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The Impact of Exchange Rate Fluctuations on Inflation in Lebanon: "An Analytical Study"

أثر تقلبات سعر الصرف على التضخم في لبنان –دراسة تحليلية–

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Abstract:

The study aims to illustrate the impact of exchange rate fluctuations on inflation in Lebanon, with a focus on the relationship between the US dollar and the Lebanese lira. The study adopted a descriptive analytical approach by conducting an analysis of the repercussions of exchange rate fluctuations on inflation in Lebanon over the recent years. The study arrived at a set of results, the most significant of which is that the collapse of the lira affects all economic variables, including inflation. The most significant effect of this crisis was on the overall price levels. Therefore, the prospects of inflation are linked to exchange rate prospects, which, in turn, are connected to the management of the political and economic crisis in the country.

Keywords: exchange rate, inflation, US dollar, Lebanese lira.
JEL Classification Codes: F31, E31, O12

ملخص:

تهدف الدراسة إلى توضيح أثر تقلبات سعر الصرف على التضخم في لبنان، مع التركيز على العلاقة بين الدولار الأمريكي والليرة اللبنانية. اعتمدت الدراسة على المنهج الوصفي التحليلي من خلال دراسة تحليلية لانعكاسات تقلبات أسعار الصرف على التضخم في لبنان خلال السنوات الأخيرة. توصلت الدراسة إلى مجموعة من النتائج أهمها أن الانهيار الذي يحدث لليرة يؤثر في كل المتغيرات الاقتصادية من بينها التضخم، حيث أن الأثر الأكبر لهذه الأزمة كان على المستوى العام للأسعار، وعليه فإن آفاق التضخم ترتبط بآفاق سعر الصرف، والذي بدوره مرتبط بإدارة الأزمة السياسية والاقتصادية في البلاد.

كلمات مفتاحية: سعر الصرف، التضخم، الدولار الأمريكي، الليرة اللبنانية.
تصنيفات JEL : F31، E31، O12

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INTRODUCTION:

The exchange rate is considered one of the macroeconomic indicators that reflects the economic performance of any country, whether it is developed or developing. It is also an economically sensitive variable due to internal and external indicators, especially in the face of the expansion of international trade cycles and the development of global financial markets. Therefore, it is necessary for central banks of countries to manage and control it.

Monetary authorities in any country always prioritize correcting exchange rate imbalances as one of the key objectives of their monetary policy and a fundamental condition for the development and stability of economic performance. Imbalances in the exchange rate lead to a decline in economic performance, exacerbate resource misallocation, and encourage capital flight. Hence, it is evident that correcting exchange rate imbalances has received significant attention in the literature of monetary and fiscal policies.

The phenomenon of inflation is one of the most common and widespread economic phenomena in most economies around the world today. This has prompted many economists, experts, and even governments to seek appropriate solutions or take necessary measures to address this phenomenon, given its negative effects on the movement and trajectory of the national economy. Inflation is influenced by fluctuations in exchange rates, both upward and downward.

The relationship between exchange rates and inflation has always been a significant topic in economics, especially in emerging economies, as exchange rate fluctuations can significantly impact the overall price level. Lebanon is one of the countries suffering from continuous fluctuations in its exchange rates, especially in light of the financial crisis that occurred in late 2019. The current economic and political situation in Lebanon is the worst since the establishment of the modern state. The collapsed banking system, sharp depreciation of the Lebanese lira, and ongoing political corruption have led to a state of inflationary recession. This is due to the unavailability of the US dollar in the market and the shortage of liquidity in Lebanese lira in banks, which affects the prices of goods and services.

In this regard, the following problem can be posed:

How do exchange rate fluctuations affect inflation in Lebanon?

This study aims to contribute to the existing literature in this context by highlighting the impact of exchange rate fluctuations on inflation in general and the relationship between these two variables. It also seeks to shed light on the economy of a country that has experienced a financial crisis due to exchange rate fluctuations, which is the Lebanese economy.

To address the research problem and achieve the stated objectives, the study will rely on a descriptive-analytical methodology. This will involve describing the variables of the study, namely exchange rate and inflation, in the first axis of the study. The second axis will focus on conducting an analytical study on the Lebanese economy to demonstrate the impact of exchange rate fluctuations on inflation.

To gain more knowledge about the subject of the study, we have reviewed a range of experimental studies that have addressed this topic in different countries and over varying time periods. Among these studies are the following:

- First, we have the study by (Latifé Ghalayini, 2012) that examined the impact of actual nominal exchange rate movements on prices in Lebanon. The study analyzed the degree of responsiveness of the consumer price index to effective nominal exchange rate changes using a Vector Autoregression (VAR) structural model. The study found a significant influence of the exchange rate on prices in both the short and medium terms, indicating the need for the country to reduce the Lebanese currency's dependence on the dollar.

- Additionally, the study conducted **by** (Sanam Shojaeipour Monfared, Fetullah Akin, 2017) aimed to analyze the relationship between exchange rates and inflation in Iran. The study employed the Hendry model and utilized annual data from 1976 to 2012, as well as a VAR model using quarterly data from 1997 (Q3) to 2011 (Q4), due to economic instability and a lack of accurate data. The findings indicated a direct relationship between exchange rates and inflation, as an increase in foreign currency exchange rates led to an inflationary rise in Iran.
- From Sudan, we have the study conducted by)Abu Bakr و Sami Al-Ruh(2020 ، aiming to determine the impact of the exchange rate on inflation in Sudan from 2011 to 2020. The study utilized a simple regression model to investigate the correlation between the exchange rate and inflation. The findings revealed a causal relationship between the exchange rate and inflation. Additionally, the study highlighted that the secession of South Sudan and the removal of oil from the budget led to a noticeable deterioration in the trade balance, which, in turn, resulted in a depreciation of the exchange rate and an increase in inflation rates.
- In addition, there is a study conducted by (Shaloufi & Sabbaoua, 2021)**,** which examines the impact of the exchange rate on inflation and its ability to absorb shocks in the Algerian economy. The study utilized annual data from 1980 to 2018 and employed the ARDL model for analysis. The findings of the study revealed the existence of a long-run cointegration relationship between the exchange rate and inflation, indicating that the exchange rate plays a significant role in inflationary performance.
- Lastly, we have a study conducted by (Ali Imad, 2022) that addresses the current exchange rate crisis in Lebanon and its repercussions on the country. The study provides an analytical examination of the exchange rate crisis in Lebanon, the reasons behind the collapse and deterioration of the Lebanese pound. The findings of the study highlight the severe consequences of this crisis on the economic and social levels in the country. The depreciation of the Lebanese pound has led to increased inflation, unemployment, migration, and poverty, resulting in a negative impact on Lebanese citizens.

Literature on exchange rates and inflation

1- Exchange Rate:

1-1 Definition of exchange rate

The exchange rate is defined as the mechanism through which international payments are settled and local prices of goods and services are linked to their international counterparts. It determines the equivalent amount of domestic currency for one unit of foreign currency (Fardia & Cherbi, 2021)**.** The demand for foreign currency is derived from the demand for goods and services. For instance, Algerian demand for American goods is a demand for the U.S. dollar and, at the same time, a supply of the Algerian dinar (Ouayaba & Khalil, 2018). Exchange rate is also defined as the ratio at which national currency units are exchanged for foreign currency units at a given time (Lakhdar, 2021). There are numerous innovative theories and models for determining the exchange rate that primarily focus on real factors in explaining exchange rate behavior. The theory of purchasing power parity by Gustav Cassel (1918) is one of the earliest theoretical contributions that provided an analysis of factors explaining exchange rate fluctuations. It is based on the idea that the value of a currency relative to another currency is determined by the quantity of goods and services it can acquire. However, this theory has been criticized because there are non-tradable goods that are not included in the price index along with tradable goods (Mahfouz & Ben Azouz, 2021). Currently, all theories agree that the exchange rate represents the number of monetary units that must be paid in one currency to obtain one unit of another currency (Maktari & al, 2022).

Exchange rates are divided into several forms:

- Nominal exchange rate: It is a measure of the value of one currency compared to another currency through buying and selling currencies at their respective prices. Its value is determined according to the law of supply and demand in the foreign exchange market (Nasser, 2020).
- Real exchange rate: It represents the units of foreign goods needed to purchase one unit of domestic goods, taking into account the price levels in both countries. It is useful for decision-makers and economic actors (Majid, 2017).
- Actual exchange rate: The actual exchange rate of a country's currency represents an indicator that can be formulated in various ways, through the formation of bilateral exchange rates (Gouider & Habita, 2021). It is further divided into:
  - Nominal actual exchange rate: It is a weighted average of nominal exchange rates measured against a base period, without considering the general price trends in the country compared to its counterparts in trading partners (Al-Moumen, 2020).
  - Real actual exchange rate: It is an index that equals the average of several bilateral exchange rates, measuring the average change in the exchange rate of a currency relative to several other currencies over a specific period of time. It provides relevant information about a country's competitiveness in relation to the external environment, as it is based on real exchange rates rather than nominal exchange rates (Madani & Mazarchi, 2022).
- Equilibrium exchange rate: It is defined as the relative price of tradable goods compared to non-tradable goods, which determines internal and external equilibrium (Karim, 2021).

1-2 Factors Affecting Exchange Rates:

The exchange rates of currencies are influenced by numerous factors, the most important of which include the following (Sadiqi & Ben Bouziane, 2017):

- **Interest rates:** There is an inverse relationship between interest rates and exchange rates. Higher interest rates attract foreign investment opportunities, which leads to a decrease in exchange rates.

• **Changes in the balance of trade:** There is a close relationship between the balance of trade and the currency exchange rate of countries. If the exchange rate of a currency is higher than its real value, it will result in higher prices of goods from the perspective of foreigners, leading to a decrease in foreign demand. This imbalance in trade will affect the balance of trade. The opposite is true if the exchange rate of a currency is lower than its real value. Therefore, the exchange rate affects the direction of exports, imports, and consequently, the balance of trade.

• **Government interventions:** Government interventions are among the important factors influencing the exchange rate. This is evident through the imposition of restrictions on foreign exchange or limitations on foreign trade. These interventions occur when the central bank attempts to adjust the currency exchange rate when it is not suitable for the country's monetary and economic policies.

• **Relative income levels:** The impact of relative income levels on exchange rates is apparent, as income can affect the demand for imports, and consequently, influence exchange rates.

2- Inflation:

2-1 Definition of inflation:

There have been multiple definitions of inflation, as economists with different perspectives have varied in providing a unified definition. "Classical economists referred to inflation based on the quantity theory of money, in which they attempted to provide explanations for changes in the overall price level and link them to the quantity of money. According to the classical view, excessive expansion of the money supply, which leads to increased demand for money, results in an increase in price levels. This is considered in the context of the economy being at full employment" (Ayad & Benissa, 2023) Friedman defines inflation as excessive increase in the issuance of currency (Mahjoub & Baba, 2021). Inflation represents the rate of increase in prices over a specific period of time, and it is usually measured on a broad scale, such as the overall increase in prices or the increase in the cost of living in a particular country. However, it can also be calculated more specifically, for example, for certain goods, such as food or services... (Tefali & Saffi, 2021).

From these definitions, we can conclude that inflation is a general and continuous rise in the overall price level, resulting in the erosion of purchasing power of available income (Farjani & Mekkid, 2021).

2-2 Types of Inflation:

According to the multiple concepts and theories of inflation, there are various types of inflation, including the following:

• **Hyperinflation:** It is one of the most dangerous types of inflation, characterized by an excessive and sharp increase in the circulating money supply coupled with a shortage in the supply of goods, resulting from abnormal conditions in the economy that lead to the issuance of currency to finance escalating government expenses (Mariamet & Benasser, 2020)

• **Creeping (Gradual) Inflation:** It is characterized by a slow rise in prices, typically around 2% annually, even in a situation of moderate aggregate demand. Consequently, there can be a relatively moderate increase over the long term, which may not exceed 15% over a period of 10 years, as observed in Argentina and Brazil during the 1970s-1980s (Ben Ali & Labza, 2019)

• Open Inflation: This type of inflation is characterized by an increase in prices, wages, and expenses without any intervention from government authorities to mitigate these increases (Tawir & Maktari, 2021).

2-2 The relationship between inflation and some macroeconomic variables:

Inflation is influenced by a range of variables such as rising production costs and changes in aggregate demand compared to supply. An increase in demand relative to supply leads to an increase in the inflation rate. Additionally, fluctuations in the value of the national currency are inversely related to the inflation rate. The inflation rate directly affects consumers' purchasing power and their standard of living. Studies have demonstrated a direct relationship between the inflation rate and the level of unemployment in society, making it one of the key macroeconomic indicators (Hamir, 2021). Inflation also negatively impacts the economy, prompting governments to aim for a low inflation rate through fiscal and monetary policies. Economists believe that a low and stable inflation rate is essential for long-term economic growth. Simultaneously, they agree that if there is excess productive capacity, inflation will decrease, while a weak production (lack of real output) will result in an increase in inflation (Zina, 2014).

2-3 The theoretical relationship between exchange rates and inflation:

The majority of previous studies have indicated a relationship and impact between exchange rates and inflation. This relationship can be further explained through the channels of monetary policy transmission, with the exchange rate channel being one of these channels. Since the primary objective of monetary policy is to maintain monetary equilibrium and currency stability, especially in developing countries facing structural imbalances, this can only be achieved by preserving price levels and currency value (Shaloufi & Sabawa, 2021). Economically, it is a constant that the relationship between inflation and the purchasing power of the currency is reciprocal. In other words, an increase in the inflation rate will inevitably lead to a decrease in the purchasing power of the currency, i.e., a decrease in the value of the national currency relative to other currencies, thereby affecting the exchange rate (Salami, 2015). On the other hand, the exchange rate directly transmits the impact of monetary policy to inflation. Changes in the exchange rate directly affect inflation through an increase in import prices or domestic prices of goods and services involved in international trade. Expansionary monetary policy, resulting in a decrease in interest rates and demand for local assets, ultimately leads to a depreciation of the exchange rate. Consequently, import prices rise, contributing to a general increase in price levels and higher inflation rates (Majnun & Sadiq Al-Sheikli, 2022).

An analytical study of the impact of exchange rate fluctuations on inflation in Lebanon

1- The impact of exchange rate fluctuations of the US dollar on the Lebanese pound:

According to reports, the exchange rate of the US dollar against the Lebanese pound has evolved over the past 60 years and has gone through 8 stages, which can be summarized as follows (Mohammed Azhar, 2022)**:**

- **The first stage 1960-1981 (Lira strength and price stability):** This period was characterized by the strength and stability of the Lebanese pound exchange rate against the dollar, with the exchange rate ranging between 3 and 4 pounds.
- **Second Phase 1982-1985 (Beginning of Increase):** This period was characterized by the beginning of a rise in the exchange rate of the dollar against the Lebanese lira, with the exchange rate reaching 18 lira in 1985.
- **Third Phase 1986-1992 (Significant Increase):** This period was marked by a significant increase in the exchange rate of the dollar against the lira. The exchange rate rose from 87 lira at the end of 1986 to between 2825 and 3000 lira by the early months of 1992.
- **Fourth Phase 1993-1998 (Decline):** This phase was characterized by a decline in the exchange rate of the dollar from 2825 to 1508 lira.
- **Fifth Phase 1999 to early 2019 (Stability):** During this long period, the exchange rate of the dollar remained stable at 1505-1515 lira.
- **Sixth Phase October 2019 to January 2021 (Significant Increase):** During this period, it rose from 2000 lira to around 8500 lira, an unprecedented increase.
- **Seventh Phase 2021-2022 (Major Collapse of the Lira):** The exchange rate reached about 15000 lira in the early months of 2021, continued to rise in 2022 and approached 30000 lira, constituting a major collapse of the Lebanese lira.
- **Eighth Phase (Early months of 2023):** With the beginning of the new year, specifically on the morning of January 3, 2023, the exchange rate reached 42000 lira. By the beginning of February, it jumped to around 82000 lira (Beirut Arab News, 2023), and continued to rise to 95000 lira by the end of May 2023 (Mustafa, 2023)

The Lebanese lira has lost more than 98% of its value since the market turmoil in late 2019 (Beirut - Al-Araby Al-Jadeed, 2023). The following table summarizes the aforementioned historical phases of fluctuations in the Lebanese lira:

forementioned historical phases of fluctuations in the Lebanese lira:

Table (1): Historical Phases of Lebanese Lira Fluctuations

Years	Exchange rate of the Lebanese lira against 1 US dollar
1960-1981	Between 3 and 4 lira
1682-1985	18 lira
1986-1992	2825-30000 lira
1993-1998	1508
1999- Beginning of 2019	1515–1505
October 2019 - January 2021	From 2,000 to 8,500
2021-2022	From 15,000 to 30,000
The early months of 2023	From 42,000 to 95,000

Source: Prepared by researchers

Currently, the Lebanese people are facing three exchange rates for the dollar: the official rate of 15,000 lira, the second rate determined by the Central Bank through the "Sayrafa" platform, which is 38,000 lira, and the third rate used in the parallel market, which has currently exceeded the threshold of 60,000 lira per dollar (Jana Dahabi, 2023). This is illustrated in the following table.

Table (2): Exchange Rates of the Dollar in Lebanon

Types of Exchange Rates in Lebanon	The exchange rate of the dollar
Official exchange rate of the dollar	15000 lira
Bank exchange rate	38000 lira
Parallel market exchange rate	60000 lira

Source: Compiled by researchers based on the aforementioned information

As shown in the following table, the fluctuations in the exchange rate of the dollar have had an impact on countries around the world, including Lebanon, as it is a currency of global economic and commercial transactions.

Table (3): Summary of the Impact of Dollar Exchange Rate Fluctuations on the Rest of the World

Strong Dollar	Weak Dollar
Exchange of manufactured goods between the United States and the rest of the world	

The prices of American products tend to be relatively high	Imports from the rest of the world have not been at a low price, while the revenue from U.S. exports has been low
raw material exporters	
Export revenues are high, which helps improve the external balance	Export revenues are weak, which creates problems in the balance of payments
Importers of raw materials	
Imports become more expensive, leading to a deterioration in the trade balance	The cost of imports is low, which improves the external balance
Inflation	
The rest of the world is experiencing inflationary pressures due to the increase in the value of the dollar	There is a benefit from the decline in the inflation rate due to the decrease in the cost of imports
Dollar debtors (central banks, banks, etc.)	
Creditors are increasing their confidence in the value of the dollar	Creditors may seek to diversify their assets away from the dollar and explore alternative non-dollar-denominated assets
Dollar debtors (institutions, banks, countries, etc.)	
The burdens for debtors have doubled, forcing them to seek alternative ways to settle these obligations	Debtors benefit from the reduction in burdens, which helps them in paying off their obligations

Source: (Sufian Nouali, 2017/2018)

Lebanon is currently in its third year of financial collapse, which has made eight out of every ten people poor, according to the World Bank. In a report published in early August, the World Bank accused Lebanese politicians of cruelty and opportunism, stating that "the deliberate weakening of public services has been done to benefit a limited group at the expense of the Lebanese people" (Beirut - Al-Araby Al-Jadeed, 2023).

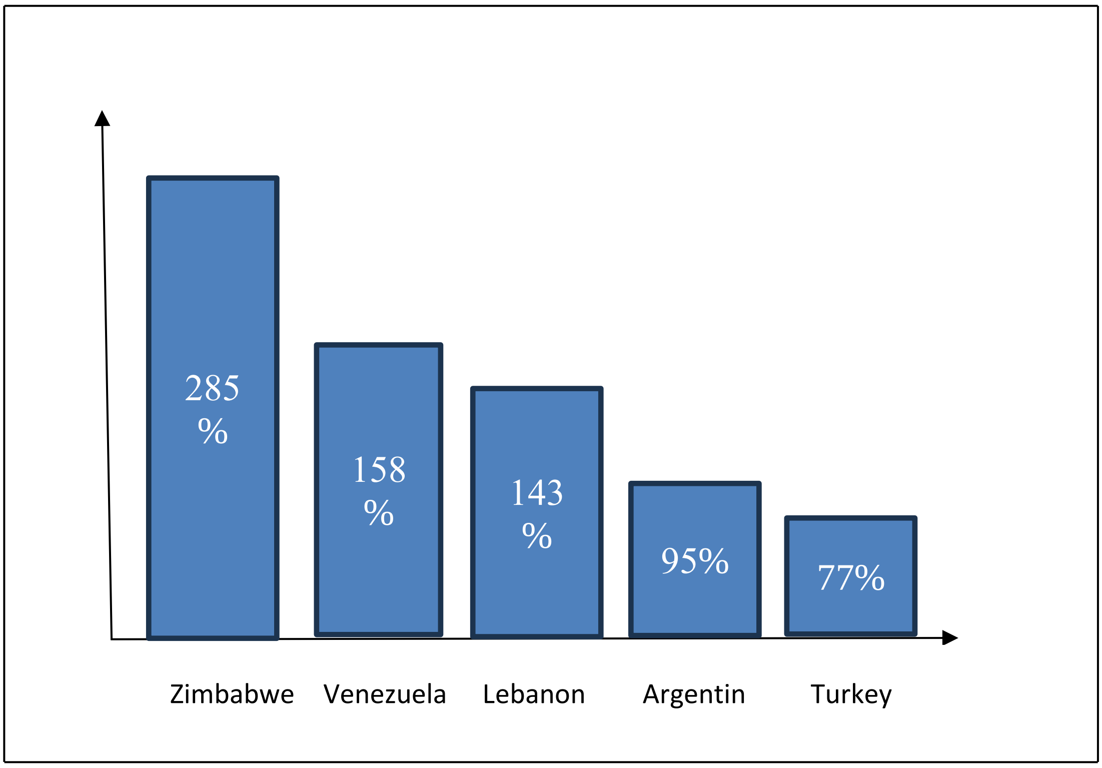
2- The reality of inflation in Lebanon:

Lebanon has been engulfed in a severe inflation spiral since the onset of the economic crisis in late 2019, exacerbating the situation and creating significant socio-economic pressures on Lebanese households. The percentage of families living below the poverty line has surpassed 78% according to the latest figures from the United Nations. Statistics from research and consulting firms indicate that cumulative inflation has reached unprecedented levels in recent years, driven by a 107% increase in the consumer price index between 2019 and 2020. Furthermore, data from the research and consulting firm for two and a half years show that all nine components of the consumer price index experienced sharp increases in March 2022 compared to September 2019. The most notable increases were seen in clothing prices (1433%), followed by durable goods (1161%), food and beverages (1113%), transportation and communication (1041%), housing (700%), entertainment (424%), healthcare (344%), other goods and services (339%), and education (92%) (Nak Aouda, 2022). Consequently, the prices of essential goods soar, amid significant pricing chaos between different stores. Some stores impose strict regulations on the hours of customer service, while others resort to withholding available quantities of subsidized goods, leading to near-empty shelves (Lydia Aswad, 2021).

While inflation figures in Lebanon are indeed very high, Lebanon has not entered into the realm of hyperinflation in the technical sense of the term. According to international standards, hyperinflation is defined as inflation surpassing 50% in a single month or 1000% annually. However, Lebanon has inevitably witnessed significant inflation rates, particularly due to the removal of subsidies on oil and medication (Bank Aouda, 2022)

Lebanon ranked third globally and first in the Arab world in the list of countries most affected by food inflation, with the country experiencing a 143% increase in food prices by the end of January this year (CNBC Arabia, 2023).

Fig (1): Countries most affected by food price inflation in the world.



Source: Compiled by researchers based on (CNBC Arabia, 2023)

3- Impact of exchange rate fluctuations on inflation in Lebanon:

Lebanon has experienced a currency devaluation experiment since 1984, resulting in significant inflation and evident social costs. The nominal exchange rate of the Lebanese pound went from 6.8 LBP/USD at the end of 1984 to 1,838 LBP/USD by the end of 1992. Prices increased eleven-fold during this period, and the minimum wage decreased from $242 in 1983 to $64 in 1992. By the end of 1992, the nominal exchange rate was fixed, leading to a reduction in inflation rates, which averaged 5.3% between 1994 and 2001. However, the post-1992 era was characterized by an unprecedented growth in public debt, which contributed to the collapse of the Lebanese currency exchange rate and the emergence of high inflation. This situation eroded the purchasing power of the Lebanese population, undoing the economic gains achieved during the 1990s, and returning to the levels seen in the dark days of the 1980s. **Source:** (Alber Daagher, 2002)**.**

The depreciation of the Lebanese pound against the US dollar in the parallel market has significant implications for inflation. In the recent crisis of 2019, the Lebanese pound lost its value. The fluctuations in the exchange rate in the parallel market are determined by various factors, including confidence, supply and demand for the Lebanese pound and the US dollar. The depreciation of the exchange rate is linked to a shortage of incoming funds to Lebanon, resulting in a significant deficit in the balance of payments and the creation of a large amount of Lebanese pounds. Speculation activities and concerns about economic and political prospects also contribute to the depreciation (Bank Aouda, 2022)**.** The deterioration in the exchange rate has turned the lives of Lebanese citizens upside down, as they incur significant losses in the value of their savings and salaries. The minimum wage, which is now 650,000 Lebanese pounds, equivalent to about $45 (compared to $450 before the crisis) (Lydia Aswad, 2021).

The repercussions of the depreciation of the Lebanese lira on commodity prices and services can be summarized as follows (Jana Al-Dahibi, 2023):

- Since Lebanon imports around 80% of its consumption, the continuous depreciation of the exchange rate becomes one of the main causes of rising commodity prices and service costs. This leads to inflation rates exceeding 145% and increases poverty, deprivation, and security instability.
- In parallel with the currency collapse, vital sectors in the economy, society, and academia collapse. This comprehensive collapse adds to the inflationary situation by increasing unemployment rates and migration, which deplete the Lebanese society of its capabilities.
- The currency collapse promotes chaos, which in turn enhances smuggling operations and deprives Lebanese people of essential commodities such as wheat and fuel. It erodes their trust in the lira, as the phenomenon of citizens seeking to purchase dollars with whatever limited funds they have from the black market has become widespread in order to preserve its value.
- The depreciation of the Lebanese lira forces Lebanon to transition from a heavily import-dependent market to a manufacturing market. However, many raw materials used in manufacturing remain imported, making them vulnerable to the exchange rate of the US dollar. This volatility in the exchange rate makes the prices of these goods fluctuate (Agriculture and Rural Empowerment Activity in Lebanon (ARE, 2021)**.**

Conclusion:

Through our study of the impact of exchange rate fluctuations on inflation in Lebanon by analyzing the Lebanese economy, it can be concluded that Lebanon is currently experiencing a rapid economic collapse, classified by the World Bank as one of the worst in the world. The Lebanese lira has lost more than 98% of its value against the dollar in the black market. The collapse of the lira affects all economic variables, including inflation. The major impact of this crisis has been on the overall price level. Therefore, inflation prospects are closely linked to the exchange rate outlook, which, in turn, is linked to the management of the political and economic crisis in the country. The study has reached several results regarding the impact of exchange rate fluctuations on inflation in Lebanon, which can be summarized as follows:

- The exchange rate is positively correlated with inflation, meaning that changes in the exchange rate tend to affect inflation.
- Impact of imported prices: If the exchange rate of the dollar significantly increases, imported goods become more costly for local consumers who pay for them in Lebanese lira. This can lead to higher prices of products in the local market, thereby increasing the inflation rate.
- Increased production costs: Since companies heavily rely on raw materials or imported products, significant fluctuations in the exchange rate increase production costs. When costs increase, companies transfer this increase to consumers by raising the prices of their products, leading to higher inflation rates.
- Impact on foreign direct investment: Foreign direct investment in Lebanon has been affected by the continuous fluctuations in the exchange rate in recent times, as monetary and economic tensions have increased. Consequently, foreign investors prefer to reduce their investments in Lebanon. When investment decreases, it affects economic growth and increases inflationary pressures.
- Impact of confidence and expectations: The drastic increase in the exchange rate of the dollar has eroded the confidence of Lebanese citizens in the lira, and they now expect prices to rise every day.

Based on the previous results, the following recommendations can be suggested:

- The monetary authorities in Lebanon should learn from the experiences of countries that have successfully controlled their exchange rates and managed inflation rates.
- It is essential to adopt a comprehensive plan in collaboration with the International Monetary Fund (IMF) to monitor the implementation of monetary reforms in Lebanon.
- Choosing an appropriate monetary policy that targets long-term inflation through the exchange rate channel, which helps maintain low and stable inflation rates that can be controlled.
- Prohibiting speculation in the national currency in Lebanon by concerted efforts to combat currency manipulation and speculation in foreign currencies.

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