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Policy paper

Public Budgeting in Transitional Syria

Surpluses in the Accounts, Deficits in Development, and the Reproduction of Inequality

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Syrian Center for Policy Research



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Executive Summary

The discourse on public finance during the transitional period shifted from justifying the dramatic liberalisation of subsidies, the expansion of customs and indirect taxes, and the privatization of public institutions based on the claim of limited resources and scarce revenues, to presenting the achievement of a surplus in the 2025 budget as an exceptional accomplishment and an indicator of sound economic management (Ministry of Finance, 2026). Yet the fiscal surplus, in and of itself, does not constitute evidence of recovery, nor of the quality of fiscal policy, nor of the solidity of the ongoing institutional transformation. In an economy emerging from a protracted conflict, in which the productive base has eroded, poverty has expanded, and infrastructure has weakened, the efficiency of public finance is not measured merely by its ability to accumulate a positive accounting balance, but by its capacity to direct resources in a way that drives economic activity, protects the most vulnerable groups, and rebuilds trust and the social contract (Syrian Centre for Policy Research, 2026)¹.

SCPR estimates indicate that 2025 witnessed only very marginal real GDP growth of about 3 per thousand compared to 2024, meaning that the economy effectively remained in a state of stagnation, and that the surplus achieved was not the product of broad-based productive growth. Rather, it emerged in a context of compression of real public expenditure, erosion of subsidies, decline in public investment, and increasing reliance on indirect taxes and customs duties. Under such conditions, public finance should have been playing an expansionary role, supporting investment, wages, infrastructure, and basic services, and reducing inequality. Instead, the actual trend moved in the opposite direction, as the contribution of public finance to stimulating demand and protecting productive and social capacities weakened (SCPR, 2026; Ministry of Finance, 2026; World Bank, 2025).

Official figures show that actual revenues in 2025 reached USD 3.493 billion², while expenditure amounted to USD 3.447 billion, yielding a slight surplus of about USD 46 million. By contrast, the 2026 budget rises to USD 10.516 billion in expenditure against US\$8.716 billion in revenues, implying an estimated deficit of USD 1.799 billion. The Citizens' Budget for 2026 indicates that 60 percent of expenditure is estimated as current expenditure, 13 percent as subsidies and social security, and only 27 percent as investment expenditure. It also shows that around 50 percent of expected revenues will come from taxes, fees, and customs; 28 percent from oil and gas; and 22 percent from other revenues, including returns on state investments, surpluses of economic institutions, and grants (Ministry of Finance, 2026). This means that the essence of the shift in 2026 is the expansion of the overall size of the budget, rather than any clear qualitative transition toward a fairer tax base, more sustainable financing sources, or more efficient developmental expenditure. Moreover, this expansion is taking place under conditions of weak and non-transparent fiscal governance, and without effective participation by societal forces in discussing priorities, available options, and their distributional effects.

¹ In this paper, the term "SCPR" refers to the Syrian Center for Policy Research

² Official authorities continue to issue most of their estimates and expenditures in US dollars amid a rising degree of dollarization in the economy, which undermines the local currency. This is compounded by methodological errors, such as some public entities calculating economic growth in current US dollar terms.

On the expenditure side, the structure of the 2025 and 2026 budgets reveals the continued predominance of current expenditure and the decline in the effective ability of public finance to perform its developmental role. In 2025, the wage, salary, and compensation item accounted for approximately 41 percent of total expenditure, followed by transfer expenditure at 25 percent, then operational expenditure at 22 percent, whereas public investment expenditure did not exceed 7 percent. In the 2026 budget, despite the government's emphasis on increased spending on social sectors, the Citizens' Budget allocates about USD 3.5 billion, that is, 33 percent of total estimated expenditure, to defense and national security activities, compared with USD 4.353 billion for health, education, and social protection activities, and USD 2.663 billion for public services (Ministry of Finance, 2026). Allocating roughly one third of the budget to defense and security in a devastated economy suffering from an enormous reconstruction gap and a very severe weakness in public investment shows that fiscal transformation remains governed more by the priority of security and control than by the priority of development and justice (SCPR, 2020).

On the revenue side, the 2025 budget structure shows a high dependence on indirect extraction. Customs duties alone accounted for 39 percent of total revenues, while non-custom taxes and fees accounted for 31 percent, meaning that nearly 70 percent of revenues were linked directly or indirectly to consumption, trade, and imports. In the 2026 budget, despite introducing oil and gas and returns on state investments as larger sources, the tax and fee item still approaches USD 2.5 billion and customs duties USD 1.9 billion, together amounting to about half of expected revenues (Ministry of Finance, 2026). This means that the burden associated with consumption did not actually decline; rather, it expanded in absolute value, while major ambiguity remains regarding the relative weight of direct taxes on profits and wealth within this structure. The fiscal system therefore remains regressive in character, passing the burden on to prices, with its greatest relative falling effect on low-income groups and local producers who are less able to pass costs on (SCPR, 2026).

This regressive character is further reinforced through the subsidy policy. According to SCPR estimates, continued monitoring of the price-liberalization policy adopted since decades led total subsidies to turn into a net surplus amounting to 1.4 percent of GDP in 2024 and 12 percent in 2025, while the surplus of off-budget subsidies reached 3.7 percent and 13.9 percent of GDP, respectively, in those two years. A central part of the fiscal "surplus" thus results from transforming the state from a provider of subsidies and basic service support into a generator of surpluses from electricity, fuel, and the rest of energy derivatives, rather than from an expansion in the productive base or an improvement in the fairness of extraction. This transition does not lighten the burden on society; rather, it redistributes it to households and local producers, in a context where there is no coherent social protection policy and no policy supportive of economic justice (SCPR, 2020, 2026).

This challenge is further aggravated by fiscal and governance fragmentation. Alongside the central budget, the transitional period inherited an actual plurality of rules, wages, and channels of collection and payment, including arrangements inherited from the former Salvation Government, in addition to the continued existence of an independent fiscal system in the Autonomous Administration of North and East Syria. The report of the Finance Authority in the Autonomous Administration shows that actual 2024 revenues amounted to about USD 777 million, with a clearly rentier dependence on oil, which

represented about two-thirds of revenues, followed by customs, while actual expenditure amounted to about USD 790 million and was distributed in a way that reveals the priority of military spending, grain subsidies, and current expenditure at the expense of investment. Although the transitional government's expansion of control in 2026 over Deir ez-Zor and Raqqa could add important oil and agricultural resources, it also creates broader obligations encompassing the population, services, and development in those areas. Syria therefore faces not only a troubled central budget, but also a fragmented fiscal structure in which de facto budgets, local royalties, rentier surpluses, and regional and wage inequalities coexist with evident weakness in mechanisms of unification, transparency, and accountability (SCPR, 2026).

This paper adopts a critical political economic perspective that reads fiscal policy in contexts of conflict and post-conflict not as a mere matter of accounting balances, but as an arena for the redistribution of power, resources, and legitimacy. Comparative literature confirms that conflict compresses the tax base, disarticulates administration, raises security expenditure, and pushes toward easily collected revenues such as customs duties and indirect taxes. It also exposes the budget to fragmentation, off-budget flows, large scale privatization, asset sales, and crony capitalism. It further confirms that austerity, subsidy removal, and the privatization of public assets in contexts of weak transparency do not produce sustainable stability; rather, they reproduce old structures and inequalities through new instruments (Gupta et al., 2005; Brautigam et al., 2008; Moore, 2004; Pugh, 2005; Lemay-Hébert, 2016; Kentikelenis & Stubbs, 2025).

This paper concludes that the principal risk lies not only in narrow expenditure or weak resources, but in the direction toward reconstituting public finance as an instrument for the concentration of power and wealth, rather than as a means of rebuilding the economy and society. Accordingly, the required alternative does not stop at "improving administration." Rather, it requires reorienting fiscal policy toward developmental objectives, including stimulating the growth of productive sectors, contributing to inclusive reconstruction, strengthening paths of transitional justice through supporting war-affected groups and poor groups, protecting real wages, restoring public investment, adopting more progressive taxation, enhancing transparency and accountability, and linking public finance to the objectives of peace, solidarity, and capability-enhancing development.

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1. Introduction

The discourse on public finance during the transitional period shifted from arguing that the state did not possess sufficient revenues, thereby justifying the non-gradual removal of subsidies, the sale or offering of public institutions for private investment, and increases in fees, to presenting the achievement of a surplus in the 2025 budget as an exceptional and positive achievement. The 2026 budget was then presented as the beginning of a new trajectory of stability and growth. In the “Citizens’ Budget” for 2026, the Ministry of Finance states that the goal of the public budget is “the Syrian citizen and improving his or her living conditions,” and that the government “seeks through the 2026 budget to improve resources in order to provide the financing necessary for main needs and priorities, while encouraging the private sector, stimulating investment, and controlling expenditure growth in proportion to available resources, thereby also contributing to controlling public debt” (Ministry of Finance, 2026). Yet this optimistic language encounters, from the outset, a basic paradox: how can surplus be regarded as an indicator of recovery in an economy that SCPR estimates to have achieved only around 3 per thousand real growth in 2025, while the World Bank still considers its growth not to have exceeded 1 percent? How can living standards improve under the direct lifting of subsidies on basic goods and the expansion of indirect taxes? And finally, how can the 2026 budget be multiplied almost threefold under the same weak governance (SCPR, 2026)?

This contradiction is the real entry point for discussing public finance. A fiscal surplus, in and of itself, does not indicate recovery. It may instead be the result of austerity and patrimonial policies that focus on shrinking the state’s developmental role, shifting the burden onto the poorest groups, weakening productive growth, and harming social cohesion. In a devastated economy emerging from a severe conflict that lasted fifteen years, public finance should be an instrument for enhancing public spending on investment, subsidies and wages, stimulating economic activity, reducing inequality, creating jobs, developing infrastructure, and addressing the effects of war. Once the immediate objective becomes achieving the accounting balance of the budget, or presenting it as a political success in itself, the question shifts from the “size” of the surplus to its “nature” and to the mechanisms by which it is produced and how its costs are distributed (SCPR, 2020, 2026).

This paper starts with a basic proposition: public finance in the transitional period is not merely a financing tool but rather constitutes an actual shaping of the effective social contract in the transition, showing how power and wealth are shared, and determining who bears burdens and who reaps benefits. Public finance embodies whether the state is rebuilding trust, citizenship, and solidarity, or reproducing the logic of spoils and revenue extraction biased in favour of the influential, the wealthy, and rent under a new discourse. Accordingly, this paper offers a reading of public finance inseparable from a reading of economic and developmental governance.

2. Analytical Framework and Methodology

Fiscal policy is a fundamental economic instrument through which the state influences governance and political, social, and economic performance. It goes beyond technical accounting practice, because it reflects the struggle over power and constitutes an important mechanism for redirecting resources either toward violence and conflict, or toward justice and peace. It is also an important means of forging a new social contract between citizens and the state, and among different political and social actors. Yet, very often during periods of conflict, fiscal policies suffer from a shrinking tax base, fragmented and inefficient administration, and the reallocation of resources toward military and security affairs. Fiscal policies also tend to prioritize expenditures of survival over public investment and the equitable provision of public services (Gupta et al., 2005; Cantens & Raballand, 2021; van den Boogaard, 2018).

This paper draws on an in-depth study of economic policies during the conflict and transitional period (SCPR, 2026), which adopts critical political economy as its analytical framework. This framework incorporates the context of conflict into the structure of the analysis and focuses on the role of active forces, structural factors, and policies affecting fiscal policy during conflict. In conflict and post-conflict periods, this framework addresses the fragmentation of sovereignty and the rise of non-state de facto actors, together with the decline in the legitimacy of central authorities, which undermines the state's ability to collect taxes and deliver public services, as well as the widespread looting of wealth and coercive seizure of resources. It also evaluates the growth of activities not included in the budget, as political actors attempt to manage conflict economies and evade sanctions, and examines elite capture of power and the expansion of crony capitalism, including public-private networks that carry out asset seizures, corrupt reconstruction projects, privatization, patronage deals with foreign entities, exploitation of resources and natural wealth, the expansion of appointment on the basis of loyalties, the reduction of subsidies, and excessive reliance on humanitarian assistance (Pugh, 2005; Lemay-Hébert, 2016; Kentikelenis & Stubbs, 2025).

Within fiscal policy, taxation is a central element in state building because it expresses the state's administrative capacities and contributes to reordering the relationship between state and society. Tax systems may oscillate between coercion and contract, and the way states collect revenues affects accountability, legitimacy, and citizenship (Brautigam et al., 2008; Moore, 2004). SCPR's justice framework adopts an approach close to this argument, as it focuses on the role of taxation and fiscal policy in achieving justice in terms of entitlement, practice, and outcomes, and stresses, drawing on Amartya Sen, that justice begins with identifying grievances and broadening public discussion and social choices (SCPR, 2020; Sen, 2009). This analytical framework also draws on critical readings of neoliberal policies. For example, Piketty, along with other scholars, criticizes neoliberalism and shows that policies enacted in the name of freedom may exacerbate inequality and constrain the capacities and opportunities of most of the population (Piketty, 2020). On this basis, fiscal policy in post-conflict Syria should be evaluated not only in terms of efficiency or simplicity, but also in terms of its ability to widen representation, reduce grievances, and support a productive and inclusive economy.

In this paper, we present an analysis of the main public finance indicators and the policy orientations that have affected the role of public finance; we then review the main effects of these policies, especially from the distributional perspective.

3. Public Finance Indicators

3.1. Official Discourse of Recovery, Surplus, and Expansion

The official discourse on public finance in 2025 and 2026 carries three interlinked messages. First, that 2025 witnessed the “first surplus since 1990 as a result of sound financial management.” Second, 2026 will see a budget more than three times larger than in previous years. Third, that this expansion will occur without deficit financing and through improving resources, encouraging the private sector, controlling expenditure growth, and enhancing transparency. The Citizens’ Budget presents these messages clearly: a 2025 surplus of around USD 46 million, and a 2026 budget with expenditures estimated at USD 10.516 billion and revenues at USD 8.716 billion, with an estimated deficit of USD 1.799 billion, alongside an optimistic discourse about restoring the state’s basic functions, the return of investment, improvement in electricity, wage increases, and the easing of structural constraints on economic activity (Ministry of Finance, 2026).

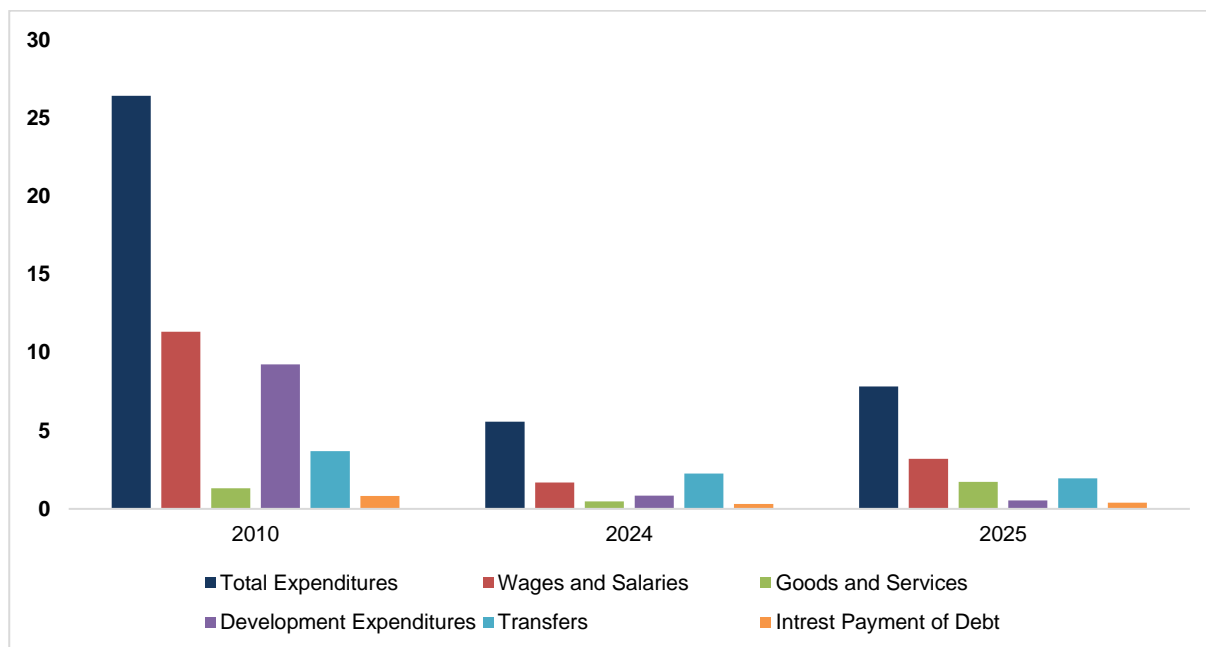
Yet this discourse collides with five principal constraints. First, the detailed budget was not published; instead, what was presented were aggregate figures and broad distributions that do not allow sufficient scrutiny of revenue and expenditure items, nor of their regional and sectoral distribution, nor of the state’s obligations inside and outside the budget. Second, reading the budget shows that the estimates are based on nominal values, while under multiple exchange rates, and with an administrative rate below the market rate, that is under increasing pressure because of the widening trade deficit, budget values appear inflated when converted into dollars, giving the impression of an increase in the state’s financial capacity that is more nominal than real. Third, the macroeconomic expectations themselves are highly optimistic: the Citizens’ Budget speaks of economic growth ranging from 8 to 10 percent in 2026 and a more than threefold increase in public expenditure, while the evidence closest in time shows that 2025 achieved only extremely marginal growth. Fourth, the 2026 budget contradicts some of the Ministry of Finance’s own orientations: for example, in 2025 the Ministry focused on reducing public investment and following a contractionary policy, whereas the 2026 budget adopted a marked expansion in expenditure, including public investment. Fifth, although the International Monetary Fund welcomed improved financial administration and the absence of central bank financing of the budget in 2025, it stressed the need to protect social spending, strengthen the safety net, improve transparency, contain contingent liabilities resulting from large projects with the private sector, and reform the governance of public enterprises. These warnings suggest that the existing financial stability remains fragile and conditional (IMF, 2026; Ministry of Finance, 2026; SCPR, 2026).

3.2. Public Expenditure: Withdrawal from Investment and Inflating of Current Spending

The structure of public expenditure in the transitional period reveals a continuing withdrawal from the state’s basic developmental functions, alongside an expansion of current expenditure, while the share of public investment remains at extremely low levels. In 2025, wages, salaries, and compensation constituted about 41 percent of total expenditure, followed by transfer expenditure at 25 percent, then operational expenditure at 22 percent, whereas investment expenditure did not exceed 7 percent. The paper estimates indicate that total public expenditure reached around 5.6 percent of GDP in 2024 and 7.8 percent in 2025, while the wage, salary, and compensation bill rose from around 1.7 percent of GDP to 3.2 percent over the same period. Yet this increase does not mean the recovery of the social role of public-sector wages, because the overall expenditure base remains narrow, and because part of the increase went to specific categories with high wages within the public apparatus, rather than to a balanced expansion in the real income of the majority.

One also notes the rise in the share of operational expenditure in total expenditure to slightly above 1.7 percent of GDP in 2025, that is, more than half of the wage, salary, and compensation bill. In the absence of detailed data explaining this high volume, it is likely that an important part of it reflects an increase in administrative and operating costs because of liberalizing energy prices and the rise in fuel and service costs used in public institutions. This means that the government has come to spend an increasing share of its limited resources on operating an administrative apparatus that is costly with poor performance.

Figure (1): Public expenditure items to GDP in 2010, 2024, and 2025 (%)



Source: Ministry of Finance and SCPR estimates

Public investment expenditure also declined sharply during the conflict, from 9.3 percent of GDP in 2010 to 0.5 percent in 2025, indicating the persistence of an orientation toward reducing developmental expenditure and shifting an increasing share of resources to current or military expenditures. It is worth noting that the 2026 budget allocated

approximately one third of expenditure to defense and national security, at a time when the country faces enormous material reconstruction costs, and its productive, agricultural, and industrial sectors face deep bottlenecks in energy, liquidity, capacities, and institutions.

This path is consistent with the direction of public finance during the conflict documented by SCPR, in terms of declining public expenditure on the one hand and redirecting an essential part of it toward military expenditure on the other, together with reductions in subsidies on essential goods and social protection. Accordingly, the current policies do not represent a break with the previous logic; rather, they reproduce it in a new transitional form based on financing security and control while shrinking the state's developmental role (SCPR, 2020, 2026).

3.3. Wage Classes: From Narrowing the Regional Gap to Expanding the Gap within the Public Apparatus

The transitional authority began taking broad steps to dismiss workers in the government sector, including all employees in the defense and security sectors as well as large numbers of employees in the civilian public sector. This path, in terms of its nature and potential effects, invites comparisons with the policies that followed the fall of the Iraqi regime in 2003, particularly regarding the dismantling of existing institutional structures before fair and sustainable transitional arrangements are formed. According to credible press reports, this was accompanied by the replacement of many important technical and bureaucratic positions with employees close to Hay'at Tahrir al-Sham or networks associated with it. This threatens to transform the public administration from a sphere that ought to move from the logic of conflict to the logic of inclusive public service into a sphere in which power is reconstructed based on political and organizational loyalty rather than efficiency and institutional neutrality (Reuters, 2025a; Reuters, 2025b).

The seriousness of this process is compounded by the fact that the dismissals did not take place, in an important part of them, through transparent judicial or institutional tracks that could more fairly distinguish between those involved in abuses or corruption and those who constitute the body of administrative and technical expertise necessary for the continuity of public facilities. Instead of adopting legal and professional vetting mechanisms that would exclude those responsible for abuses while retaining the competencies needed for the functioning of the state, recourse was made to arrangements closer to broad administrative exclusion, thereby threatening to weaken institutional memory, disrupt bureaucratic continuity, and reduce the state's capacity to deliver services and manage the transition in an inclusive manner. In this context, circulating estimates suggest that the number of state employees fell to about 850000 workers, which reduced the wage bill in principle, but achieved this reduction through the contraction of the public apparatus and the erosion of its institutional capacity, not through a fair and transparent reform of its functions and roles. In this sense, the restructuring of public employment was not used as an entry point for institutional transitional justice, but as an instrument for reconstructing the state on loyalist bases, thereby opening the door to a new authoritarian transition more than to a path toward a representative and inclusive public administration (Reuters, 2025a; SCPR, 2026).

Wage policies during 2025–2026 were marked by a high degree of instability and disparity. At different moments, large wage increases were announced, reaching in some statements 400 percent, without being implemented in the announced form. A decree was later issued granting a 200 percent increase in fixed wages and salaries in former regime areas, before

an additional 50 percent increase was approved in March 2026 for public-sector workers without including retirees. The price bulletin issued by SCPR for June 2025, prior to the implementation of the 200 percent increase, shows that the average wage differential between employees in former regime areas and employees of the former Salvation Government reached around 500 percent in favor of the latter. Team estimates indicate that this increase reduced the gap to around 143 percent in the second half of 2025, but it did not eliminate it and did not produce a genuinely unified or equitable wage system (SCPR, 2026).

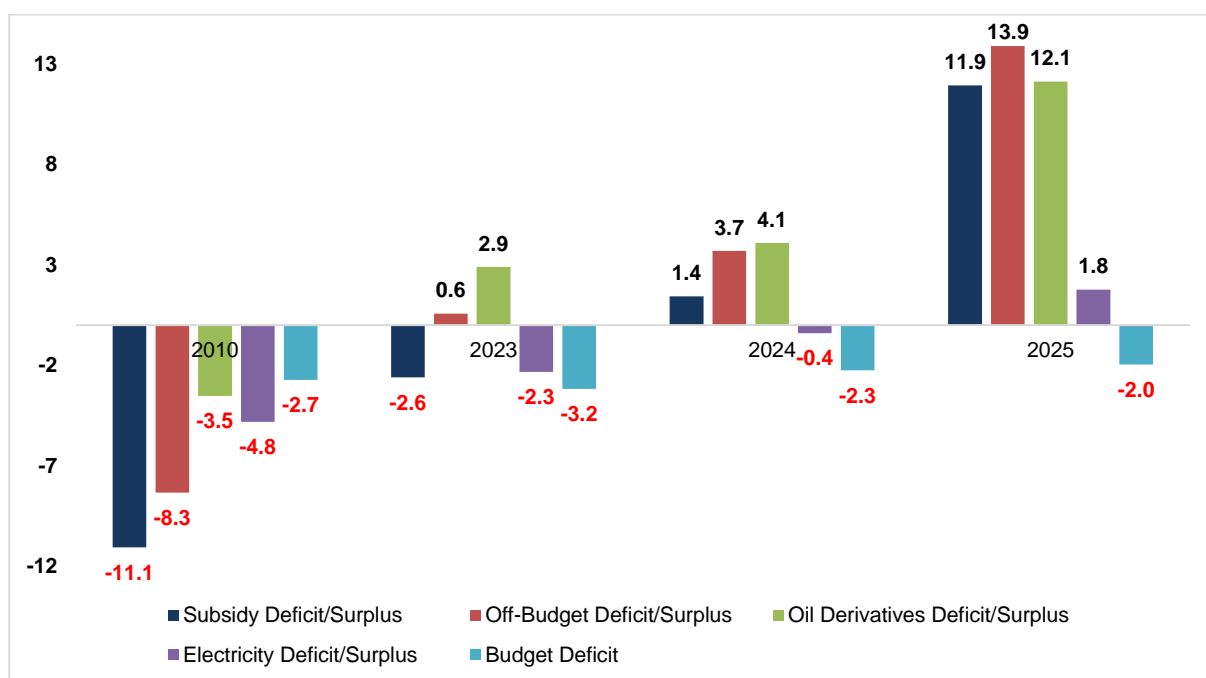
Indeed, the wage bill figures themselves reveal that the problem is not confined to regional disparity. The wage and salary bill in 2025 reached about 15.6 trillion Syrian pounds, an increase estimated at roughly 115 percent compared to 2024, when it amounted to 7.2 trillion pounds. But an estimate of the wage bill for all government employees, counting the 200 percent increase in the second half of 2025 and a one-month grant in March and the financial grant in May, gives a figure of around 11.3 trillion pounds, about 4.3 trillion pounds less than the announced figure. This gap suggests the existence of a large cash mass within the wages and salaries item distributed to a limited proportion of “non-ordinary employees” or those counted among the new patronage networks, under labels such as “attracting competencies” or “protecting institutions from corruption” Thus, narrowing the disparities between areas of control was accompanied by a widening of the gap within the public sector itself, between most low-paid employees and limited groups enjoying wages and compensations many times higher than their peers.

This disparity represents an institutional danger no less serious than that posed by the decline of real wages itself. The basis of an effective public sector is equal opportunity, equity in wages and compensation, and the absence of patronage and loyalties in appointment, promotion, and assignment. When the wage structure becomes an instrument for reclassifying employees into “ordinary” and “non-ordinary,” the public apparatus loses its professional character and is reorganized based on loyalty. This intersects with reports of continuing wage and occupational differences linked to region and to the proximity of certain groups to the new centres of decision-making, thereby deepening the sense of injustice, weakening institutional belonging, and turning the wage bill itself into a new domain for reproducing favouritism.

3.4. Subsidies: From a Protective to a Rent-seeking Function

Following the non-gradual liberalization of prices led to a radical change in the structure of subsidies, their sharp decline, and their transformation from deficit to surplus, as documented by SCPR in its previous work. In 2024 and 2025, total subsidies turned into a net surplus amounting, according to estimates, to 1.4 percent and 12 percent of GDP, respectively. While on-budget spending on subsidies, including subsidies through the adjusted price fund, including bread, amounted to about 2.3 percent and 2 percent of GDP in those two years, off-budget subsidies produced a surplus estimated at 3.7 percent and 13.9 percent of GDP, respectively. Thus, the budget deficit in 2024 is transformed into a surplus, and the surplus becomes much larger in 2025 when off-budget subsidies, represented by electricity and petroleum derivatives, are counted. This is a central paradox: the budget surplus here is not merely the result of improved administration, but the direct product of transforming the state from a provider of subsidies on prices and basic services into a generator of surpluses from electricity, fuels, and the rest of energy carriers (SCPR, 2020; 2026).

Figure (2): Subsidies deficit/surplus to GDP (%)



Source: Ministry of Finance and SCPR estimates

This direction toward subsidy liberalization, particularly subsidies on energy and basic commodities, has led to a deep shift in the state’s role. On the production side, industrial and agricultural costs rose sharply as a result of liberalizing fuel and electricity prices, hindering efforts to revive local manufacturing, reducing the competitiveness of domestic production, and increasing the vulnerability of firms least able to absorb the shock. On the consumption side, declining real incomes, weak social expenditure, and liberalized prices generated broad inflationary pressures that contributed to the erosion of purchasing power and to stagnation in local demand. Thus, subsidy removal is no longer merely a fiscal measure to ease the budget burden but has become an instrument for redistributing resources away from the weakest groups and away from productive sectors that need protection in a fragile transitional moment (SCPR, 2026).

Comparative literature confirms that subsidy reform in contexts of acute instability is neither purely technical nor neutral, because the success of any reform is conditional upon the presence of relative economic and social stability, effective institutions, and protection networks capable of compensation—conditions not clearly available in the Syrian case. Therefore, the “savings” from subsidies may turn into a social cost greater than the savings themselves, becoming a new source of grievance and instability rather than a step toward sustainability (Gupta et al., 2005; Commander, 2012).

3.5. Public Investment: A State Retreating Where It Ought to Advance

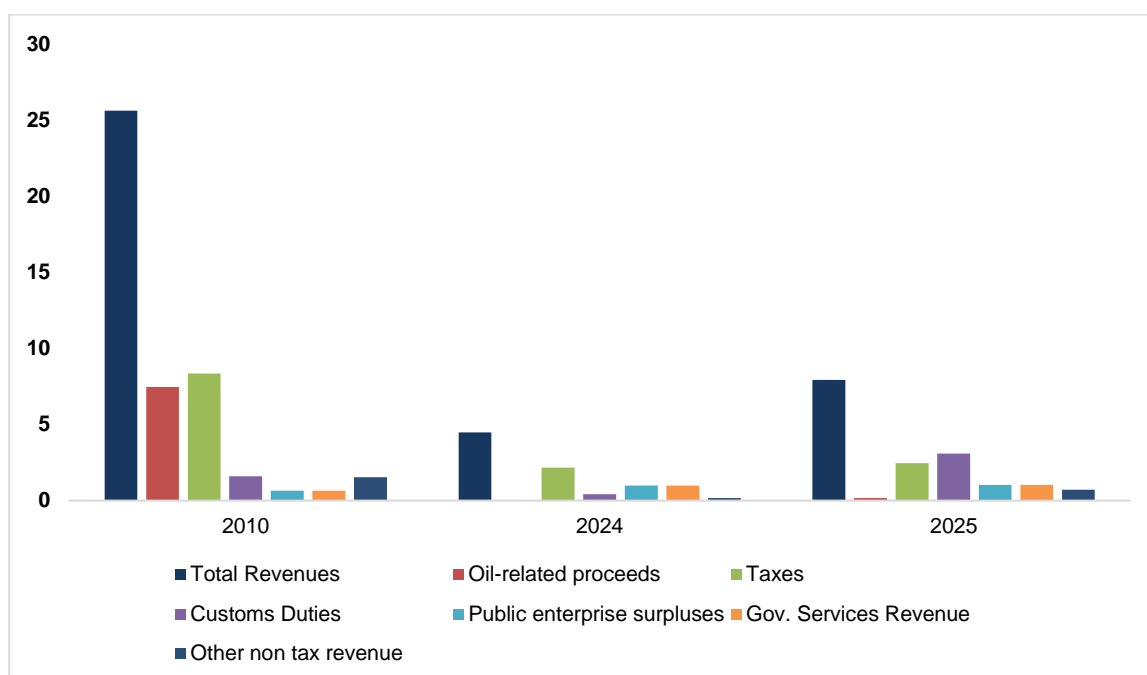
The ratio of public investment to GDP fell from 8 per thousand in 2024 to 5 per thousand in 2025, accompanied by a decline in the volume of this investment itself. Sufficient data are not yet available to understand the sectoral or regional distribution of this investment, which makes judging its usefulness and impact difficult. However this level of public investment remains extremely low in relation to the scale of reconstruction needs, and in relation to the role that public investment expenditure ought to play in an economy emerging from a long conflict. This problem becomes even more acute when set against the cost of reconstructing physical assets.

The problem is not confined to weak volume; it also encompasses the institutional environment within which this expenditure is allocated. The absence of institutional stability, the expansion of centralization, and weak transparency all aggravate the problem of allocating public investments, whether between sectors or between governorates and regions. As Syria’s reconstruction gap widens, enormous investment opportunities appear, yet they collide at the same time with a large institutional gap, a security environment that remains fragile, and a political economy in which the possibilities of patronage, corruption, and weak fair competition are increasing. Economic decisions also remain subject, in many cases, to political rather than economic considerations, which is evident from the nature of the concession contracts granted, the absence of sufficient guarantees against money-laundering risks and the exclusion of small investors, and the transformation of reconstruction into a field for redistributing rents rather than building the productive base. Comparative literature indicates that reducing public investment under the pretext of fiscal discipline generally prolongs stagnation because it deprives the economy of crucial expenditure capable of reactivating infrastructure, demand, and employment when the capacity of the private sector to undertake productive investment is limited or constrained by high risks (Pugh, 2005; World Bank, 2012).

3.6. Public Revenues: How Did the Logic of Revenue Collection Change?

The results of actual budget execution show that the largest part of public resources in 2025 came from fees and customs associated with trade and imports, not from a cohesive productive tax base. Customs duties alone accounted for 39 percent of total public revenues, while non-custom taxes and fees accounted for 31 percent, revenues from the investment of state property and services 13 percent, the oil sector no more than 2 percent, and surpluses from the non-oil economic sector only 6 percent. This structure reflects a heavy reliance on easily collected revenues connected to circulation and importation rather than on direct taxes based on production, income, and wealth. Team estimates indicate that car imports alone approached USD 5 billion in 2025, meaning that a substantial part of public revenues was generated from the fees and taxes imposed on import activity, not from growth in local production. In an economy that relies on imports to satisfy a substantial share of demand, customs duties effectively become a tax on general consumption, whose cost is passed on to consumers through prices, making their distributional effect regressive in essence.

Figure (3): Public revenues to GDP in 2010, 2024, and 2025 (%)



Source: Ministry of Finance and SCPR estimates

In the 2026 budget, revenues rise to USD 8.716 billion, distributed approximately as follows: USD 2.5 billion from taxes and fees, USD 1.9 billion from customs duties, USD 1.882 billion from oil and gas, and USD 2.434 billion from returns on state investments, with “other miscellaneous revenues” under the last item. Although the relative share of customs and taxes falls compared with 2025, this does not reflect a transition to a fairer tax system; rather, it reflects the introduction of non-tax financing sources without any substantive modification in the tax structure itself. The absence of a breakdown between direct and indirect taxes does not alter the fact that the revenue structure still tends to depend on sources associated with consumption, and that taxes, fees, and customs together make up half of expected revenues. More importantly, the quantitative reading reveals that tax and customs revenues increased from around USD 2.4 billion in 2025 to around USD 4.4 billion

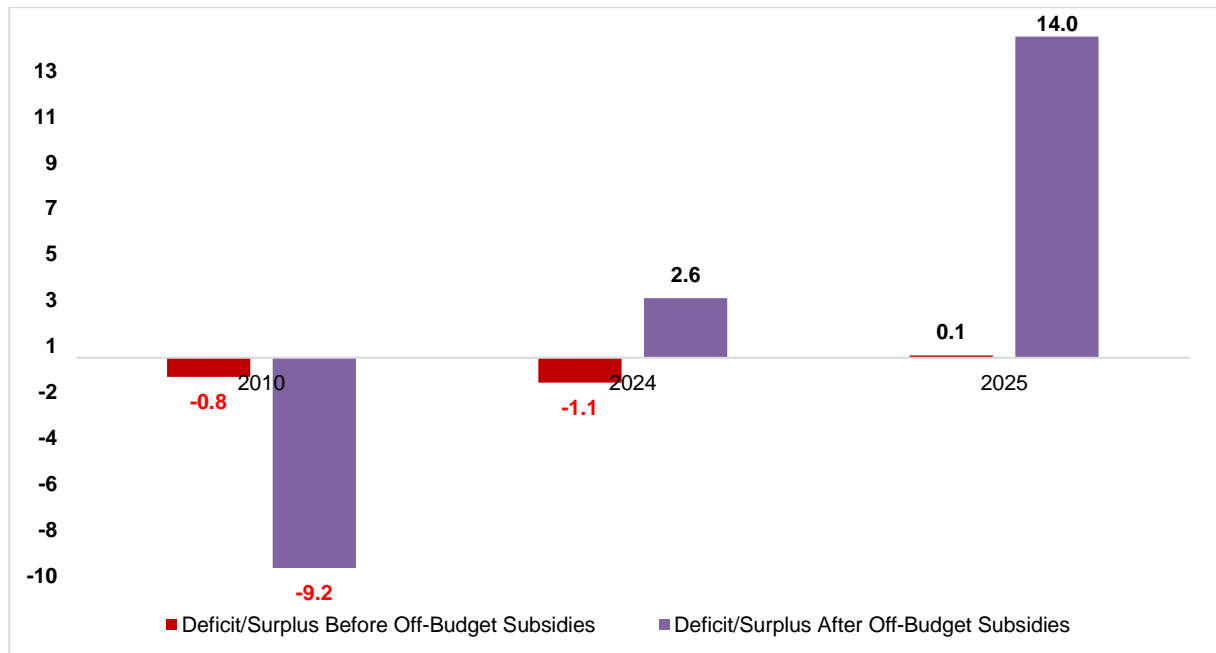
in 2026—that is, a very large increase in the burden associated with consumption, even if its relative share declined within a broader revenue base.

At the level of the tax framework, an important shift emerged through the preparation of a draft new income tax law and the movement toward replacing the Consumption Expenditure Law with a sales tax system as a transitional phase toward value-added tax. In practical terms, this means that the state is moving toward expanding and rationalizing indirect extraction rather than building a broad progressive base on income, wealth, and rents. The proposal also reduces progressive taxes and brings them closer to horizontal rates between 10 and 15 percent, thereby undermining the role of progressive taxation in redistribution. In parallel, the amendment to the Investment Law encourages broad incentives for export-oriented projects and selected sectors and enhances the role of the private sector, while the share of public investment declines. This formula does not express tax reform in the distributional sense; rather, it reflects a recomposition of revenues consistent with a state that is less productive and more dependent on extraction linked to circulation, imports, and rent.

3.7. Deficit / Surplus

The budget deficit of 1.1 percent of GDP in 2024 was transformed into a surplus exceeding 1 per thousand of GDP in 2025. While the surplus after adding off-budget items amounted to more than 2.6 percent of GDP in 2024, it reached around 14 percent of GDP in 2025. That is, the state is achieving a substantial part of its surplus through the liberalization of petroleum derivative and electricity prices, while shifting this enormous burden onto local production and consumption.

Figure (4): Deficit/surplus before and after off-budget subsidies to GDP (%)



Source: Ministry of Finance and SCPR estimates

As for means of financing, the government’s declared abstention from borrowing does not automatically mean the adoption of a more efficient or more just fiscal policy. The Sovereign Fund was established under Decree No. 113 of 2025 with the aim of carrying out direct developmental and productive projects, revitalizing the national economy, and transforming

idle state assets into tools for production and development, in parallel with the establishment of the Development Fund under Decree No. 112 of 2025 to support reconstruction and finance the development of infrastructure and public services (Official Gazette, 2025a, 2025b). Yet this orientation, despite its theoretical importance, took place within an institutional environment that still suffers from weak transparency and accountability. Recent reports and investigations have documented this weakness clearly. In an extensive Reuters investigation published on 24 July 2025, the existence of an economic committee operating away from public scrutiny was revealed; it had seized or arranged control over assets valued at more than USD 1.6 billion through settlements with businessmen from the former regime (Reuters, 2025c). The same information indicates that part of these settlements passed through a committee for illicit enrichment while the Sovereign Fund was still in the process of formation, and that the outcome was the transfer of control over hundreds of companies, buildings, factories, and assets to circles directly connected to the executive centre, thereby raising serious questions about the limits of procedural legality and about the extent to which these operations were subject to independent judicial and financial oversight.

From the perspective of public finance, the problem is not confined to the nature of these operations; it also includes the absence of disclosure regarding their direct and indirect fiscal effects. The authorities do not regularly publish the value of the funds or properties that were seized, received, or transferred, nor their effect on public revenues, nor the location of these flows inside or outside the budget, even though an important portion of them appears to be linked to sovereign and economic bodies directly associated with the presidency. In this sense, what should be an opportunity to enhance the state's fiscal space and to re-employ public assets in productive and reconstruction projects may, under conditions of absent transparency, governance, and accountability, become a new channel for the recomposition of rent and the concentration of economic power in narrow circles. The opportunities available in the transitional period to revive the economy and finance reconstruction cannot become an effective developmental lever unless they are tied to a clear framework of governance, transparency, participation, and accountability. Expanding the capacity of public finance is not achieved merely by refraining from borrowing or widening control over assets, but by ensuring that these assets and projects are managed according to public legal rules, fair competition, regular fiscal disclosure, and independent oversight, in a way that allows them to become a resource supporting recovery, justice, and the rebuilding of public trust, rather than a foundation for new economies of conflict and authoritarianism (Carranza, 2008; Pugh, 2005; Reuters, 2025c).

3.8. Fiscal Fragmentation and Multiple Budgets

Areas outside government control possessed independent budgets and fiscal policies during the years of conflict. Because they were ruled by de facto authorities, they were characterized by a lack of clarity on the one hand and by variation according to the identity of the controlling parties on the other. Because of the armed conflict, de facto authorities continued to impose new forms of taxes and fees in order to cover expenditure associated with military activities, while spending on basic services was confined to a minimum.

Public finance in transitional Syria cannot be understood through the central budget alone, because the country still lives under a condition of actual fragmentation in rules, authorities, collections, and budgets. On the one hand, there is the central budget in Damascus. On the other hand, the transitional period inherited different fiscal and administrative arrangements in the northwest, including differences in wages and channels of payment and administration derived from the former Salvation Government experience. On a third level, there still exists in North and East Syria a relatively independent fiscal system managed by the Autonomous Administration (AA) through its own Finance Authority and through different rules of collection, expenditure, and allocation. This means not only multiple “budgets” as documents, but also multiple actual authorities that collect revenues, manage assets, determine expenditure priorities, and create different distributional effects across regions and groups (SCPR, 2020; Finance Authority of the Autonomous Administration, 2024).

Reports of the Finance Authority in the Autonomous Administration show that its fiscal structure remains rentier-centralist in essence. In the 2024 report, actual revenues reached approximately USD 777 million, of which oil constituted about 66 percent and customs around 13 percent, while explicitly defined taxes remained at very low levels. By contrast, actual expenditure reached approximately USD 790 million, distributed in such a way that military expenditure alone accounted for about USD 352 million, that is, around 45 percent of the total, while grain expenditure amounted to around USD 218 million, wages and salaries around USD 118 million, and investment only around USD 50 million. This structure confirms that the northeast, too, does not operate according to a solid civil fiscal contract, but according to a mixture of oil rent, customs, internal transfers, and military and food expenditure, that is, according to a logic similar to the rest of the conflict economy, even if the instruments and institutions differ (Finance Authority of the Autonomous Administration, 2024).

The expansion of the transitional authority’s control in 2026 over the rest of rural Aleppo, Deir ez-Zor, and Raqqa presents an opportunity to unify public finance more broadly and provide new revenues to the government in Damascus, but it also creates obligations related to the population, development, and services in those regions. Accordingly, the unification of public finance in Syria should not be understood merely as an accounting matter, but as part of rebuilding citizenship itself, because the persistence of multiple fiscal authorities and privileges entrenches chronic inequality and undermines confidence in the possibility of building an inclusive state.

3.9. A Distributional Discussion

A distributional reading of fiscal policy is the reading most relevant to the current Syrian phase. The core question is not merely how much the state collected, nor how much it spent, but where the resources came from, on whom the costs were distributed, and whether fiscal policy reduced or deepened inequality. From this angle, the available results reveal that public finance in the transitional period did not function as an instrument for correcting the social imbalances accumulated by conflict, but rather moved, in essential respects, toward aggravating them.

Those who increasingly pay are the ordinary consumer, the local producer, the low-wage employee, and the region less connected to networks of influence. Heavy reliance on customs duties, taxes, and indirect fees means that the burden of public financing is transferred to prices and to daily consumption activity. At the same time, subsidy liberalization transfers the cost of energy, bread, and basic services to households and establishments, while lower public investment means that society itself bears the cost of absent infrastructure, weak electricity, the exposure of agriculture and industry, and the postponement of reconstruction. Even within the public sector, the burden of the crisis does not fall equally, because the majority receive wages that remain below poverty lines, while limited groups appear with exceptional wages and compensations that are not governed by publicly declared and clear standards.

Those who benefit from current policies are all those able to transform fragmentation and partial opacity into rent or privilege: import networks; groups close to authority that benefit from wage disparities and contracts; entities that control public assets or their reallocation; and actors who are able to benefit from foreign trade more than from creating local production. The data indicate that the transition after 2024 was marked by broad dismissals in the public sector, plans to privatize dozens of public companies, rapid trade opening, and shifts in favour of actors linked geographically and politically to the new spheres of influence. This is an expression of a transition from a state that distributes resources on one unjust basis to a state that may redistribute them on another unjust basis, even if the networks involved differ (SCPR, 2026; Pugh, 2005; Reuters, 2025).

These policies have weakened local demand because real wages have not recovered their purchasing power, subsidies have shrunk, and prices have been liberalized without a social protection policy. Productive sectors have been weakened because energy and input costs have risen, imports have increased, productive protection has retreated, and public investment has declined. Public services have been weakened because expenditure pressure and prolonged contraction have curtailed the capacity of public finance to rebuild infrastructure and institutions. Trust has been weakened because the discourse of recovery and surplus does not correspond to people's daily experience, and because the absence of transparency in the budget, in the conditions of investment and asset sales, and in wage disparities creates a gap between the political promise and lived reality.

The political significance of distribution lies in the fact that the economy is emerging from an intractable conflict, where fiscal policy is not measured only by its capacity to generate a surplus or reduce inflation, but by its capacity to reduce grievances that may reproduce violence. When security expenditure is large, public investment is slight, subsidies are eroded, indirect taxes are expanding, wages are unequal, and off-budget flows or flows within fragmented regions are weakly transparent, fiscal policy itself becomes a new source

of grievance rather than an instrument for overcoming it. This is precisely what comparative literature warns against when it links superficial financial stability with deep social fragility in post-conflict periods and confirms that the absence of distributive justice and accountability may make “reform” itself part of the reproduction of conflict (Gupta et al., 2005; Kentikelenis & Stubbs, 2025; Carranza, 2008).

Fiscal fragmentation further compounds these imbalances. The existence of multiple fiscal rules, multiple wage systems, different channels of collection, and de facto budgets in the northeast and elsewhere means that citizens do not live one relationship with the state, but multiple and unequal relationships with different authorities. This transforms public finance from an instrument for unifying citizenship into an instrument for entrenching fragmentation. Failure to integrate these arrangements within a transparent and fair framework will mean the continuation of regional, institutional, and class inequalities that will be difficult to control later, even if the overall size of the central budget expands.

4. Conclusion and Recommendations

The main conclusion of this paper is that public finance in transitional Syria has not yet entered a just developmental path; rather, it continues to move within a fundamental contradiction between the discourse of stability and recovery on the one hand, and a fiscal structure tending toward austerity, unjust extraction, fragmentation, current and security expenditure, weak public investment, and eroded subsidies on the other. The surplus achieved in 2025 was not an indicator of productive recovery, but the result of containing expenditure, the absence of central bank financing, the expansion of customs duties and fees, and the transformation of subsidies into an implicit and off-budget surplus. As for the 2026 budget, despite its very large expansion, it does not provide sufficient evidence of a qualitative transition in the philosophy of fiscal policy; rather, it shows expansion in scale while the same structural features persist: roughly half of revenues come from taxes, fees, and customs; roughly one third of expenditure goes to defence and security; public investment remains relatively weak compared to need; and detailed disclosure of the budget and off-budget flows remains absent.

Accordingly, the required alternative is not merely better administration in the technical sense, but fiscal governance that truly represents the social contract. This begins with full transparency: publishing the detailed budget; publishing the assumptions underlying growth, prices, and revenues; publishing sectoral and regional distribution; subjecting funds, economic bodies, public assets, and major contracts to independent oversight; and publishing wage and compensation schedules and the standards governing them. Trust, tax compliance, and fiscal citizenship cannot be built in the absence of information, in the presence of inconsistent data, and while an important part of fiscal authority remains outside public scrutiny.

The alternative path also requires the recovery of the developmental state, not a state reduced to extraction. This means halting the expansion of the sale or liquidation of public assets before a clear strategy for the public sector is established; stopping rapid privatization in an environment of weak transparency and legitimacy; restoring the centrality of productive public investment in electricity, water, transport, irrigation, schools, hospitals, and local infrastructure; and linking public expenditure to job creation and to rebuilding value chains in agriculture, manufacturing, building materials, and basic services. In an economy that is damaged and high-risk, the leadership of reconstruction cannot be left to

the private sector alone, nor can state retreat be considered a condition for recovery. Comparative literature confirms that dismantling public capacities and compressing the wage bill and investment at this stage opens the door to crony capitalism more than to fair competitiveness or inclusive growth (Pugh, 2005; World Bank, 2012; Chang, 2002).

This path also requires rebuilding tax policy on the basis of justice rather than on the basis of ease of collection. What is required is an expansion of progressive direct taxes on large profits, rents, large real-estate wealth, and monopolistic activities, and the building of real administrative capacity for enforcement, not merely the expansion of sales taxes, consumption taxes, and customs duties. The transition to a sales tax or value-added tax must not become a new channel for imposing a broader burden on the poor and the middle classes without clear compensation, while taxes on wealth, profits, and monopoly remain marginal or weakly applied. Oil and gas must also be subjected to a transparent system of collection, disclosure, and revenue sharing, because turning these resources into a centrally controlled rent outside accountability would reproduce one of the worst faces of the rentier state at a moment that requires contractual rebuilding, not a new concentration of rent (Brautigam et al., 2008; Moore, 2004; Lemay-Hébert, 2016).

Conversely, subsidies must be rebuilt as an instrument of social and productive protection, not merely as a fiscal burden. subsidies on bread, basic energy, transport, and some agricultural and industrial inputs is not a luxury in an economy emerging from war, but a condition for the stability of livelihoods, the protection of local demand, and the prevention of further collapse in productive capacity. This does not mean returning to blind and inefficient subsidy formulas but adopting a composite subsidy policy: social subsidy for the groups most severely affected, productive subsidy for priority sectors, and linking this to a broader system of social protection that includes wages, pensions, public services, and targeted transfers, in a coordinated, public, and evaluable manner. It also requires adopting an approach to economic justice that recognizes conflict-affected groups as holders of rights to compensation, support, and the restoration of livelihoods, rather than as a secondary fiscal burden (Gupta et al., 2005; Commander, 2012).

Fiscal fragmentation should likewise be addressed as a question of citizenship and justice, not merely as a question of administrative centralization. This requires building a national framework for the gradual unification of public finance, one that recognizes the reality of local administration and regional differences but binds them to transparent and unified rules for wages, extraction, transfers, subsidy, and investment expenditure. This means integrating the fiscal arrangements of North and East Syria and elsewhere into a national vision of regional justice that does not rest on sheer subordination or the persistence of separate fiscal islands, but on a formula that redistributes resources according to need, damage, and population, and subjects all fiscal authorities to one oversight system and one set of disclosure standards. Without this, “multiple budgets” will remain one of the drivers of inequality and the fragmentation of citizenship in Syria (Autonomous Administration, 2024; SPCR, 2020).

Finally, fiscal policy cannot be separated from economic transitional justice. Reconstruction, investment, asset sales, and wealth settlements must not be turned into substitutes for truth, accountability, restitution, and compensation. Rather, it is necessary to integrate the recovery of public assets and illicit rent, compensation for the affected, the restitution of rights, and the regulation of oil and investment contracts and concessions within a framework of economic transitional justice that recognizes grievances and prevents

the transitional period from becoming a moment of founding new privileges. In this context, the detailed analysis of policies and their social, sectoral, and political effects will be addressed more broadly in SCPR's report "Resisting Subordination," but the general direction is already clear: no sustainable peace can be built through a regressive, fragmented, weakly transparent public finance structure that is susceptible to domination by networks of power and rent (Carranza, 2008; UNHCHR, 2005).

The challenge facing Syria today is not primarily technical, but political and social: will public finance be built as a policy for enhancing citizenship and equality, or as an instrument for enabling the seizure of power and wealth by new elites? The answer to this question is not determined by the figures of surplus and deficit alone, but by who pays, who benefits, and whether the budget will remain an instrument of extraction, contraction, and discrimination, or become an instrument of justice, solidarity, and capability-enhancing development. That, in the end, is the most accurate criterion for measuring the success of public finance in the transitional period.

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