

Lebanon, economic and financial crises, reasons for collapse

Liban, crises économiques et financière, raisons de l'effondrement

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Abstract

Lebanon has been experiencing a wrenching financial and economic crisis for the past months. The economic crisis erupted in October 2019. Lebanon has been compounded by financial crises, economic crises, coronavirus pandemic, and the explosion at the Port of Beirut on 4th August 2020. The descriptive research design was used in the study to determine the interrelationship between currency crisis, falling in purchasing power, exchange rates, and debt crisis. The objective of this paper is firstly to examine the effects of the financial and economic crisis on the purchasing power of individuals in Lebanon, and secondly to explore the impact of the financial and economic crisis in Lebanon on the exchange rate. The paper focused on qualitative and quantitative research approaches using secondary data. The main of the research paper was to get an in-depth understanding of Lebanon's financial and economic crisis. Data from scholarly journals, articles, books, websites, and government records provided in-depth information on Lebanon's economic and financial crisis. Content analysis was used in the research in the study of the quantitative and qualitative data. Content analysis was vital in the study since it provided the trends in the different economic variables in Lebanon. The financial and economic crises in the country have been exacerbated by the political turmoil, which has fueled nationwide protests. The research study focused on the economic and financial crisis in Lebanon.

Keywords: Exchange rates; Public debt; Corruption; Political instability; Fall in purchasing power; Inflation.

Résumé

Le Liban traverse depuis quelques mois une crise financière et économique déchirante. La crise économique a éclaté en octobre 2019. Le Liban a été aggravé par des crises financières, des crises économiques, une pandémie de coronavirus et l'explosion du port de Beyrouth le 4 août 2020. La conception de la recherche descriptive a été utilisée dans l'étude pour déterminer l'interrelation entre la monnaie crise, baisse du pouvoir d'achat, des taux de change et crise de la dette. L'objectif de cet article est premièrement d'examiner les effets de la crise financière et économique sur le pouvoir d'achat des individus au Liban, et ensuite d'explorer l'impact de la crise financière et économique au Liban sur le taux de change. L'article s'est concentré sur des approches de recherche qualitatives et quantitatives utilisant des données secondaires. Le but principal du document de recherche était d'obtenir une compréhension approfondie de la crise financière et économique du Liban. Les données de revues savantes, d'articles, de livres, de sites Web et de documents gouvernementaux ont fourni des informations détaillées sur la crise économique et financière du Liban. L'analyse de contenu a été utilisée dans la recherche dans l'étude des données quantitatives et qualitatives. L'analyse du contenu était vitale dans l'étude puisqu'elle a fourni les tendances des différentes variables économiques au Liban. Les crises financière et économique dans le pays ont été exacerbées par les troubles politiques qui ont alimenté les protestations à l'échelle nationale. L'étude de recherche s'est concentrée sur la crise économique et financière au Liban.

Mots-clés : Taux de change ; Dette publique ; Corruption ; Instabilité politique ; Baisse du pouvoir d'achat ; Inflation.

Introduction

Lebanon has been experiencing a wrenching financial and economic crisis for the past months. The economic crisis erupted in October 2019. Lebanon has been compounded by financial crises, economic crises, coronavirus pandemic, and the explosion at the Port of Beirut on 4th August 2020. Lebanon defaulted on its debt in March 2020, and its currency lost its value by 80%. The poverty and unemployment rate are increasing in the country. Businesses and customers are grappling with hyperinflation in the country (Youssef, 2020). The financial and economic crises in the country have been exacerbated by the political turmoil, which has fueled nationwide protests. The financial and economic crisis is threatening the safety and livelihood of the people living in Lebanon. The paper aims at examining the causes and repercussions of the financial and economic crisis in Lebanon.

▪ **Research Objectives :**

1. To examine the effects of the financial and economic crisis on the purchasing power of individuals in Lebanon.
2. To explore the impact of the financial and economic crisis in Lebanon on the exchange rate.

▪ **Research Questions :**

1. What are the effects of the economic crisis in Lebanon on the purchasing power of individuals?
2. What are the effects of the financial crisis on the exchange rate in Lebanon?

▪ **Problem Statement :**

Lebanon is battling a financial and economic crisis that is the biggest threat in the country since the civil war of 1975 to 1990. The Lebanese pound has lost its value by 80% since October 2019. Political disputes and changes in the government have prevented Lebanon from receiving international donations. Corruption and mismanagement of state resources have played a key role in Lebanon's financial crisis. The public debt has overburdened the economy of Lebanon. The country was in a crisis before the explosion in Beirut in August 2020. The blast in Beirut affected the political, economic, and humanitarian activities in Lebanon. Coronavirus pandemic has affected the lives of people living in Lebanon. The coronavirus pandemic and explosion in Beirut have placed enormous pressure on the vulnerable population in Lebanon. The crisis in Lebanon is

unprecedented in its complexity, and actions should be taken to improve the quality of life of the vulnerable people in the country. The research study aims at assessing the causes and repercussions of the financial and economic crisis in Lebanon.

This paper aims to examine the affects of the Financial and economic crisis on the purchasing power of individuals in Lebanon, and then to explore the impact of the financial and economic crisis in Lebanon on the exchange rate. It is based on qualitative and quantitative research approaches using secondary data, and consists of three parts:

The first part reviews the literature on the currency crisis, the exchange rate, public debt, corruption and political instability, and the fall in purchasing power. The second part is devoted to the methodology of the work and the data sources, and the third part is dedicated to the analysis and interpretation of the results.

1. Literature Review

1.1. Currency Crisis

The currency crisis affects the exchange rate, inflation, public debt, and interest rates. The Lebanese government defaulted on its debt payments in March 2020, and this caused the local currency to lose its value by 80%. The local currency collapsed after the financial and political crisis in 2019 (Rafihi, 2020). The currency depreciated radically after the Beirut explosion. Banks in the country have freeze withdrawals due to the lack of adequate funds that can meet the needs of the larger population in the country (The World Bank, 2020). The banks in the country have implemented cash withdrawal restrictions to ensure that the funds available are not depleted.

Humanitarian aid groups in the country face a currency crisis exacerbated by the use of multiple exchange rates. Lebanon's central bank needs aid groups to use exchange rates far below what is expected in the market. Humanitarian aid groups in the country are left with an option of negotiating with the respective banks concerning the most favorable conversion rates to help maximize the number of funds their clients receive (The World Bank, 2021).

The banking crisis has led to the savers being locked out of accounts held in US dollars. Banks in the country are facing liquidity problems due to the financial and economic crisis. The crisis has prevented the outflow of capital due to the allegations that billions of dollars were transferred abroad by the political class (Rafihi, 2020). The Lebanese economists claim that banks gave money

belonging to the customers to the Central Bank and offered deposits as loans to the state that is incapable of paying its debts.

The economic and financial crisis is threatening the stability of Lebanon. The World Bank has declared that the economic situation in Lebanon is among the deepest depressions in modern history. The banks in Lebanon lack sufficient liquidity. The banks cannot pay back the customer deposits. The banking sector in Lebanon has collapsed, with the small depositors bearing the brunt of losses (The World Bank, 2021). The banks have imposed unofficial capital controls restricting the depositors' access to their savings.

1.2. Three Exchange Rates

The exchange rate is one of the primary economic tools used to correct economic misalignments in a country. The currency's exchange rate in which a portfolio holds the bulk of its investment determines the portfolio's rate of return. The economic growth rate determines the foreign exchange rate. The exchange rate influences economic growth, and the rate of economic growth influences exchange rates. A strong exchange rate is a sign of financial strength. A strong exchange rate in countries is associated with strong economic performance, low inflation, and high competitiveness. A declining exchange rate decreases the purchasing power of income and capital returns derived from any returns. Exchange rates influence other income factors such as inflation, interest rates, and capital gains from domestic securities. Exchange rates play a vital role in the rate of returns on investments (Rafihi, 2020). Exchange rates are determined by demand and supply. Exchange rates determine the international balance of payments.

The financial and economic crisis came to light in the country following the October 2018 mass protests. The banks in Lebanon have faced a financial crisis due to foreign currency shortage making the banks unable to pay the deposits in dollar amounts. Banks are imposing restrictions on foreign currency deposits accounts to manage the situation, and the limits have been expanded to include Lebanese lira accounts (The World Bank, 2020). The monetary policies implemented by the central bank have made it difficult for people to withdraw money from the local currency accounts.

There are different exchange rates in Lebanon. One of the official rates determined by the Central bank is 1500. The rate determined by the banks is 3900, while the rate traded at the black markets is 3900. The deposits withdrawn from the banks are subject to fees due to the different exchange

rates. Withdrawing dollars from the deposits was suspended entirely in Lebanon since February 2020 (The World Bank, 2020). Lebanese government defaulted on debt repayments which affect the exchange rate.

1.3. Public Debt

According to Tarek and Ahmed (2017), public debt plays a critical role in determining economic growth. The main problem facing Lebanon is high public debt. The escalating public debt has been a source of increasing inequalities in Lebanon. The country has been accumulating public debt since 1990. The country has a 152% debt to GDP ratio. Lebanon is the third indebted nation in the world after Japan and Greece. Interest payments on public debt consume almost half of the country's revenue, and this causes the crippling in the public finances (The World Bank, 2021). High interest rates have increased the burden on the country's budget deficit. The increased public debt has increased the complexity of the Lebanese economy. The accumulation of public debt in the country was caused by budget deficits, high government expenditures on infrastructure, and inadequate tax policies and collection systems (The World Bank, 2020). The budget deficit increases interest rates on the local currency and attracts investments in the Lebanese Treasury Bills, the primary source of public debt.

The macro-financial risk caused by high public debt affects the stability and long-term economic growth of a country. High levels of public debt have a negative impact on Lebanese economic growth. According to Minea and Parent (2012), there is a strong relationship between high public debt and negative economic growth. The negative impact of public debt on economic growth starts when the debt-to-GDP ratio exceeds a threshold of 90% (Minea and Parent 2012).

1.4. Corruption and Political Instability

Political and security instability create unfavorable conditions for foreign direct investments. There is a strong relationship between political stability and economic growth. The uncertainties associated with political instability reduce investments and the pace of economic developments. Poor financial performance in a country contributes to political unrest and government collapse. Economic growth in nations is greatly affected by high levels of corruption. Corrupt countries are not able to function correctly. Corruption affects society since it hinders the rate of economic growth. Corruption contributes to unequal distribution of wealth and resources since it causes unfair competition in the business environment due to the illogical connections establish by the

politicians. In corrupt nations, resources are distributed inefficiently by governments since companies pay kickbacks to be awarded projects. In corrupt nations, the quality of healthcare and education deteriorates, which lowers the living standards of individuals. High levels of corruption discourage investments in a country since investors are required to pay bribes to be awarded projects (Barroso and Kechichian, 2020). Corrupt public practices reduce the rate of economic efficiency of the government offices in a country.

Rampant corruption contributes to the currency crisis since it rebels against the stable forms of foreign investments and leaves the country dependent on volatile foreign loans to finance the economy. Advanced corruption and unfavorable composition of the capital in gains in a country contribute to the currency crisis (Baklouti and Boujelbene, 2020). High levels of corruption in a country contribute to the increase in public debt. Government officials tend to borrow more funds in corrupt nations to spend on private investments that do not benefit the whole community.

Lebanon has endured prolonged institutionalization of corruption. The government officials looted public resources and invested in foreign countries. The widespread embezzlement of funds in Lebanon has led to the economic crisis in the country due to the increase in the prices of products and services. Corruption has affected access to essential services such as healthcare and education since the politicians in the country focused on public enrichment over public welfare.

Political instability has increased the gap between the country's public debt to GDP ratio and economic growth in Lebanon (Baklouti and Boujelbene, 2020). Heavy Lebanese government expenditures on infrastructure and corruption increased the country's public debt. The demonstrations in Beirut and other cities in Lebanon seeking the prime minister's resignation affect the country's economy that was already in economic and financial crisis. The protests were fueled by the need to remove the corrupt politicians from power in the country. Corrupt politicians have dominated the country from 1975 to 1990 (Barroso and Kechichian, 2020).

The protesters in Lebanon accused the political elites of exploiting the country's state resources for their benefits rather than serving the interests of the large population in the country. The protesters were demanding new elections and a complete government overhaul to remove the corrupt politicians from power. Mass protests against corruption and economic turmoil forced some government officials to resign due to the accusations of corruption. The demonstrations caused currency devaluation, social tensions, and economic deterioration. Corruption is deeply rooted in

all the functions of the government in Lebanon. Corruption cases are widely spread in the country's administrative and political landscape. Wealthy individuals in the country control the fate of the country. Lebanon is ranked among the top 50 corrupt nations in the world.

The economic crisis in Lebanon has been fueled by a lack of good governance and corruption. The political parties, parliament, and police are perceived to be the most corrupt institutions in Lebanon. The high rates of corruption in the country caused the government to impose new taxes on petrol and tobacco (Baklouti and Boujelbene, 2020). New tariffs on petrol and tobacco increased the national protests since individuals were unwilling to pay more taxes to the perceived corrupt government. The economic crisis has been accelerated by overspending, corruption, and mismanagement of public resources.

Political instability due to social unrest has caused humanitarian and regional security implications. Foreign investors are not channeling their investments to Lebanon due to the fears of the social unrests in the country that affect the conduct of operations. Political instability has caused adverse effects on the country's economic growth (Ishrakieh, Dagher and Hariri, 2020). The government conflicts have to prevent the enactment of policies that can help in cushioning the economy and providing solutions to the looming economic and financial crisis. Lebanon needs a unified and robust government that will help usher a new era of recovery and restore the heritage, power, and wealth of the Lebanese citizens.

1.5. Fall in Purchasing Power

Purchasing power refers to the quantity of goods individuals can buy. Individuals lose purchasing power when the prices of the goods and services available in the market skyrocket. Inflation decreases the purchasing power of individuals. Inflation refers to the increase in the prices of goods and services. Inflation affects the purchasing power of individuals since it reduces the ability to spend on the goods and services available in the market. The inflation rate measures the price stability of the economy (Ichiue and Nishiguchi, 2015). A low inflation rate exhibits an increase in the currency rate and an increase in the purchasing power of individuals. Individuals in Lebanon are struggling with the rise in living costs amid the economic crisis. When inflation is high, the cost of living increases and contributes to the deceleration of economic growth. The fall in the local currency affects the dollar circulation in the economy.

The high inflation rate in the country has reduced the purchasing power of individuals. People are limiting the purchasing of luxurious products and focusing on necessities. The increased inflation rate has caused an increase in the food prices in the country (Stanford, 2008). Inflation reduces the value of a currency's purchasing power has the effect of an increase in prices. The high inflation rate has caused the country's worst financial crisis in the decade.

According to World Bank, Lebanon's financial and economic crisis is ranked among the top three in the world. Lebanon suffers from high unemployment and hyperinflation. People have difficulties in obtaining electricity, medicine, and fuel (The World, 2021). Inflation decreases the ability of individuals to pay for the goods and services available in the market. During inflation, individuals' salaries and wages remain constant, which means that individuals can afford to purchase fewer goods available in the market.

The country has not recovered from the devastating Beirut explosion. Electricity production in the country has been significantly affected by the Beirut blast. The generators provide the public demand for electricity (Devi, 2020). Generator suppliers in the country are suffering from an increase in demand and overall costs.

Hyperinflation has severely affected the people of Lebanon, especially the impoverished communities. Political corruption has contributed significantly to hyperinflation in the country. In 2019, Lebanon Central Bank was exposed to a Ponzi scheme as they struggled to keep the currency value afloat. The bank in the country was borrowing money above the market interest rates to pay back the public debt. The Lebanese citizens were frustrated with the government's actions in 2019 since they suffered from power costs, limited healthcare, and minimal access to clean water, and poor internet connection (Abdo, Abed and Ayoub, 2020). The Lebanese citizens began to protest against the economic turmoil in the country.

The coronavirus pandemic increased the economic pressures in the country due to lockdown and quarantines meant to reduce the spread of infections. The frustration on the people living in Lebanon grew to a breaking point in August 2020 when the explosion hit Beirut killing at least two hundred people and injuring over five thousand people. The Lebanese Prime minister and his government resigned after the Beirut explosion, which brought economic and political changes in the country (Devi, 2020). In 2021, the Lebanese government has yet to rebuild itself and address

the problem of high inflation in the country. The coronavirus pandemic has worsened the living conditions of the people living in Lebanon.

The poverty rate is more likely to worsen due to the high inflation rate in the country. A high poverty rate will affect the population due to loss of productive employment and a fall in purchasing power. The high unemployment and poverty rates mean that individuals will focus on meeting basic needs such as food, clothing, and shelter and forgo luxurious goods. The unemployment rate in Lebanon was 30% in 2020 (Mark, 2020). The unemployment rate affects consumer spending since individuals do not have enough funds to spend on the goods and services available in the market.

The wages of Lebanese people have declined sharply due to the harsh economic times. Reduction in salaries and wages contributes to a fall in purchasing power. The prices of goods and services in the market affect the purchasing power of individuals (World Bank, 2018). Prices fall increases the purchasing power while the rise in prices of goods and services decreases the purchasing power of individuals. High and volatile inflation can be damaging to the economy and individuals.

3. Methodology

The descriptive research design was used in the study to determine the interrelationship between currency crisis, falling in purchasing power, exchange rates, and debt crisis. The paper focused on qualitative and quantitative research approaches using secondary data. The main objective of the research paper was to get an in-depth understanding of Lebanon's financial and economic crisis. Data from scholarly journals, articles, books, websites, and government records provided in-depth information on Lebanon's economic and financial crisis. Document review was used as the first step in collecting the most appropriate data. Document review was done through an in-depth review of the related literature using books, journals, and credible websites. Secondary data is a vital source of information in the current times due to the ravaging coronavirus pandemic. Secondary data that answer the research questions were used in the research paper. The scope of research comprised information related to the currency crisis, public debt, exchange rates; fall in purchasing and corruption, and political stability. The data was collected from the World Bank, Central Bank of Lebanon, journals, articles, and websites with published information concerning Lebanon's financial and economic crisis. Data from 2018 to 2021 was used in the research paper. The data helped in answering the research problem. The repercussions of the financial and economic crisis

are affecting commodity prices, investments, and exchange rates. The validity and reliability of the data were highly considered during the data collection process. The research study maintained neutrality, applicability, and consistency by thoroughly reviewing the data collected.

4. Data Analysis

The data were analyzed using qualitative and quantitative methods. Content analysis was used in the research in the analysis of the quantitative and qualitative data. Content analysis was vital in the study since it provided the trends in the different economic variables in Lebanon. Content analysis is essential since it enables researchers to make inferences by identifying the characteristics of the variables under study. The content analysis provided the trends in exchanges rates, inflation, and public debt in Lebanon from 2018 to 2021.

5. Results and Discussions

The data was collected on the economic and financial situation in Lebanon from 2018 to 2021. The study aimed to examine the current economic crisis in Lebanon. The table below shows the relationship between the Lebanon pound and US dollar from 2018 to 2021 to establish the fluctuation in exchange rates in the country.

Table N°1: Exchange rate between the Lebanese Pound and US dollar from 2018 to 2021

Year	Lebanese Pound	US Dollar
2018	1507	1
2019	1509	1
2020	1507	1
2021	1526	1

Source : <https://www.poundsterlinglive.com>

Table N° 2: Inflation rate in Lebanon from 2018 to 2021

Year	Inflation Rate
2018	4.55 %
2019	2.9 %
2020	88.18 %
2021	110.24 %

Source : <https://tradingeconomics.com/lebanon/indicators>

Table N° 3: Public debt in Lebanon from 2018 to 2021

Year	Public Debt
2018	\$ 80 billion
2019	\$ 91 billion
2020	\$ 92.42 billion
2021	\$ 97.3 billion

Source: The World Bank

Lebanon is enduring a prolonged and severe economic crisis. Over one year, Lebanon has been facing compounded challenges such as the Port of Beirut explosion, coronavirus pandemic, largest peace-time financial and economic crisis. According to the latest World Bank Lebanon Economic Monitor (LEM), the financial situation in Lebanon is ranked among the top three in the world (The World Bank, 2021). The spring 2021 edition of LEM presents the recent economic developments in the country's economic outlook.

According to World Bank, Lebanon is a fragile, violent, and conflict state, and there is a growing wariness of potential triggers to social unrest. Lebanon's dire social and economic conditions increase the risk of systemic national failings with regional and potentially global effects (The World Bank, 2021). The annual inflation rate was 84.9% in 2020. The inflation rate was 110.24% in April 2021 in Lebanon. Food and non-alcoholic products prices increased by 402.3%, tobacco and alcoholic beverages increased by 392.5%, clothing and footwear increased by 559.8%, furnishings, routine maintenance, and household equipment increased by 655.1% in Lebanon in 2020 (Goyeneche, 2021). Inflation creates an imbalance between the supply and demand of goods and services in the market. Customers lose their purchasing power when the prices of goods and services increase in the market.

The World Bank estimated that the GDP reduced by 20.3% in 2020. The GDP decreased by 6.7% in 2019. The GDP in Lebanon dropped from close to US\$ 55 billion in 2018 to an estimated US\$33 billion in 2020. The GDP per capita fell by around 40% in dollar terms. The financial and monetary conditions are highly volatile in the country. The GDP is expected to reduce by a further 9.5% in 2021, worsening the economic conditions (The World Bank, 2021).

The average exchange rate depreciated by 129% in 2020. The depreciation in exchange rates resulted in surging inflation which greatly affected the purchasing power of individuals in the country. The economic crisis has plunged the country into poverty (The World Bank, 2020). In June 2021, Lebanon scrapped a new dollar-deposit rule that triggered minor streets protests in the country since individuals had lost the ability to change their money at favorable rates. The country's judicial body banned a long-standing rule allowing depositors access to their dollar at a rate higher than the official currency. The Lebanese Pound has lost over 90% of its value in the trading market; the market rate of the Lebanese Pound to the US dollar is 1515 (Devex, 2021).

Lebanon faces the risk of depletion of resources such as human capital since individuals are more likely to look for potential job opportunities abroad. The loss of a highly skilled workforce constitutes a social and economic loss for the country (The World Bank, 2021). The high unemployment rate in the country might prompt individuals to look for job opportunities in other nations with favorable employment terms and salaries.

The economy in Lebanon stagnated in 2018. More people in Lebanon are living below the national poverty line. The labor force is suffering from decreasing purchasing power. The unemployment rate has dramatically increased, and most households face difficulties in accessing essential services such as health care, food, and clothing (Mazzucotelli, 2020). The public protests in the country show that the people are facing harsh economic conditions and cannot afford essential goods such as food and medical services.

Lebanon is experiencing a shortage of dollars in the market, which has caused financial stress in the country. The country has imposed severe limitations on withdrawals from deposits and strict restrictions on transfers of money out of the country (Isma'eel et al., 2020). The liquidity crunch in both the foreign exchange has ensued with a ripple down effect on the supply chain of the real economy, thus causing shrinking of the business operations. The liquidity crisis is reflected in the parallel exchange market. Exchange market pressures and liquidity conditions are constrained businesses and the importation of goods, causing an interruption of the supply chain (Mora, 2020). The current economic conditions have reduced the buffer levels and negligible growth in the country. Lebanon imports more than 80% of the essential goods, making it difficult for individuals to purchase the goods available in the market. The economic crisis has pushed almost half of the population into poverty. Families in the country are not able to feed their families due to the

increase in food prices. High inflations have been caused by the coronavirus pandemic and the harsh economic conditions in Lebanon (Jaspal, Assi and Maatouk, 2020). Lebanon has the highest food prices in the Middle East region.

The catastrophic explosion in Beirut stemmed from endemic corruption in Lebanon. The blast destroyed the port of Beirut, which is the country's main entry point for foods imported via the sea. The explosion accelerated the rate of inflation in the country. The spiraling food inflation rates and the strong depreciation in the currency after the blast reduced the purchasing power of individuals in Lebanon. More than 300 000 inhabitants were displaced during the inflation, which affected the households' purchasing power (Devi, 2020).

It is deduced that the reasons that led to the deterioration of the Lebanese pound against the dollar are:

- Structural reasons related to the weakness of the economy with growth contraction exceeding 25% in 2020, the halt of financial flows from abroad, and the negative currency status of the “Banque du Liban” ‘This makes the central bank unable to intervene in the cut market or support banks.
- The absence of a comprehensive financial reform and debt and bank restructuring programme, especially since money printing is the primary source of financing the needs of the public sector, given the deterioration of public revenues from fees and taxes, which increases the money supply of the lira ‘This increases the demand for the dollar and accelerates the deterioration of the exchange rate of the pound.

Conclusion

Lebanon is facing a severe economic and financial crisis. The research findings from this study show that Lebanon is facing harsh economic conditions. The financial and monetary turmoil in the country affects the exchange rates and has led to the currency crisis in the country. Individuals in the country cannot access their deposits in the bank due to the liquidity crisis. The exchange rate in the country has prompted banks to implement withdrawals restrictions in terms of dollars due to the high exchange rates that affect the value of the Lebanese Pound. High public debt in the country was caused by rampant corruption and investment in infrastructure that does not provide a return on investments. The explosion in the port of Beirut and the coronavirus pandemic accelerated the economic crisis in Lebanon. The inflation rate in Lebanon is relatively high, and it affects the

purchasing power of individuals. Lebanon has the highest food prices in the Middle East; most households do not afford the necessities. The economic crisis has increased the poverty rate in the country due to the high unemployment rate and high inflation rate. Individuals have engaged in mass protests demanding better government services and employment opportunities. Lebanon needs urgent reforms to help in addressing the economic and financial problems in the country.

Trying to get Lebanon out of this serious crisis marked by runaway inflation and a sharp depreciation of the Lebanese pound against the dollar. A rescue plan for the Lebanese economy is planned, with the help of the IMF.

As an essential condition, the IMF requires the Lebanese government to implement a floating exchange rate to receive \$9 billion in injections of funds.

Will the floating exchange rate be the solution to the collapse of the Lebanese economy?

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