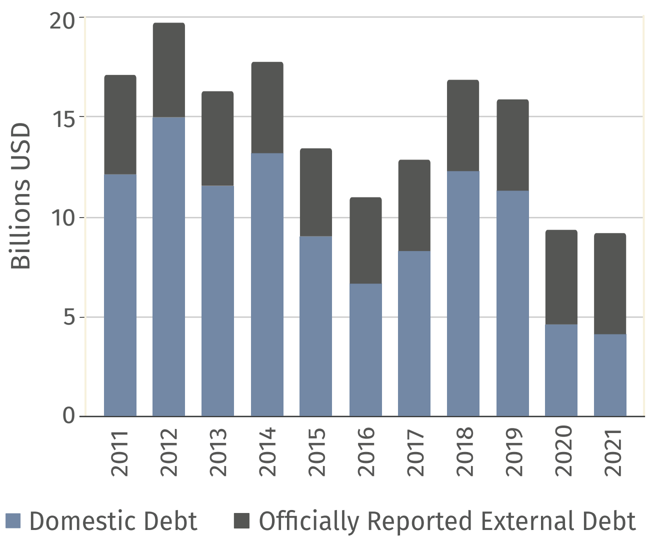
Domestic Gross Debt



Source: Primary data from the Syrian Government.

To provide context for these numbers and account for the depreciation of the Syrian pound (SYP) during the conflict, we present the figures in US dollars (USD), using the annual average parallel market exchange rate. Notably, the domestic debt burden declined significantly in absolute terms in 2020 due to the SYP's depreciation, which eroded the savings of debt holders who saw their real interest rates fall sharply—often into negative territory. This shift contributed to a rise in the share of reported external debt, which constituted nearly 55% of the gross public debt by 2021.

Gross Public Debt



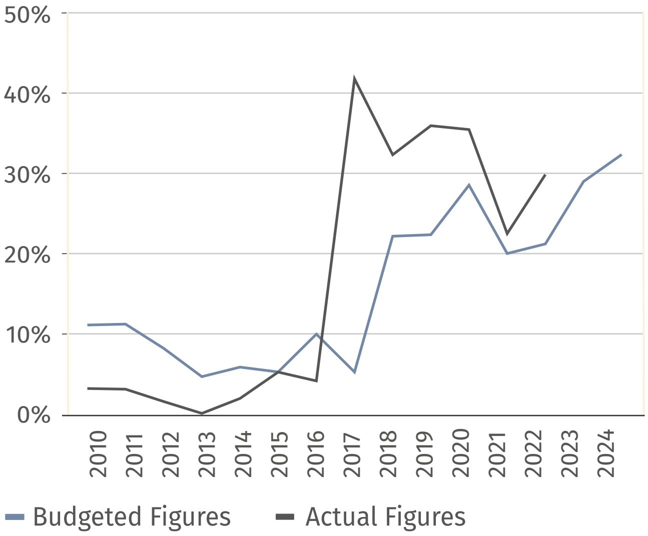
Source: The World Bank, Primary data from the Syrian Government, and Karam Shaar Advisory's Exchange Rate Tracker.

Given the dwindling government resources, a growing share of public spending began to be allocated to servicing the stockpile of domestic debt. The debt-service ratio surged from less than 10% before 2016 to over 30% as forecast in the 2024 budget, leaving significantly less funding available for critical services such as healthcare, education, and infrastructure repairs. As noted in our previous article, the bulk of this debt-service spending pertained to domestic debt rather than to foreign debt, which remains largely unpaid.

The figure below shows that a substantial gap has long existed between budgeted and actual debt servicing, reflecting the unpredictability of wartime conditions and the state's weakened capacity to manage the economy. The same is true for the amounts of debt forecast and actually raised. For example, the government's end-of-year audit for 2022 states that 4.1 trillion SYP was raised in domestic debt, while the budget had estimated only 600 billion SYP—more than six times the projected amount.

Complicating the picture of domestic debt further still, the share of the budget allocated to debt servicing has surged since 2018, when the state budget law began grouping funds for the Presidency of the Republic and the Ministry of Defense under Branch 19202 (the Public Debt Fund), possibly to obscure the amounts allotted to these institutions. However, end-of-year audit records indicate this reallocation started in 2017.

Share of Government Spending Allocated to Debt

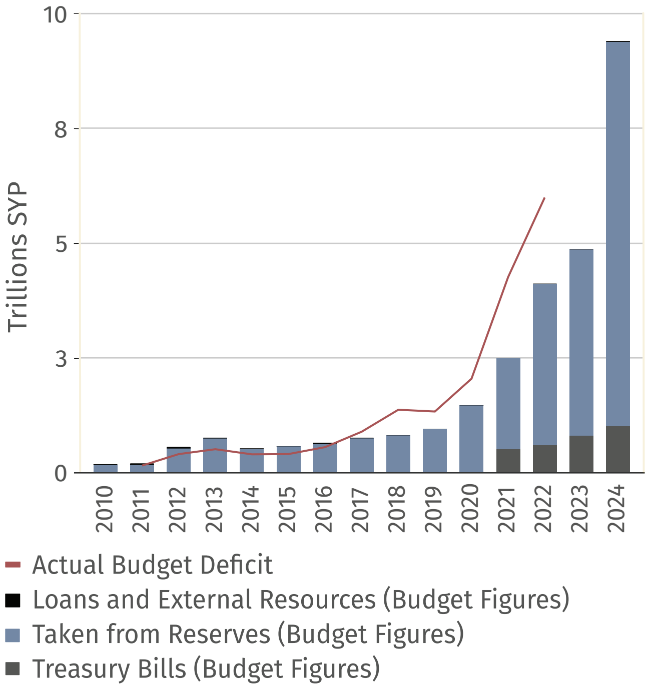


Source: State Budgets from the Syrian Official Gazette and Primary Data from the Ministry of Finance

The government's deficit has been financed through multiple vehicles, with domestic debt playing the primary role. While the exact composition of domestic debt remains unclear, budget figures suggest it primarily consists of treasury bills and an item called "taken from reserves." Borrowing from abroad to fund the deficit remains negligible. As highlighted in our previous issue of *Syria in Figures*, however, international borrowing—particularly from Iran—played a critical role in funding state institutions and the regime, but such funding was not reported in official statistics.

Treasury bills, notes, and bonds—which mature over varying durations—are managed by the Ministry of Finance based on Law 60 of 2007, which allows auctions to sell treasury notes (2–5 year maturity) to banks operating in Syria, as well as to financial intermediaries and the public through the Damascus Stock Exchange. Between 2020 and 2024, we identified 15 auctions. Domestic borrowing was also used for swap operations. In addition, the Central Bank announces auctions in which authorized banks and their clients can buy treasury notes.

Financing Budget Deficits



Source: The Syrian Gazette and primary data from the government's annual end-of-year accounts.
Note: Loans and External Resources are minimal, so they fail to show in the chart.

From an accounting perspective, internal debt refers to borrowing from domestic creditors, including the Central Bank. The Central Bank can lend to the government by either printing money or using existing reserves raised, for instance, through certificates of deposit. In annual state budgets, this lending appears under the item "taken from reserves."

Given the depletion of the Central Bank's reserves during the conflict, we believe that much of the government's borrowing under this item consists of newly printed money. Persistent budget deficits, and the inability to rely solely on treasury borrowing, led the government to rely on the Central Bank to finance the deficit by expanding the monetary base. Combined with a shrinking economy, the rise in money supply significantly impacted inflation, contributing to stagflation—a situation of rising inflation while the economy stagnates or contracts.

With inflation exceeding the rate offered on treasury bonds (2–5 year maturity), negative real interest rates made it increasingly difficult for the government to borrow additional funds domestically. Reports indicate that Assad's government forced commercial banks to buy debt. Traders were also reportedly obligated to buy domestic debt to finance oil and wheat imports through the Public Debt Fund.

For post-Assad governments to handle the country's debt effectively, a full audit will be essential. The new government must accurately assess the country's fiscal position, as the previous regime's opaque operations make it difficult to establish a clear baseline of the country's fiscal standing. One thing is clear, however: the bulk of the reported domestic debt does not need to be repaid, as it consists primarily of money obtained from the Central Bank through money printing.

Looking ahead, access to domestic credit can speed up the country's recovery; state investments can be implemented on credit, spurring growth while creating opportunities for repayment. However, access to credit is always—among other variables—a function of trust. Given the state's current fiscal position and the damage left by Assad, rebuilding trust will take time. This requires adhering to repayment schedules and keeping real interest rates sufficiently positive and stable by controlling inflation, ensuring predictable profitability for lenders. Responsible borrowing will also improve the country's creditworthiness, which can enhance access to foreign credit markets as well at a time where every dollar in government spending counts.

After Hafez al-Assad took power in 1970, economic success in Syria was never simply the result of market forces or entrepreneurial acumen. Instead, access to wealth was contingent on proximity to the ruling elite, the security apparatus, and the Ba'ath Party. Under Bashar al-Assad this system evolved into a more entrenched form of crony capitalism, where a select group of businessmen were empowered by the state to rise to prominence due to their loyalty and financial support to the regime. Figures like Rami Makhlouf, Mohammad Hamsho, and Samer Foz controlled vast empires spanning telecommunications, trade, and banking.

As the war economy emerged after 2011, crony capitalism deepened, giving rise to war profiteers whose loyalty to and support for the regime became more important than ever. Figures like the Katerji family and Khodr Ali Taher capitalized on smuggling, militia financing, and the illicit captagon trade. These individuals, who initially helped sustain the regime, later became indispensable to its survival, providing vital financial support in the face of destruction and international sanctions. As the war fronts froze and the economic situation worsened over the last five years of Assad's rule, pressure mounted on these figures to contribute more to the regime. This led to significant resistance, most notably the fallout between Assad and then-richest man in Syria Rami Makhlouf, a former ally. In response, Assad began to establish front businesses that operated under his direct control, ensuring a steady stream of revenue while shielding himself from public criticism.

The Challenge of Economic Reform

Now that the Assad era has ended, Syria faces a fundamental dilemma: how to hold entrenched businessmen and front business networks accountable—and whether to redistribute their wealth—while avoiding further damage to an already fragile economy. The administration of Interim President Ahmad al-Sharaa, backed by Hayat Tahrir al-Sham (HTS), has pledged to root out corruption and dismantle the centralized economic system that benefited Assad's allies.

To this end, the Caretaker Government (CG) has established a "special committee" tasked with investigating the assets and financial dealings of high-profile businessmen linked to the former regime. This move follows earlier reports that the government had reached settlements with businessmen linked to the former Assad regime unilaterally, raising concerns over a lack of transparency.

Before the special committee was formed, the CG had already taken significant measures, including freezing bank accounts and seizing the assets of individuals, particularly those listed under US and EU sanctions. Among the most notable targets was the Katerji Group, a major player in oil, tourism, and shipping. However, dismantling these networks has proven challenging. Many regime-affiliated businessmen had already stashed their wealth abroad in the UAE, Russia, and Eastern Europe, using intricate webs of shell companies and offshore accounts to obscure their economic activities.

Beyond the high-profile figures sanctioned internationally, CG authorities in Damascus have struggled to effectively track and penalize lesser-known cronies. Interviews with businesspeople and bankers in Damascus reveal the secretive nature of their activities, with many lesser cronies relying on opaque financial vehicles to shield their dealings. Indeed, many of these individuals used shell companies and concealed partnerships to obfuscate their actions. Complicating matters further, Syria's judiciary has yet to fully resume operations, delaying the legal processes necessary to enforce accountability and reclaim misappropriated assets—a critical step in restoring business community trust and attracting investment.

The Role of Former Regime Cronies in Syria's Future

The CG cannot abruptly exclude Assad-era economic actors, as their activities dominate key industries essential for Syria's recovery. A heavy-handed crackdown on regime-affiliated businessmen could lead to severe disruptions in the supply of goods and services, given their entrenched control over a broad range of business activities.

Trade Minister Maher Khalil al-Hasan acknowledged the challenge of dealing with Assad-era business actors, stating that "our policy is to allow for their employees to continue working and supplying goods to the market while freezing their money movements now."

Table: Prominent Assad Regime Cronies and Business Fronts

Name	Sanctions	Sector of Activity
Mudalal Khouri	US	Finance, money laundering
Yassar Hussein Ibrahim	US, EU	Architect of Assad's front business networks
Mohammad (deceased) and Hussam Katerji	US, EU (on Hussam only)	Oil, Wheat Trade, Security
Fares Shehabi	EU	Pharmaceuticals, Industry
Mazen al-Tarazi	EU	Real Estate, Tourism, Aviation
Tarif al-Akhras	EU	Sugar, Transportation, Import/Export, Real Estate
Issam Shammout	US, EU	Travel, Aviation, Aluminium, Trade
Samer al-Dibs	EU	Industry, Trade, Packing, Paper & Cardboard
Wassim Qattan	US, EU	Real Estate, Hospitality
Mohammad Hamsho	US, EU	Health, Communications, Trade, Tourism, Construction
George Haswani	US, EU	Oil and Gas, Trade, Engineering and Construction
Samer Foz	US, EU	Oil, Wheat Trade, Transport, Construction, Sugar Trade, Automobiles
Khodr Ali Taher	US, EU	Security, Trading, Advertising, Hospitality, Money Transfer

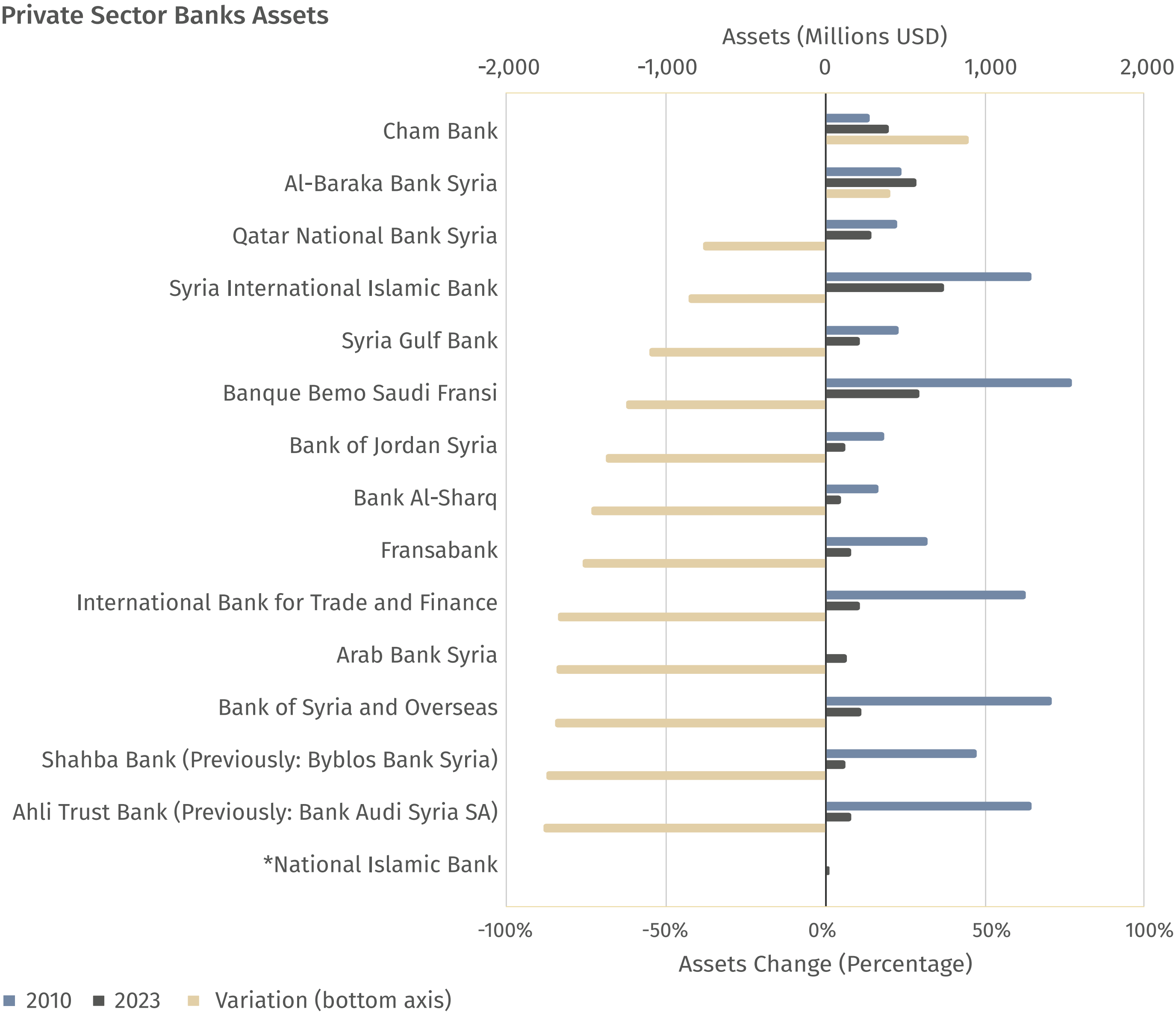
This dilemma has sparked a broader debate about whether these figures should be conditionally allowed to reintegrate into the economy or be permanently excluded. Some analysts advocate for a conditional settlement approach, arguing that these businessmen could contribute to reconstruction in exchange for legal leniency. Yet such deals could perpetuate a culture of impunity and allow crony capitalism to reemerge under a new guise.

The CG should not decide the fate of these businessmen alone. Without a fully functioning judiciary, measures taken against regime cronies could be excessively punitive for some or overly lenient for others, undermining the credibility of the CG's efforts to enforce accountability and instilling fear in the business community.

Dealing with Assad-era economic networks is not just a domestic issue—it also carries international legal and political implications. Transitional justice mechanisms must be put in place to ensure that economic crimes committed under Assad's rule are addressed, while also enabling the country's economic recovery. For Syria, a hybrid approach combining legal prosecution, asset recovery, and structured reintegration could provide a path forward, balancing the need for justice with the country's urgent need for economic stability and reconstruction.

As detailed in our forthcoming report funded by the Konrad-Adenauer-Stiftung, Syria's banking sector has suffered a dramatic decline since 2011, driven by a combination of sanctions, the severing of international banking ties, and the decline in economic activity. Western sanctions, particularly those targeting financial institutions, severely restricted banks' ability to engage with the global financial system. The Caesar Act escalated these restrictions, effectively deterring even regional banks from maintaining financial relationships with the country. However, from a series of interviews with private bank CEOs in Syria, we learned that it was the escalation of overcompliance and de-risking by foreign financial institutions between 2014 and 2015 that delivered the fatal blow to the banking system. This was fueled by the rise of terrorist activities and the imposition of hefty fines by the US Treasury's Office of Foreign Assets Control (OFAC) on economic institutions. The result is a near-total loss of correspondent banking connections, which has made international transactions virtually impossible.

Private Sector Banks Assets



Source: Private sector banks' yearly financial reports.

*First results reported in 2022

This isolation led to a near-collapse of the private banking sector, which was further exacerbated by a deepening economic contraction at home, driven by military operations and sanctions. Cut off from foreign markets and investors, most banks saw their revenue streams dry up. The Lebanese financial crisis of 2019 worsened conditions; numerous Syrians held substantial deposits in Lebanon, which became largely inaccessible when Lebanese banks imposed capital controls. Estimates suggest that Syrian deposits in Lebanon range between 20 and 40 billion USD. This is a massive sum—5 to 10 times larger than the 3.9 billion USD in assets held by Syria's private sector banks in 2019, according to data from the Central Bank of Syria.

With no access to external funding, restricted lending capacity, and the inability to conduct international transactions, the sector's decline seemed irreversible.

Most banks suffered heavy losses, though to varying degrees. Some institutions chose to engage with the Assad regime and its network of cronies; they suffered less, and even managed to increase their assets throughout the conflict. One such was Cham Bank (sanctioned by OFAC). Al-Baraka Bank Syria (the only other bank that increased its assets) and Syria International Islamic Bank (which, despite losses during the conflict, now holds the largest assets) were both involved with notable regime cronies, such as Samer Foz and Yassar Ibrahim.

Al-Baraka and three other private banks (Banque Bemo Saudi Fransi, Bank of Syria and Overseas, and Bank Al-Sharq) sustained operations by processing international humanitarian aid transactions, earning commissions under strict regulatory controls set by the Central Bank of Syria. Yet they were insufficient to counteract the broader sector contraction.

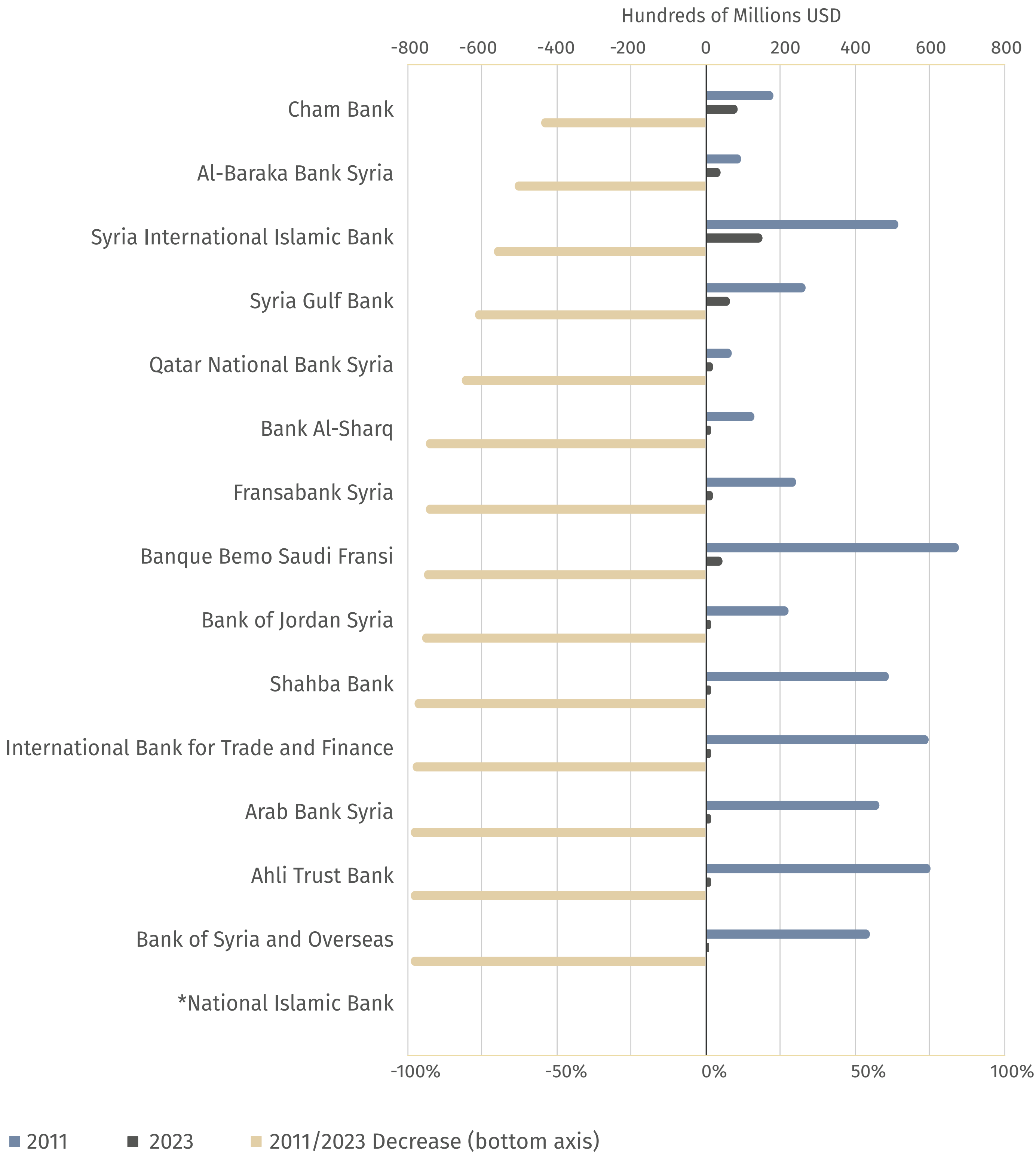
According to Syrian bankers, private banks had to surrender their foreign currency commission earned from humanitarian transactions to the Central Bank. Additionally, any foreign currency was required to be exchanged at the official rate set by the Central Bank of Syria, which was significantly lower than the parallel market rate.

The Consequences of a Failing Banking System

The collapse of Syria's banking sector has severely weakened its access to credit, fueled illicit financial activity, and stalled economic recovery.

With fewer assets and limited liquidity, private banks have lost their ability to extend credit, leaving businesses and individuals unable to secure loans. The credit crunch—already constrained by capital shortages—weakened the ability to finance trade and investment, leading to a sharp decline in economic activity.

Private Sector Banks Credit



Source: Private sector banks' yearly financial reports.

*First results reported in 2022

The banking sector's decline has also led individuals to rely almost exclusively on hawala networks to secure international transactions. This shift has further weakened financial transparency, making regulatory oversight nearly impossible and increasing the risk of illicit financial flows.

Finally, Syria's exclusion from the global financial system reduced incentive to ensure compliance with international standards, such as those promoted by the Financial Action Task Force (FATF), which in turn delayed any progress toward modernization, according to Syrian bankers interviewed in Damascus. This was exacerbated by the loss of human capital, particularly Syria's experienced labor force in the sector.

The Path Forward

Reintegrating Syria's banking sector into the global financial system will be a long and complex process, requiring regulatory reforms, financial transparency, and international engagement. Without a structured, multi-pronged approach—including clearer compliance assurances, structural modernization, and coordinated action by both external actors and Syrian stakeholders—economic recovery will remain out of reach.

A first step involves sanctioning countries addressing the overcompliance and risk perception that have deterred financial institutions from engaging with Syria. Exemptions and suspensions alone have proven insufficient in providing banks with the assurances they need. While letters of comfort could be issued, they are unlikely to override the broader concerns surrounding US secondary sanctions. A more effective approach would involve structured engagements between Western regulators and financial institutions to clarify legal exposure and outline the boundaries of permissible transactions.

Further adjustments to sanctions relief are another critical element. The EU's recent easing of sectoral sanctions on energy, transport, and select banking transactions is a step forward, but the continued listing of key institutions like the Commercial Bank of Syria by the EU and the US will limit its impact.

Future efforts should focus on facilitating trade finance and controlled humanitarian transactions rather than on a blanket lifting of restrictions. Beyond sanctions, sanctioning states could play a constructive role by encouraging regulatory alignment in Syria's banking sector. Institutions like the FATF could provide technical support to improve anti-money laundering and counterterrorism financing regulations, ensuring that Syria's reintegration into the global financial system meets international standards. Such assistance will also help rectify the damage caused by blanket sanctions on the banking sector and Syria's economy as a whole.

Led by the state, Syrian stakeholders must also take steps to restore the credibility of their banking sector. Syrian private banks need to demonstrate compliance with global financial norms by implementing stronger anti-money laundering measures, conducting independent audits, and improving corporate governance.

Beyond these immediate steps, Syria's reliance on informal financial networks remains a structural weakness. The near-total dependence on hawala networks for international transactions has entrenched opacity and illicit flows, making financial oversight nearly impossible. Without a gradual reintroduction of formal correspondent banking relationships—even on a limited basis—this reliance will persist, further complicating efforts to stabilize the sector.

Full reintegration into the global financial system remains a distant prospect. Yet incremental measures from both sanctioning countries and Syrian actors are necessary to stabilize what remains of the banking sector and prevent further economic deterioration.

External Contribution: A Panoramic View of the Status Quo in Syria and the Emerging US Position

Charles Lister; Senior Fellow, Middle East Institute and Founder of Syria Weekly

Three months on, Syria's fragile transition continues. Amidst the rubble of more than a decade of war and faced by a collapsed economy, an exhausted population, and huge structural challenges, the interim government has continued to invest heavily in external engagements as a means of broadening and consolidating its legitimacy. In recent weeks, it has widened the scope of its diplomatic activity beyond governments, to include the likes of the International Criminal Court (ICC), the Organization for the Prohibition of Chemical Weapons (OPCW), the Arab League, several United Nations (UN) bodies, and the World Economic Forum (WEF) in Davos.

Internally, the transition itself has moved forward. A Preparatory Committee was appointed on 12 February to convene national dialogue meetings with several thousand citizens from each of Syria's 14 governorates, which paved the ground for the National Conference on 25 February. Involving as many as 800 participants, the conference was hurriedly convened, with invitations sent out just three days prior—but it was an important step nonetheless. On 2 March, interim President Ahmad al-Sharaa then appointed a drafting committee of seven legal experts to produce a constitutional declaration that would serve as the legal framework for Syria's transitional phase. Internal deliberations over a cabinet reshuffle continue, and hundreds of candidates are being reviewed for a transitional parliament, expected to be named later in March.

The scope, breadth, and process involved in the domestic transitional steps have not always been ideal—sometimes far from it. But conditions within the interim government and across Syria make perfection an impossible goal. For more than half a century, Syria has lacked any meaningful political culture, so the dramatic widening of the socio-political aperture since December 2024 is a remarkable feat in and of itself. The interim government is also run by a skeletal staff, with extraordinarily minimal resources. Whether in terms of politics, governance, or security, bandwidth is a debilitating problem.

In terms of security, the situation remains extremely fragile. According to assessments by interim government authorities in early February 2025, 4,000–5,000 men in Latakia and Tartous had failed to engage with the settlement process and the decision had been made not to go after them en masse—to avoid a campaign that would have inevitably created negative optics and probable cause for significant instability. However, that otherwise pragmatic decision created conditions in which a fledgling pro-Assad armed resistance began to gradually develop from late January, with each week since seeing a greater number of attacks and a higher rate of resulting casualties—primarily in Latakia, Tartous, Homs, Hama, and around Damascus.

The interim government lacked the manpower to permanently deploy forces throughout the affected areas, forcing it to play a largely ineffective game of whack-a-mole. The ticking time bomb detonated late on 6 March, when pro-Assad armed cells launched a campaign of near-simultaneous attacks across Latakia and Tartous, triggering localized internecine warfare and two days of sectarian killing—by locals, interim government forces, foreign fighters, and Syrian men from elsewhere in the country. By the end, hundreds of civilians lay dead, as well as hundreds of Alawite gunmen and interim government forces. While Damascus announced the formation of a legal investigative committee and other steps to de-escalate, the enormity of violence left Syria's already fragile transition on a knife-edge.

After Assad's fall, ISIS attacks near-vanished in Syria, marking an abrupt reversal of 2024's trendline which saw the group clearly resurgent—tripling its operational tempo, more than doubling the deadliness of attacks, and expanding geographically and in terms of sophistication. That pause appears to have ended since late February, when ISIS attacks returned to nearly the levels seen through 2024.

Meanwhile, the transition's disarmament, demobilization, and reintegration (DDR) challenge continues—with regular negotiations ongoing with notables and militia leaders in Druze-majority As-Suwayda and in Daraa. Substantial progress seems to be occurring in the Daraa track, but the dynamic vis-à-vis As-Suwayda remains complex. Israel's demand that southern Syria be demilitarized and its attempts to instrumentalize Syria's Druze as a means to stoke division and tensions may have, ironically, served to narrow As-Suwayda's gap with Damascus. However, differing and potentially rival Druze positions have begun to emerge, with religious leader Sheikh Hikmat al-Hijri toeing a more unbending line and militia groups expressing more flexibility in their interactions and cooperation with their interim government counterparts.

The toughest nut to crack in terms of DDR remains the northeast, where the Syrian Democratic Forces (SDF) appear keen to see the outcome of an eventual call between Presidents Trump and Erdoğan before sealing or rejecting any deal with Damascus. The fall of Assad engendered an intense desire among Syrians to see their country reunite, and for now, the SDF's semi-autonomous status remains the biggest perceived obstacle to that. The drive to resolve the impasse faced a major setback on 3 February, when 20 civilians were killed in a car bomb blamed widely on SDF elements. The fact that SDF leader Mazloum Abdi appears to have acknowledged Ahmad al-Sharaa's presidency is an encouraging sign, as is the resumption of oil trade with Damascus. Ultimately, thanks to considerable pressure on the SDF from the US military, the SDF signed a landmark framework agreement with Sharaa's government on 3 March that paves a path towards integrating it into Syria's new state institutions. Under the deal, and subject to follow-on negotiations, SDF-controlled border crossings, an airport, oil and gas fields, and ISIS prisons and camps in eastern Syria would be placed under Damascus' administration.

While Syrians remain euphoric at their newfound freedom, the subject of near-unanimous priority is the economy. Shattered by nearly 14 years of civil conflict and regime corruption, Syria's economy is barely breathing. The Syrian pound has lost 99% of its pre-war value and a persistent liquidity crisis continues to fuel fluctuations in value. Ninety percent of Syrians live below the poverty line; 70% rely on aid; and more than 50% of Syria's basic infrastructure is destroyed. The international community funded only 28% of the UN's aid needs for Syria in 2024 and expectation for 2025 is even lower. While Assad's departure has unlocked the door to recovery, the door itself can only be opened by sanctions relief—principally from the US government.

While Europe, the Middle East, Russia, and international organizations continue to engage intensively with Damascus, the US has taken a step back since Donald Trump became President. While the outgoing Biden administration moved quickly to engage diplomatically, the Trump administration holds a deeply skeptical—for some, even hostile—view toward Syria's interim authorities. The near-unanimous ask that the US ease sanctions (which is now coming directly from governments across the board, as well as from the UN) is being met with flat-out rejection in Washington. For Trump's team in the White House, there is no cause that would justify "rewarding terrorists."

Interestingly, this cynical take sharply contradicts how the US military and intelligence community has responded to Assad's departure. Through Operation Inherent Resolve (OIR), US Central Command (CENTCOM) and Special Operations Command (SOCOM) have established a channel of near-daily communication and coordination with Damascus in the counter-ISIS space. OIR commander Major General Leahy has met Ahmad al-Sharaa on several occasions and has directly facilitated in-person talks with the SDF on the al-Dumayr Airbase outside Damascus. With Leahy's green-light, OIR's partner force in the al-Tanf Garisson (the Syrian Free Army) has dissolved itself and joined the interim government's Ministry of Defense—and Leahy has visited them twice since. Beyond the military, US intelligence has also established a working intelligence-sharing relationship with Damascus, which has already resulted in the foiling of eight ISIS plots—most in Damascus. It is likely that a recent surge in US drone strikes on al-Qaeda loyalists in Idlib is also the result of this intelligence exchange.

Although interactions on a security level have borne clear fruit and early trust, it is unlikely that the Trump administration's diplomatic and political assessments on Syria are going to change. If anything, there are increasing signs that the US and Israel may be aligning their respective positions on Syria—toward a policy of isolation, aimed at fostering an eventual change in leadership in Damascus. Such a short-termist policy would virtually guarantee the failure of Syria’s transition and a potential collapse back into civil conflict. How that aligns with the strategic desire for “peace in the Middle East” is anyone’s guess.

Interview: Stephen Fallon; Banking and Sanctions Expert; Former Chief Compliance Officer (Managing Director) of INSTEX

Q: How pivotal is Washington's role in reintegrating Syria into global banking networks? Can the EU and UK ease sanctions effectively without the US taking action?

A: The US is extremely important, although I don't think it is existentially important. It is definitely the single most important external actor from a financial perspective for Syria. Yet I believe that the Europeans, including the UK, can chart their own course. They've done it in the past with some other countries where there's a misalignment on sanctions relief.

Where I think the Europeans could make a mistake is that they don't realize just how much political capital and how much money they need to spend on this. There's a risk that they undervalue how hard sanctions relief will be without the US. That's my current concern.

Q: With recent EU and UK sanctions suspensions, if the US turned a blind eye to what the EU and UK's banking sector is doing, could Syria's banking ties with Europe be restored?

A: Yes, but it would take years. Banks would proceed cautiously, waiting to see the US response. Major European banks, especially global institutions, wouldn't shift their stance. Many internally apply US anti-money laundering and sanctions rules as their default standard.

For instance, HSBC, though headquartered in London, operates as if it were a US financial institution. As long as US sanctions on Syria remain—even if unenforced—major banks will still consider transactions illegal under US law. Smaller banks or sovereign-backed institutions might engage, but global banks won't move unless the US lifts sanctions.

Q: Based on your experience with INSTEX—the financial channel set up by Germany, France, and the UK to facilitate trade with Iran despite US sanctions—could Syria's banking sector reconnect with Europe without US approval?

A: In theory, yes—it could be integrated. However, Iran is not a useful comparison. If anything, it serves as an example of what not to do. What I could see the Europeans doing is establishing alternative payment routes, possibly involving government-backed banks to provide sovereign protection. But that's only one part of the equation.

They would also need to engage in close, continuous dialogue with the European financial system to explain why this is important for Europe and take a far more proactive approach than they did with Iran.

In that case, they simply outlined their foreign policy vision and left it to the market, assuming it would respond accordingly. It didn't—because the market didn't care and was far more concerned about US repercussions.

Q: How can European authorities convince European financial institutions to engage? What sort of guarantees can shield European institutions from US sanctions?

A: There are two main approaches. First, sovereign-backed financial institutions—such as the European Central Bank, Bank of England, and European Investment Bank—could play a crucial role. The US is unlikely to sanction these entities. There's also a possibility that the Americans remain quiet and permissively allow everything to continue. In that situation, some of these sovereign-backed or sovereign-owned financial institutions can help.

Second, direct outreach to private and public banks is essential. The EU, UK, and possibly Switzerland must make it clear that financial re-engagement with Syria is a strategic priority for Europe's security and foreign policy. The case should be framed around humanitarian needs, regional stabilization, and European security, emphasizing the risks of Syria becoming a failed state—fueling migration crises, narcotrafficking, and terrorism. The goal is not for Syria to become a democracy overnight, but for the new government to become a constructive partner to the West, unlike the Assad regime. If sanctions were imposed in the name of national security, supporting Syria's reconstruction should be seen through the same lens.

Q: You said that "pairing sanctions relief with incentives for risk-taking is crucial." What do those incentives look like in practice?

A: Governments could promote engagement through funds, financing access, tax breaks, or subsidies. If this is a national security issue, it should be treated like Ukraine—where the EU just unlocked €150 billion and restructured public finance, allowing €650 billion in extra borrowing. When the stakes are high, rules can and should be adjusted. Preventing Syria from becoming a failed state—a "Somalia in the Levant"—is a major European security risk requiring creative solutions.

We should also be prepared to break some rules around neoliberalism. When imposing sanctions, governments are willing to pressure banks, warning them about ethical responsibilities and ordering them to de-risk, for instance, from Russia or Iran. When the opposite is needed—when we need banks to *re-risk*—suddenly, the market is sacrosanct and intervention is off-limits. Everybody says: "Sorry, don't touch the market" and "We can't lean on the bankers." That's inconsistent. During financial crises, policymakers did "whatever it took." When COVID hit, Europe mobilized trillions. Now, with Ukraine, we've seen another extraordinary fiscal maneuver. Are we really saying we can't find a few billion to stabilize Syria and prevent another disaster?

Q: How can European governments use their public banks to facilitate transactions to Syria? Has something similar been done in other contexts?

A: Not exactly, but it was attempted with Iran and the JCPOA. After the US withdrew from the nuclear deal in 2018, the UK, France, Germany, and the EU sought a financial institution to process payments and uphold the agreement. They first approached the European Investment Bank (EIB), but it refused, fearing US sanctions under the maximum pressure campaign—a decision that many saw as a missed opportunity. The EIB argued it relied too heavily on US capital markets and couldn't risk losing access.

Another challenge is institutional conflicts of interest. Many European financial institutions, including SWIFT, have US nationals in key management roles. If a dual US–Belgian national is involved in transactions that are legal under EU law but violate US primary sanctions, they cannot facilitate them due to their legal obligations to the US. This is a structural issue: Why do European governments allow such conflicts of interest in critical financial positions? It's not about excluding Americans but recognizing that US laws are weaponized against foreign institutions, making these appointments a liability.

Q: What role does the Financial Action Task Force (FATF) play in Syria's banking sector isolation? Would white-listing restore banking functionality?

A: The FATF sets global standards for AML, CFT, and counter-proliferation financing. Countries undergo mutual evaluations by independent experts, determining their alignment with FATF standards. Based on this, they are placed on the gray list (under increased monitoring, requiring reforms), and black list (high-risk jurisdictions facing severe financial isolation). Being listed triggers "de-risking," as FATF members pressure their domestic banks to apply stricter due diligence when dealing with institutions from flagged countries. This model relies on private sector compliance to push governments toward reform. For instance, France cannot directly sanction Jamaica, but it expects French banks to scrutinize Jamaican transactions more closely, prompting Jamaican banks to push their government to reform and adhere to stronger AML/CFT laws.

For Syria, gray-listing worsens its financial isolation, but simply moving to the white list wouldn't necessarily restore banking functionality. In theory, it should ease due diligence requirements and improve access to global banking. However, persistent sanctions on Syrian financial institutions—even with FATF compliance—could keep foreign banks wary. Thus, while blacklisting or gray-listing makes financial access worse, white-listing alone won't fix it.

Q: If you were the Syrian government at the moment, what would you do to help plug Syria's banking sector into the global banking system again?

A: First, Syria must restore domestic confidence in its banking sector, as it is currently a cash-based economy. The

Central Bank and regulators should adopt a pledge of minimum compliance standards, committing to UN guidelines and basic anti-bribery, anti-corruption, and tax evasion rules. While sanctions remain a challenge, they should align with FATF standards on money laundering, terrorist financing, and proliferation financing, possibly incorporating Wolfsberg Group principles to attract global banks.

Hiring technical advisors to modernize and remediate Syrian banks would be key. Once reforms are in place, they should invite international observers to assess progress and re-establish correspondent banking relationships, exchanging due diligence questionnaires per Wolfsberg Group protocols.

SYRIA IN FIGURES

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Syria in Figures is a monthly publication that provides data-driven and insightful analysis of developments shaping Syria's political economy. It prioritizes relevance and novelty, which makes it a vital resource for policymakers, humanitarian implementers, researchers, and other stakeholders attempting to understand Syria's complex landscape.

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