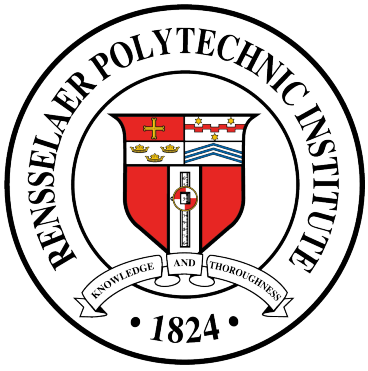
The Effect of Regime Change on Exchange Rates in Syria

How Conflict Affects Volatility in Currency Markets

Max Troeger

ECON 6190 - Advanced International Economics and Globalization
Dr. Mina Mahmoudi



Department of Economics
Rensselaer Polytechnic Institute
Troy, NY, USA
15 Apr. 2025

Contents

1 Introduction

Exchange rates are subject to volatility (Mohsen, 2015). This presents economists with a difficult situation when reconciling many currencies globally. Civil unrest exacerbates this difficulty, especially in unstable economies (Alyousef, 2022).

We analyze historical trends in Syria's monetary policy, trade openness, and political stability and their effect on the exchange rate of the Syrian pound (SYP) against the United States dollar (USD). We find that the primary driver of economic instability in Syria derives from fluctuations in the exchange rate. The exchange rate thus serves as a strong proxy of the stability of the Syrian economy.

Economic and historical literature concerning Syria suggest that the country's recent regime change temporarily augmented this instability due to a lack of global investor confidence. An appeal to this literature supports avenues for economic growth pursued by Syria's new transitional government and inspires optimism about Syria's future.

2 Relevant History

2.1 1920–2000: the formation of modern Syria before the Syrian Civil War

2.1.1 The French Mandate

After receiving the Syrian (and Lebanese) territory from the partitioning of the Ottoman Empire by the League of Nations in 1920 (Hébié and da Cruz, 2019), the French government imposed its authority with the Armée du Levant—a military force made up of French Foreign Legionnaires. The French government issued Arrête No. 129 (March 31, 1920) which enabled the Banque de Syrie et du Liban to issue a Syrian pound equivalent to 20 francs (Ayoubi, 1951; Moiles, 2012).

According to Moiles (2012), within three years maintaining the Armée du Levant accounted for, "27 percent of [the] total annual budget" of the governance of the Syrian mandate (Moiles, 2012).

The 1929–1939 Great Depression exacerbated the financial burden of this military force (and the Mandate in general), leading newly-elected French Premier Léon Blum to negotiate terms of Syria's independence in 1936 (Friedman, 2023). Once such term was the raising of a new group of soldiers, the Troupes Spéciales du Levant, composed of, "rural and poor Sunni Arabs and religious and ethnic minorities" (Moiles, 2012) to limit the cost of governing the Mandate in the interim and facilitate the end of direct French involvement in the Middle East.

According to Yaffe-Schatzmann (1995), Latakia, Syria's principal port city, was home to a number of religious minorities—i.e., 'Alawis, Orthodox Christians, and Sunni Muslims—whom the Ottomans had rendered relative autonomy in an attempt to reduce contempt of foreign Turkish rule (Moiles, 2012). Although Latakia and the surrounding region had been governed predominantly by Orthodox and Sunni groups under the Ottomans (and, moreover, the population of the region was 80% Sunni), the political power and geographic concentration of the 'Alawi population (Yaffe-Schatzmann, 1995) around the city led the French to render governance of the newly formed Latakia Province to the 'Alawi mountaineers.

The French policy of subdividing the Syrian Mandate into ethnic and religious groups, combined with the raising of the Troupes Spéciales du Levant, came with a clear benefit for the soon-to-be-independent country: when Syria became independent, Moiles (2012) writes, it would have, "a professional, Westernized military infrastructure [...] drawn entirely from the country's lower classes" principally, the 'Alawis.

2.1.2 Independent Syrian Republic

After the end of the French Mandate in April 1946, an Independent Syrian Republic with a republican government struggled socially and financially. Collelo (1987) states that Syria joined the International Monetary Fund (IMF) in 1947 and established a par value of 2.19 SYP to 1 USD, a rate it maintained

until 1961. Nevertheless, Collelo (1987) writes, Syrian politicians failed to maintain the independence of the Syrian pound or find backing for it. In 1948, the Syrian and Lebanese currencies split, and in 1949 Syria broke the link to the franc entirely (Collelo, 1987). General dissatisfaction with the government led to a series of popular coups, and on September 4, 1950, Syria's Constituent Assembly ratified a new constitution, marking the beginning of the Second Syrian Republic. This constitution, however, was suspended until 1954 by a November 28, 1951 coup carried out by Colonel Adib Shishakli. Following student demonstrations, yet another coup restored the 1949 constitutional government and with it the Second Syrian Republic (Collelo, 1987).

2.1.3 United Arab Republic

On February 1, 1958, the Syrian Republic and Gamal Abdul Nasser's Egypt merged into the United Arab Republic (UAR). Syria retained its national currency and, according to Dridi and Hasan (2008), rationalized the value of the Syrian pound according to two exchange rates: an official rate set by the Exchange Office, and a free market rate. Syria's Central Bank set at an official exchange rate of approximately 3.565 SYP/USD (buying) and 3.585 (selling), but ultimately these rates began diverging by the end of 1959. In February 1961, "the free market was abolished and pervasive exchange controls were introduced..." (Dridi and Hasan, 2008).

2.1.4 Syrian Arab Republic

The short-lived union between Syria and Egypt ended on September 28, 1961 with a reactionary coup by Lieutenant Colonel 'Abd al-Karim Nahlawi resulting in a once-again independent Syrian Arab Republic (SAR) (Moiles, 2012). In 1962, the SAR repealed the exchange controls imposed by the former UAR the previous year. Syrian officials once again authorized a parallel exchange rate scheme, were the Syrian pound was evaluated according to a free market rate and an official exchange rate of 3.8 SYP/USD (Dridi and Hasan, 2008). The SAR's recalcitrance in adjusting interest rates caused the free market rate to depreciate and similar currency controls to those imposed by the UAR in 1961 were again implemented in May 1963, including the *de jure* end of the free market exchange rate. Thereafter, Syrian officials employed several metrics to value the Syrian pound, including a significant black market in Lebanon and Jordan (see Mkiyes, 2023). Schreeve (1986) writes that, "the main reason the black market has been allowed to flourish [...] [was that] everybody, including government and public sector companies, needed it." In fact, "the scope and access to the parallel market had been adjusted from time to time affecting the exchange rate in the unofficial free market" (Dridi and Hasan, 2008), and, in Lebanon, "it was clear to the monetary authorities that the black market was significant and beyond control" (Muhammad, 1962).

2.1.5 al-Assad Dictatorship

Founded in 1943, the Syrian Ba'ath[1] movement espoused a socialist and pan-Arabist political ideology. According to Moiles (2012), "many young minority and pan-Arab officers within the military [...] had trained in Egypt and hoped for the union to bring the Ba'ath," that is a *renaissance*, and, "were forced out of the military for their 'radical' sympathies." One such officer, the 'Alawi colonel Hafez al-Assad, along with four other colonels seized power in a March 8, 1963 coup, placing the "Regional Ba'ath Council" in control of Syria. By 1970, only Hafez al-Assad would remain, enabling the November 13, 1970 bloodless coup—the "Corrective Movement"—which installed al-Assad as the dictator of Syria and entrenched the hereditary dictatorship of the al-Assad family (Carlos, 2021; Dawisha, 1978).

According to Mohsen (2015), Syrian exports in the period of 1970 to 2010 were primarily primary products—e.g., food, textiles, and oil—for markets in the European Union. In 1965, the Syrian gov-

[1] *Ba'ath* refers to the title of Michael 'Aflaq's 1940 essay *Fi Sabil al-Ba'ath*, literally *The Road to Renaissance*. In Arabic, *ba'ath* means *renaissance*.

ernment nationalized a major portion of foreign export industries and established state agencies with the exclusive right to export certain commodities (Dridi and Hasan, 2008). According to Dridi and Hasan (2008), an increase in petroleum transit dues, oil production, and oil prices enabled, "authorities to unify the official and the parallel market rates in July 1973 at SP 3.73 per U.S. dollar." As a result, exports were primarily state controlled until the 1980s, and beginning in the 1990s—in the interest of bolstering productivity—the Syrian government privatized several export industries. Consequently, this increase in trade openness—as well as other legislative changes aimed at trade liberalization—caused Syrian exports to quadruple from USD 5.13 billion in 1999 to USD 20.9 billion in 2010 (Mohsen, 2015).

Mohsen (2015) notes that the depreciating Syrian pound exchange rate boosts the external demand for Syrian exports. Although this is no doubt true, and, within the author's studied frame of 1970–2010, this may be sensible, the author's claim that, "it is vital for the Syrian government to [...] decline the Syrian pound exchange rate" is indefensible.

By April 1981, Syrian authorities reestablished the parallel exchange market and set an official rate of 5.45 SYP/USD (Dridi and Hasan, 2008). The period of 1984–1987 saw a decline in exports and a growing demand for imports, and—Dridi and Hasan (2008) write—in 1986 the unofficial free market rate hit 27 SYP/USD. In 1987, Syrian authorities set the official exchange rate at 11.25 SYP/USD and once again banned the parallel market. In 1989, as part of the greater effort to liberalize trade and more realistically price the Syrian pound, Syrian authorities introduced the neighboring countries rate (42 SYP/USD). This exchange rate remained stable roughly through 2007 (Dridi and Hasan, 2008).

2.2 2000-2023: Bashar al-Assad's Syria and the Syrian Civil War

On June 10, 2000, Hafez al-Assad passed away, leaving a vacancy which—through an emergency amendment to the Syrian constitution by the ruling Ba'ath party—his son, Bashar al-Assad, would fill (BBC, 2000; Carlos, 2021).

2.2.1 Trade Liberalization

Mehchy et al. (2015) indicate that between 2000 and 2010, Bashar al-Assad's Syria transitioned toward more free market oriented policies. In August 2007, Syrian authorities moved to referencing the Syrian pound to a special drawing rights (SDR) basket, which Dridi and Hasan (2008) claim was necessary in order to accommodate the, "real shocks associated with the depletion of oil and the transition to a market economy." Consequently, the Syrian pound appreciated against the U.S. dollar by 9% (to approximately 52 SYP/USD) between December 2006 and March 2008 ("1 USD to SYP", n.d.; Dridi and Hasan, 2008). The decade saw an average 5% annual growth and Syria's export growth rate grew to 22% by 2008.

Despite the global economic crisis in 2008, Haddad (2011) states that Syria was able to weather the crisis through an unexpected increase in tourism revenue, and, "through the end of 2010, Syria seemed relatively stable both politically and economically." Syria's economic growth, however, accompanied a precipitous rise in trade deficit from a reduction in crude oil exports and an increase in merchandise imports, with the trade deficit peaking at 9% in 2009. The trade deficit growth caused a reversal of the export rate growth (Mehchy et al., 2015), indicating that Syria's growth was not sustainable (Haddad, 2011).

2.2.2 Arab Spring Protests and Regional Conflict

Żuber and Moussa (2018) write that on January 26, 2011 pro-democracy protests against the al-Assad regime began along side similar protests happening in the Middle East (i.e., in Egypt, Libya, and Tunisia) at the same time. These protests, referred to collectively as the *Arab Spring*, escalated into an uprising within Syria by March 18, 2011 with large-scale public demonstrations in Dar'a, Hama, and

Banyas (Zisser, 2017; Żuber and Moussa, 2018). al-Assad's government responded with a violent crackdown, using the Syrian army to deal with protesters in April, 2011 (Zisser, 2017). By 2012, armed rebel groups started fighting in Damascus and Aleppo.

Zisser (2017) discusses how the conflict quickly took on an ethnic and religious character as domestic and foreign Islamist groups opposed to the 'Alawi minority al-Assad family ruling in Damascus. The civil war quickly became an international conflict, as the Syrian Armed Forces under the al-Assad government would receive support from Iran, Russia, and Lebanon's Hezbollah, whereas the Syrian opposition would receive support from the U.S., the E.U., Turkey, Saudi Arabia, and others (Kešeljević and Spruk, 2023). Alyousef (2022) notes that initially the Syrian conflict involved regional belligerents, including Turkey, Iran, and Israel. Reuters (2014) reports that it wasn't until 2014 that a U.S.-led coalition would intervene militarily in Syria, conducting air strikes against al-Assad loyalist forces. Russia similarly intervened in favor of the al-Assad regime in 2015 (BBC, 2016), whereas Turkey began occupying elements of Syria in 2016 (Alyousef, 2022).

After years of fighting, the conflict reached an impasse over the failure of al-Assad's government to capture the Idlib Province, a stronghold held by the anti-Assad rebel group Hay'at Tahrir al-Sham (HTS), resulting in Turkey and Russia negotiating a ceasefire (Goodwin, 2024). Despite the decrease in fighting, conflict in Syria persisted and, by 2021, forces loyal to the al-Assad government had recaptured about two-thirds of all Syrian territory (Carlos, 2021). Nevertheless, the escalation of the Russian involvement in Ukraine weakened the position of al-Assad's forces, and by 2023 al-Assad's government had not acquired any more territory from opposition forces (Basbugoglu, 2025). The growing humanitarian situation, compounded by the February 2023 earthquakes in Turkey and Syria, left the Syrian Civil War in a stalemate (Bora and Rawat, 2025; Yacoubian, 2023). Furthermore, Basbugoglu (2025) reports that—starting in October 2023—the involvement of Iran's Lebanese militia, Hezbollah, in the conflict in Israel weakened Tehran's position in Syria. Diverted attention from Moscow and Tehran left a vacuum sufficient for the fall of the al-Assad regime in December 2024.

2.2.3 Economic Impact of the Syrian Civil War

According to Alyousef (2022), before the 2011 Arab Spring protests, the Syrian pound exchange rate sat stably in the range of 48–50 SYP/USD, and by the end of the year, the exchange rate had fallen to approximately 60.5 SYP/USD. By January 2013, the Syrian pound had depreciated to 93.5 SYP/USD; and, in response to U.S. sanctions and the possibility of an August 2013 U.S. airstrike against Syria, the pound sank precipitously to 300 SYP/USD (Alyousef, 2022). Suliman and Khwanda (2020) estimate that between 2011 and 2017 sanctions from the U.S., E.U., and other nations and regulatory bodies decreased Syria's bilateral trade flow by 65%, increasing the deficit identified by Mehchy et al. (2015).

Alyousef (2022) finds that—over the Syrian Civil War's particularly acute period of 2011–2018—the profitability of all 14 of Syria's private banks was negatively affected, and the exchange rate—taken as an indicator of inflation and as a measure of the intensity of the conflict—featured as a prominent determinant of this negative effect. Fluctuations in pricing of the Syrian pound continued past 2013 until achieving a relatively stable rate of 450–520 SYP/USD from 2016–2018, before dropping temporarily to a historically low 3,175 SYP/USD in June 2018 in response to further U.S. sanctions (Masri, 2021). By July 2018, however, the Syrian pound appreciated against the U.S. dollar (reaching 440 SYR/USD) as the intensity of the civil war subsided (Alyousef, 2022; "US Dollar / Syrian Pound", 2025). Despite the slowing of the conflict and the stabilization of the currency, by 2019 6.19 million Syrian citizens had been displaced globally, overall poverty sat at 86%, and the employment rate was only 42.3% (Alyousef, 2022); moreover, "it can be said that 80% of the Syrian population [lived] below the poverty line" (Mkiyes, 2023).

Basbugoglu (2025) writes that the prohibition

of US investment in Syria in 2011 and of US export to Syria in 2019 left the country deprived of funds, leading the al-Assad regime to illegally produce and smuggle Captagon (fenethylline), an amphetamine stimulant, into neighboring Jordan, Iraq, and Lebanon from which it would be conveyed into other Gulf states. Suspecting drug trade, the Gulf states further restricted trade with Syria, contributing to the decline in the Syrian economy.

The onset of the Lebanese financial crisis in late 2019 reignited the fall of the Syrian exchange rate as many prominent Syrian businessmen kept their money in Lebanese banks to escape US sanctions, once again putting downward pressure on the exchange rate (Al-Khalidi, 2021; Alyousef, 2022). The onset of the COVID-19 pandemic in March 2020 affected both Syria and Lebanon, with the latter's economy also being rocked by the Beirut port explosion later that year, and the strong interrelation between the Lebanese and Syrian markets—as well as Syria's uniquely poor humanitarian situation—kickstarted extreme inflation of the Syrian pound (Danielle et al., 2023; Swed et al., 2022). Damascus currency market data ("US Dollar / Syrian Pound", 2025) indicates that by March 2021, nearly 10 years after the start of protests in Syria and a year after the first diagnosed case of COVID-19 in Syria, the Syrian pound had fallen from 1,000 SYP/USD to 3,450 SYP/USD despite official exchange rates listing the value of the Syrian pound as 1,256 SYP/USD (Al-Khalidi, 2021; Masri, 2021). In Idlib, HTS adopted the Turkish Lira because of the instability and strong depreciation of the Syrian pound (Basbugoglu, 2025).

According to Mkiyes (2023), between the initial Arab Spring protests in 2011 and the effective stalemate in 2021 Syria's real GDP had lost in excess of 85% of its value. They model economic stability as follows:

$$(S - I) = w_1(T - G) + w_2(X - M) \qquad (1)$$

where S is private savings, I is investment, T is net taxes, G is government expendature, X is exports, and M is imports. The coefficients $w_1 = 0.81$ and $w_2 = 0.19$ are weights on net government income and trade gap, respectively. The gap $S - I$ is an adequate measure of economic stability because, for $w_1, w_2 \neq 0$, it indicates the gap in real GDP faced by Syrian households. Because economic stability is correlated with a country's exchange rate, their analysis reveals that the strongest macroeconomic factor driving the real GDP gap was the change in exchange rate.

2.3 2024–present: The First and Second Syrian Transitional Governments

According to Reuters (2024a), on December 8, 2024 anti-Assad HTS forces, the most powerful rebel group in Syria, captured the city of Homs, a strategic geographical position that put pressure on Damascus, the seat of Assad's government. Although, "US intelligence estimated Assad might be ousted within a week," of the rebel capture of Homs, Bashar al-Assad fled Syria for Russia within the day. Bashar al-Assad's flight from Damascus marks the collapse of the hereditary al-Assad regime (Reuters, 2024b) and the installation of HTS's leader, Ahmed Hussein al-Sharaa, as the de-facto head state ("General Command appoints Ahmed al-Sharaa as President of Syria", 2025). al-Sharaa's transitional government immediately started operations against al-Assad loyalist forces throughout Western Syria—particularly in 'Alawite communities in Homs and the unsecured port city of Latakia—which were met with protests and extreme civil unrest (Abouzeid, 2024; "New Syrian authorities launch operation against pro-Assad militias, state media report", 2024; SOHR, 2024). Despite the apparent victory, much of eastern Syria was still under the occupation of the Kurdish-led Syrian Democratic Forces (SDF) who had claimed autonomy in the region since 2015 ("Syria merges Kurdish-led Syrian Democratic Forces into state institutions", 2025). Israeli forces took advantage of the disruption and conducted ground invasions and airstrikes in Western Syria and Lebanon ("Israel intensifies Syria attacks, but HTS leader says doesn't want conflict", 2024).

In response to this extreme conflict and uncertainty, on December 8, 2024 the SYP to USD exchange rate jumped from an official 14,800 SYP/USD (2,505.75 SYP/USD official) to 19,000–25,000 SYP/USD ("1 USD to SYP", n.d.; Nofal, 2025; "Official exchange rate (LCU per US$, period average) - Syrian Arab Republic", n.d.; "US Dollar / Syrian Pound", 2025).[2]

During a conference held on January 29, 2025, al-Sharaa was appointed President of Syria's first transitional government ("General Command appoints Ahmed al-Sharaa as President of Syria", 2025). By March 10, the SDF agreed to integrate into the transitional government's institutions ("Syria merges Kurdish-led Syrian Democratic Forces into state institutions", 2025, and on March 13, 2025, al-Sharaa ratified the 2025 interim Constitution of Syria. Effective on signing, the interim constitution ended the first transitional government and established a Second Syrian transitional government with al-Sharaa still as president. The constitution designates a five-year transition period wherein Syria's economy and democratic institutions will be developed under the guidance of a strong executive branch, after which national elections will be held. The constitution's dissolution of the previous parliament and the abolition of the post of prime minister raises concerns about the prospects of Syria's democratization, as the interim constitution instead delegates the authority to appoint ministers to the president. Nevertheless, until a permanent constitution is drafted and ratified, it will remain unclear what shape the Syrian government will take.

In a March 29 conference, al-Sharaa's transitional government announced its desire to subsidize farming, stabilize the Syrian power grid, and establish diplomatic relations. Civil strife, especially that featuring ethnic conflict (as is the case in Syria), exacerbates *brain drain* (Bang and Mitra, 2012)—the loss of professional, skilled labor to more favorable working environments—and even in relatively peaceful times, food insecurity alone generates brain drain (Shah and Mehmood, 2023). Although Yu (2021) indicate that brain drain over a sufficient time horizon *increases* labor productivity—and would, from the reasoning laid out, *positively* affect the exchange rate—by the "circulation" of knowledge from abroad to the home country, in Syria's situation without an amelioration of the features causing brain drain, the initial loss of labor productivity from the movement of skilled labor out of the country cannot be offset as the return of that labor is uncertain. Thus, even as conflict in Syria winds down, robust agriculture is needed for human capital accumulation.

In November 2021, the Syrian government canceled all outstanding renewable energy contracts ("Ministry of Electricity Cancels Renewable Energy Licences of Prominent Businessmen and Companies", 2021). By 2024, the Syrian electrical system could not meet demand, resulting in a reliance on, "off-grid power supplies [like] generators, batteries, and solar panels" (Daher, 2024). Consequently, widespread generator use damaged Syria's air quality, "which in turn impacts public health. The scarcity of electricity and its high price have also impacted productivity. Higher energy prices add to inflation, which in turn weighs on the Syrian pound, which in turn can increase the price of imports." Notwithstanding the clear negative externality of pollution, the impact of a weak power grid on Syria's trade deficit further diminishes its terms of trade.

Given Syria's major trade deficit and isolation from foreign investment as a result of US sanctions, al-Sharaa aims to establish diplomatic relations with Gulf countries—previously alienated by Captagon smuggling—and global powers. Tong-Hyung (2025) reports that as recently as April 10, 2025 Syria has entered into diplomatic relations with South Korea. The Syrian transitional government's aim in establishing diplomatic relations is to attract the foreign investment the country was so deprived of into the war-torn country and to stimulate its economy.

[2] As of April 6, 2025, the free market exchange rate is stable around the 10,000–11,000 SYP/USD mark ("US Dollar / Syrian Pound", 2025).

3 Literature Review

3.1 Determining Exchange Rates

When currencies move dramatically, it brings into question whether or not there is a mispricing or if there is a change to the underlying equilibria (MacDonald, 2000). Such a mispricing, or misalignment, can at any point in time, "be decomposed into the effect of the transitory factors, the random disturbances, and the extent to which the economic fundamentals are away from their sustainable values" (MacDonald, 2000). Given the state of the Syrian conflict, and the 2018 classification by the World Bank of Syria as a low-income country ("The World Bank In Syrian Arab Republic", 2022), it is unlikely that the factors driving down the Syrian exchange rate were transitory or random. Furthermore, in economies with intra-state civil wars, Michail (2021) finds, "a strong and significant depreciative impact on the exchange rate." The negative effect of a decreasing exchange rate on the economic stability of a country is especially pronounced in states with foreign currency debt (Michail, 2021), and as of 2022 the Syrian Arab Republic held an external debt of approximately USD 4.85 trillion ("Syrian Arab Republic External Debt 2008-2025", n.d.); moreover, the state of the conflict and large debt foreshadow a sustained economic downturn in the Syrian economy.

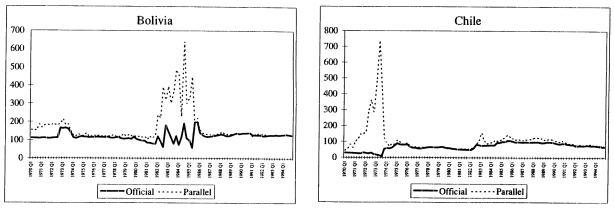


Figure 1: A comparison of parallel exchange rate schemes from Ghei and Kamin (1996)

Ghei and Kamin (1996) indicate that economies employing parallel official and free market exchange rates use the latter to inform the setting of the former. Namely, the difficulty in calculating equilibrium exchange rates under macroeconomic uncertainty, which has plagued Syria since its independence, makes a parallel rate an attractive proxy. They indicate that, if an official exchange rate remains at its long-run level, a free market premium will emerge — i.e., the domestic currency will have a higher exchange rate than state authorities report (Ghei and Kamin, 1996). In general, parallel rates reflect volatility that make them poor representations of the equilibrium rate overall. To illustrate this, Ghei and Kamin (1996) show the parallel exchange rate schemes of Bolivia and Chile (Figure 1).

The former al-Assad Syrian government reported an official exchange rate through July 2022 well below the illegal free market rate. The official exchange rate of the Syrian pound thus never exceeded 2,500–2,800 SYP/USD as in Figure 2.

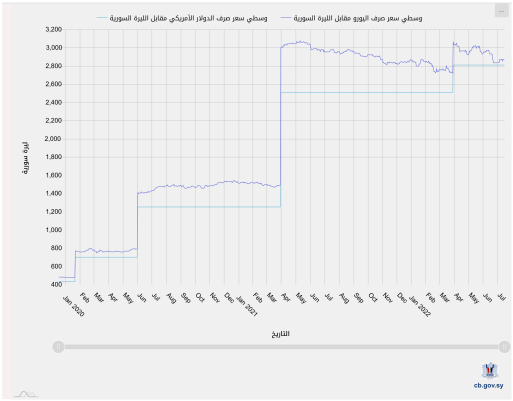


Figure 2: The official SYP/USD exchange rated by the Syrian Central Bank from Jan 2020–Jul 2022

Figure 3 indicates that, after July 2022, the parallel rate premium far exceeds that of the official "equilibrium" rate reported by Syrian authorities. In fact, the two rates begin their divergence in January 2021 and never reunite, implying—against the recommendation of Ghei and Kamin (1996)—that the black market rate more completely represents the equilibrium pricing of the Syrian pound than the official rate. We suggest that the official exchange rate serves as a propaganda tool, as it signals a stronger economy than Syria's citizens face (see Bratter, 1941; Ebrahimi et al., 2019; Edelstein, 1958).

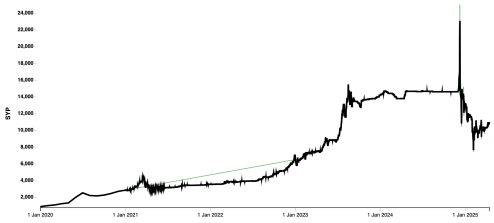


Figure 3: The black market SYP/USD exchange rate from Jan 2020–Apr 2025

3.2 Currency Substitution and Labor Productivity

Fragile or developing economies face currency substitution (Agénor and Khan, 1996), and the resulting demand for foreign currencies drives exchange rate appreciation (Dornbusch, 1982). In Syria's uniquely critical economic condition, both US dollars and Turkish lira (TL) were used by civilians and belligerents alike: in particular, as HTS established local governance in Idlib, it began circulating TL—not SYP—because of the group's Turkish backing and the stability of the currency relative to SYP (Keser and Fakhoury, 2022). Dollar use—and, transitively, demand—in Syria became so prolific that it was made *illegal*; moreover, the Syrian pound, "doesn't circulate as much because it's not trusted nearly as much as the dollar and the euro" (Tamny, 2025).

Since 1963, Syria has had a centrally planned economy with a fixed interest rate scheme. The reticence of Syrian authorities to regularly adjust its lending interest rate exposed the Syrian pound to the negative relationship between the exchange rate and the nominal interest rate differential (Frankel, 1979; Hasan, 2020; Ingram, 1978). Furthermore, Syria's economy has slowed down as a consequence of the outward movement of capital from the country—due to sanctions and political instability—and the deterioration of trade globally and with Gulf states (Suliman et al., 2023).

On the monetary supply side, Chinn and Johnston (1996) report that labor productivity is an important determinant of a country's real exchange rate, and, in particular, that the real exchange rate only responds to *unexpected* shocks to productivity. On the demand side, unexpected terms of trade shocks and per capita income are important determinants of the real exchange rate. Thus, a country facing a large trade deficit, with low per capita income, and stunted labor productivity will have a depreciated real exchange rate.

4 Conclusion

Syria's modern history has been plagued by coups, humanitarian crises, and a depreciating currency. Its enduring civil war has left the country without an ability to focus on its monetary policy or to develop its economy. The overthrow of the al-Assad hereditary dictatorship and ratification of the interim constitution have given Syrians and foreign investors optimism in the country's future, where Syria can normalize its economy and heal from its turbulent past.

Nevertheless, the situation is uncertain and it remains to be seen if at the end of the five year transition period if the country has successfully moved away from its authoritarian structure and centrally-planned economy. Although the Syrian pound has appreciated to a value it hasn't held since June 2023, its relatively poor evaluation reflects a hesitance among foreign investors to enter into the Syrian economy and the strong, persisting demand for dollars of Syrian citizens.

If Syria's transitional government successfully cultivates diplomatic relations, stabilizes the country's power grid, and subsidizes agriculture, it will reduce the economy's instability, strengthen the value of the Syrian pound, and improve the welfare of the Syrian people. Syrians displaced abroad by civil strife may return home and the resulting *brain gain* may produce, by 2030, the modern, democratic Syria the Syrian revolution hoped for.

References

1 usd to syp [Accessed: 2025-03-19]. (n.d.). https://exchangerate.guru/usd/syp/1/

Abouzeid, R. (2024, December). The fall of assad's syria [Accessed: 2025-04-01].

Agénor, P.-R., & Khan, M. S. (1996). Foreign currency deposits and the demand for money in developing countries. *Journal of Development Economics*, *50*(1), 101–118. https://doi.org/10.1016/0304-3878(96)00005-3

Al-Khalidi, S. (2021). Syrian pound sinks to record low on foreign currency crunch. *Reuters*. https://finance.yahoo.com/news/syrian-pound-sinks-record-low-181029528.html

Alsamara, M. (2009). The determinants of real exchange rate volatility in the syrian economy. *Centre d'Économie de la Sorbonne*.

Alyousef, O. (2022). The effect of the syrian crisis on the profitability of the country's private banking sector. *BAU Journal - Creative Sustainable Development*, *4*(1). https://doi.org/10.54729/gyxp1420

Ayoubi, M. S. (1951). *A central bank for syria* [Doctoral dissertation]. https://libproxy.rpi.edu/login?url=https://www.proquest.com/dissertations-theses/central-bank-syria/docview/2569611296/se-2

Bang, J. T., & Mitra, A. (2012). Civil war, ethnicity, and the migration of skilled labor. *Eastern Economic Journal*, *39*(3), 387–401. https://doi.org/10.1057/eej.2012.18

Basbugoglu, T. (2025). Syria: Understanding assad's unexpected fall. *Political Insight*, *16*(1), 22–25. https://doi.org/10.1177/20419058251332341

BBC. (2000, June). Syria's president assad dies [Accessed: 2025-04-02]. http://news.bbc.co.uk/2/hi/middle_east/785435.stm

BBC. (2016, March). Syria conflict: Russia's putin orders 'main part' of forces out [Accessed: 2025-04-01]. https://www.bbc.com/news/world-middle-east-35807689

Bora, A., & Rawat, D. M. (2025). Syrian strife: Understanding the impacts on global stability and humanitarian crisis. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.5151445

Bratter, H. M. (1941). The committee for the nation: A case history in monetary propaganda. *Journal of Political Economy*, *49*(4), 531–553. https://doi.org/10.1086/255742

Bulos, N. (2019, November). Syria (barely) survived a civil war. can it weather the latest financial crisis? [Accessed: 2025-04-01]. https://www.latimes.com/world-nation/story/2019-11-29/syria-latest-financial-crisis

Carlos, J. (2021). The assad family has been shaping syria for 50 years. https://www.fairobserver.com/region/middle_east_north_africa/juan-carlos-bc-syria-news-bashar-al-assad-syrian-president-arab-world-news-83492/

Chinn, M., & Johnston, L. (1996, August). *Real exchange rate levels, productivity and demand shocks: Evidence from a panel of 14 countries*. https://doi.org/10.3386/w5709

Collelo, T. (1987). *Syria: A country study*. GPO for the Library of Congress. https://archive.org/details/syriacountrystud00coll_0/page/168/mode/2up

Daher, J. (2024). Dark times: Syria struggles with increasingly longer power cuts [Accessed: 2025-04-07]. https://en.majalla.com/node/317941/business-economy/dark-times-syria-struggles-increasingly-longer-power-cuts

Danielle, K., Richard, E., & Charles, Y. (2023). What are the financial causes of the lebanese economic crisis and how can it be resolved or avoided in the future? *Journal of Law and Sustainable Development*, *11*(6), e1221. https://doi.org/10.55908/sdgs.v11i6.1221

Dawisha, A. I. (1978). Syria under asad, 1970–78: The centres of power. *Government and Opposition*, *13*(3), 341–354. https://doi.org/10.1111/j.1477-7053.1978.tb00552.x

Dornbusch, R. (1982). Exchange rate economics: Where do we stand? In *International economics policies and their theoretical foundations* (pp. 557–599). Elsevier. https://doi.org/10.1016/b978-0-12-444280-1.50033-1

Dridi, J., & Hasan, M. (2008). The impact of oil-related incomeon the equilibrium real exchange rate in syria. *IMF Working Papers*, *08*(196), 1. https://doi.org/10.5089/9781451870541.001

Ebrahimi, P., Alipour, H., Gholampour, A., & Ahmadi, M. (2019). Social networks, exchange rate fluctuation, and economic growth: Ardl approach. *Tékhne*, *17*(1), 1–9. https://doi.org/10.2478/tekhne-2019-0011

Edelstein, A. S. (1958). Propaganda and economic policy: A case study in domestic and foreign relations. *Gazette (Leiden, Netherlands)*, *4*(4), 319–330. https://doi.org/10.1177/001654925800400404

Executive order 13572 [Accessed: 2025-04-01]. (2011). https://obamawhitehouse.archives.gov/the-press-office/2011/04/29/executive-order-13572-blocking-property-certain-persons-respect-human-ri

Eyon, M. (2025). President al-sharaa announces formation of the new government: We are witnessing the birth of a new phase in our national process [Accessed: 2025-04-07]. https://www.sana.sy/en/?p=350809

Frankel, J. A. (1979). On the mark: A theory of floating exchange rates based on real interest differentials. *The American Economic Review*, *69*(4), 610–622. Retrieved April 16, 2025, from http://www.jstor.org/stable/1808707

Friedman, Y. (2023). The separatist alawi petition to the french prime minister léon blum (1936): Reliability, background and aftermath. *Middle Eastern Studies*, *60*(3), 444–463. https://doi.org/10.1080/00263206.2023.2204517

General command appoints ahmed al-sharaa as president of syria [Accessed: 2025-04-01]. (2025, January). https://english.enabbaladi.net/archives/2025/01/general-command-appoints-ahmed-al-sharaa-as-president-of-syria/

Ghei, N., & Kamin, S. B. (1996). The use of the parallel market rate as a guide to setting the official exchange rate. *International Finance Discussion Papers*, (564).

Goodwin, S. R. (2024). From uprising to impasse: Unraveling the assad regime's stalemate in idlib province. https://jscholarship.library.jhu.edu/items/253bc76b-27c0-4b0f-8684-c1dcfa7b863a

Haddad, B. (2011). The political economy of syria: Realities and challenges. *Middle East Policy*, *18*(2), 46–61.

Hasan, S. (2020). Targeting inflation and its applicability to syrian economy. *G.Ü. İslahiye İİBF Uluslararası E-Dergi*, *4*(4), 186–214.

Hébié, M., & da Cruz, P. B. M. (2019). The legacy of the mandates system of the league of nations. *Peace Through Law*, 99–122.

Ingram, J. C. (1978). Expectations and floating exchange rates. *Review of World Economics*, *114*(3), 422–447. https://doi.org/10.1007/bf02696460

Israel intensifies syria attacks, but hts leader says doesn't want conflict. (2024, December). https://www.aljazeera.com/news/2024/12/15/israel-intensifies-syria-attacks-but-hts-leader-says-doesnt-want-conflict

Kešeljević, A., & Spruk, R. (2023). Estimating the effects of syrian civil war. *Empirical Economics*, *66*(2), 671–703. https://doi.org/10.1007/s00181-023-02470-2

Keser, A., & Fakhoury, F. (2022). Hay'at tahrir al-sham (hts) from an insurgent group to a local authority: Emergence, development and social support base. *Studies in Conflict & Terrorism*, *48*(1), 46–66. https://doi.org/10.1080/1057610x.2022.2082833

MacDonald, R. R. (2000). Concepts to calculate equilibrium exchange rates: An overview. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.2785109

Masri, Z. (2021, March). How do rumors affect exchange rates after the central bank of syria issues a new 5,000 syp banknote? [Accessed: 2025-04-02]. https://english.enabbaladi.net/archives/2021/02/how-do-rumors-affect-exchange-rates-after-the-central-bank-of-syria-issues-a-new-5000-syp-banknote/

Mehchy, Z., Nasser, R., & Schiffbauer, M. (2015). Trade determinants and potential of syria: Using a gravity model 'with an estimation of the syrian crisis' impact on exports'. *Middle East Development Journal*, *7*(2), 226–251. https://doi.org/10.1080/17938120.2015.1072699

Michail, N. A. (2021). The impact of conflict on the exchange rate of developing economies. *Review of Development Economics*, *25*(2), 916–930. https://doi.org/10.1111/rode.12749

Ministry of electricity cancels renewable energy licences of prominent businessmen and companies [Accessed: 2025-04-07]. (2021). https://syria-report.com/ministry-of-electricity-cancels-renewable-energy-licences-of-prominent-businessmen-and-companies/

Mkiyes, H. (2023). The importance of stabilizing the syrian pound exchange rate for achieving economic stability. *EDAMBA 2022: Conference Proceedings*, 277–286. https://doi.org/10.53465/edamba.2022.9788022550420.277-286

Mohsen, A. S. (2015). Effects of trade openness, exchange rate, and oil price on the exports in syria. *European Journal of Economic Studies*, *12*(2), 76–83. https://doi.org/10.13187/es.2015.12.76

Moiles, J. C. (2012). Unity, freedom and socialism: The assads, the ba'ath and the making of modern syria. *Grand Valley Journal of History*, *2*(3). https://scholarworks.gvsu.edu/gvjh/vol2/iss1/2/

Muhammad, N. A. (1962). *Foreign exchange market in beirut* [Doctoral dissertation]. https://libproxy.rpi.edu/login?url=https://www.proquest.com/dissertations-theses/foreign-exchange-market-beirut/docview/2394941159/se-2

New syrian authorities launch operation against pro-assad militias, state media report [Accessed: 2025-04-01]. (2024, December). https://www.voanews.com/a/new-syrian-authorities-launch-operation-against-pro-assad-militias-state-media-reports/7914502.html

Nofal, W. A. (2025, February). False improvement and speculation: What is happening to the syrian pound? [Accessed: 2025-04-02]. https://syriadirect.org/false-improvement-speculation-what-is-happening-syrian-pound/

Official exchange rate (lcu per us$, period average) - syrian arab republic [Accessed: 2025-04-07]. (n.d.). https://data.worldbank.org/indicator/PA.NUS.FCRF?locations=SY

Reuters. (2014, September). Air strikes in syria hit islamic state-held areas near turkey: Monitor [Accessed: 2025-04-01]. https://www.reuters.com/article/us-syria-crisis-usa-strikes-idUSKCN0HI03A20140923/

Reuters. (2024a, December). Homs falls: Rebels tighten grip as assad regime teeters [Accessed: 2025-04-01]. https://tribune.com.pk/story/2514525/homs-falls-rebels-tighten-grip-as-assad-regime-teeters

Reuters. (2024b, December). Moscow claims assad fled as mystery plane leaves russian air base in syria [Accessed: 2025-04-01]. https://www.jpost.com/breaking-news/article-832424

Schreeve, G. (1986, January). Syria: The businessman can't play his hand [Accessed: 2025-04-01]. https://www.euromoney.com/article/27bjsstsqxhkmh0zz0gdw/banking/syria-the-businessman-cant-play-his-hand

Shah, S. S. H., & Mehmood, A. (2023). Threats to various components of human security cause brain drain in pakistan. *Academic Journal of Social Sciences (AJSS)*, *7*(1), 137–150. https://doi.org/10.54692/ajss.2023.07011914

SOHR. (2024, December). Following an assault incident, a demonstration in the al-bahluliyah district demands the withdrawal of security forces (ar) [Accessed: 2025-04-01]. https://www.syriahr.com/%D8%A8%D8%B9%D8%AF-%D8%AD%D8%A7%D8%AF%D8%AB%D8%A9-%D8%A7%D8%B9%D8%AA%D8%AF%D8%A7%D8%A1-%D9%85%D8%B8%D8%A7%D9%87%D8%B1%D8%A9-%D9%81%D9%8A-%D9%86%D8%A7%

D8%AD%D9%8A%D8%A9-%D8%A7%D9%84%D8%A8%D9%87%D9%84/741922/

Suliman, F., & Khwanda, H. (2020). External sector: Between congestion and sanctions—'syrian economy case, 1987–2018'. *Foreign Trade Review*, *55*(3), 382–401. https://doi.org/10.1177/0015732520919839

Suliman, F., Khwanda, H., & Murthy, R. R. (2023). An analysis of the syrian economy in the era of military conflict, 2011–2020: The perspective of government and economics. *Journal of Government and Economics*, *11*, 100082. https://doi.org/10.1016/j.jge.2023.100082

Swed, S., Alibrahim, H., Sawaf, B., Alzabibi, M. A., Shibani, M., & Sakkour, R. (2022). Covid-19, war and poverty in syria. *Annals of Medicine & Surgery*, *75*. https://doi.org/10.1016/j.amsu.2022.103382

Syria merges kurdish-led syrian democratic forces into state institutions. (2025, March). https://www.aljazeera.com/news/2025/3/10/syria-merges-kurdish-led-syrian-democratic-forces-into-state-institutions

Syrian arab republic external debt 2008-2025 [Accessed: 2025-03-31]. (n.d.). https://www.macrotrends.net/global-metrics/countries/SYR/syrian-arab-republic/external-debt-stock

Tamny, J. (2025, January). As dollars circulate in syria, what say central-planning monetarists? https://www.forbes.com/sites/johntamny/2025/01/13/as-dollars-circulate-in-syria-what-say-central-planning-monetarists/

Tong-Hyung, K. (2025, April). South korea establishes diplomatic relations with syria, a longtime friend of rival north korea. https://apnews.com/article/south-korea-syria-diplomatic-relations-north-korea-46173f0637e74baf9552e36cf98296d6

Us dollar / syrian pound [Accessed: 2025-04-02]. (2025). https://sp-today.com/en/currency/us_dollar/city/damascus

The world bank in syrian arab republic [Accessed: 2025-03-31]. (2022, October 20). https://www.worldbank.org/en/country/syria/overview

Yacoubian, M. (2023, March). Syria's stalemate has only benefitted assad and his backers [Accessed: 2025-04-01]. https://www.usip.org/publications/2023/03/syrias-stalemate-has-only-benefitted-assad-and-his-backers

Yaffe-Schatzmann, G. (1995). Alawi separatists and unionists: The events of 25 february 1936. *Middle Eastern Studies*, *31*(1), 28–38. https://doi.org/10.1080/00263209508701039

Yu, W. (2021). Brain drain and economic growth: Evidence of productivity growth from brain circulation. *European Journal of Government and Economics*, *10*(2), 128–145. https://doi.org/10.17979/ejge.2021.10.2.7831

Zisser, E. (2017). Syria – from the six day war to the syrian civil war. *British Journal of Middle Eastern Studies*, *44*(4), 545–558. https://doi.org/10.1080/13530194.2017.1360011

Żuber, M., & Moussa, S. S. (2018). Arab spring as a background of civil war in syria. *International Conference Knowledge-Based Organization*, *24*(1), 245–251.