THE POLITICAL ECONOMY OF CURRENCY DEPRECIATION IN LEBANON

1989-2022

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DEDICATION

I dedicate my dissertation work to my family. A special feeling of gratitude to my loving and devoted parents, Ghassan and Lara. Their constant support and drive for persistence continue to reverberate in my ears. This work is a fruit of their countless sacrifices.

I also would like to dedicate all my work and efforts to God and my patron St. Rafqa, for giving me the strength and encouragement throughout all the challenges that I encountered to complete my dissertation.

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Abstract

Exchange rates are one of the most important aspects of the economic health in a country. This study examines how the political history of Lebanon and its geo-political connection to the region's turbulences, have played a major role in its current severe currency crisis. One of the study's aims is also, to find out the reasons behind the current Lebanese political and economic crisis. The scope of this research is limited to the period 1989-2022. Using an International Political Economy IPE approach, Laissez-Faire Economy (Free Market Capitalism), and State Capture theories, the study explores the respective economic systems around the world and how the political economy and economic system of a country affect its currency depreciation. Through context analysis of semi-structured interviews with experts and qualitative secondary analysis of data collected from primary sources, the study therefore, analyses the Lebanese political and economic factors and how Lebanon's currency depreciation reflected the country's political and economic performance. Finally, this study suggests the political path Lebanon should take in order to stabilize its currency and create economic growth.

Introduction

“The exchange rate is the most important price in any economy, for it affects all other prices. The exchange rate is itself set or strongly influenced by government policy. Currency policy therefore may be a government’s single most significant economic policy.” (Frieden, 2015, p.1).

The method through which a country controls its currency is known as exchange rate policy. It involves deciding whether to set the currency against a commodity like gold or another constant national currency or to let it float by refusing to defend a specific rate. A government may decide to use another nation's currency, like the US dollar, or join a multi-nation currency union, like the European Union, which spent decades attempting to stabilize its member states' currencies before finally introducing a unified European currency in 1999. Many nations, like China, believe that their extraordinary economic success is the result of deliberate efforts to maintain relatively weak currencies in order to promote export-led growth (Frieden, 2015).

When the value of a country's currency against another currency sharply declines, it negatively affects the economy by creating instabilities in exchange rates, meaning that one unit of a certain currency no longer buys as much as it used to in another currency. Currency depreciation raises production cost, domestic prices and as a result increases the demand for money (Cooper, 1971).

On the other hand, currency crises resulting in significant economic, social, and political disruptions have grown commonplace in emerging countries, including Russia in 1998, Argentina and Turkey in 2001.

Glick and Hutchison (1999) argue that Currency crises are often associated with other types of financial crises such as banking crises. The occurrence of so-called twin crises may be attributable to a number of channels of causation: a bank crisis leading to a currency crisis, a currency crisis leading to a bank crisis, or joint causality, which leads us to the subject of this research which forms the focus of this study; the political economy of currency depreciation in Lebanon, (1989-2022).

According to Assouad (2021), since 1989, and long before the massive protests of October 2019, the political economy in Lebanon began its journey of decline year after year. However, many were surprised by the recent inevitable financial collapse, because it was widely assumed that the country's consensual democracy and free market capitalism, mainly relying on the banking and real estate sectors, were both remarkable and long-lasting. Assouad (2021) further argues that Lebanon's governing class, which is made up of linked political and commercial elites, has pushed the country to its knees over the last three decades, failing to implement proper reforms backed by a new economic model.

Earlier in 2019, the Lebanese government discussed launching an austerity program to deal with the looming financial crisis (Neaime & Altug, 2019). According to the plan, the poorest and most vulnerable classes of the population would be disproportionately affected by a set of ill-considered procedures, such as: reduction of wages, monthly salaries and pensions of public sector employees; increasing taxes on imported products; and reducing funding for NGOs, many of which provide services to the needy class.

In the year 2020, and in light of the decline in the value of the Lebanese pound due to the financial crisis that reached its peak, the economy entered the phase of free fall, and the number of people suffering from severe financial hardship increased significantly

(Bisat, 2020). In June 2020, Minister of Economy Raoul Nehme announced that 60 percent of the Lebanese will be below the poverty line by the end of the year (Rose, 2020). At the same time, the head of the Beirut Traders Association revealed that a quarter of private enterprises in Beirut closed their doors, while higher numbers were recorded outside the capital; He also expected this trend to continue (Chammas, 2020). In July 2020, the prices of food and non-alcoholic beverages increased by 24 percent compared to the previous month, and by more than 33 percent compared to July 2019 (Kraiche, 2020).

In the same context, Human Rights Watch has warned that millions of people in Lebanon are at risk of starvation (Moussa, 2020). The suicide rate among the Lebanese poor has risen out of destitution and desperation (Rose, 2019). The COVID-19 crisis has accelerated Lebanon's collapse, further harming the most vulnerable populations. Then, on August 4, the Beirut port explosion occurred, settling the fatal blow to the country.

There is no doubt, then, that Lebanon is in dire need of a rescue plan from the International Monetary Fund, which has expressed its willingness to help. However, the Fund imposed conditions in return for its proposed plan, leading the Lebanese state to carry out structural reforms that lead to enhancing transparency and financial stability, as well as reducing corruption and tax evasion (Azhari, 2020). It is not surprising that the country’s ruling class did not show a willingness to meet these conditions for fear of losing its privileges. Therefore, the meetings held by Lebanese government delegations with officials of the International Monetary Fund reached a dead end (Nahhas, 2020).

In this regard, the collapse in the financial sector provides the Lebanese with an opportunity to revive their inherently unhealthy political economy. While this comprehensive reform process requires a radical political change, including the dismantling of the sectarian system of power-sharing, it should also lead to the launch of a reformulated economic model (Gaspard, 2004).

An overview of the history of the Lebanese political economy and currency depreciation is necessary to understand the context that contributed to the emergence of this unprecedented severe financial collapse. It is also necessary to juxtapose the Lebanese political economy vis a vis the Lebanese currency depreciation.

The aim of this study is to explore the effect of politics and economics on the Lebanese economic collapse. Specifically, it will examine the Lebanese political and economic factors that contributed to the currency depreciation. Through context analysis of semi-structured interviews with experts and qualitative secondary analysis of data collected from primary sources, the study will show how Lebanon's currency depreciation reflected the country's political and economic performance. The study will also tackle the current Lebanese political and economic crisis and will shed a light on how the political history of Lebanon and its geo-political connection to the region's turbulences, has played a major role in its economic situation. It will finally attempt to explain the reasons behind the lack of effective governance and rational economic policies, as well as the political practices that led to this severe currency depreciation.

Most of the previous scholarly work about the political economy of Lebanon to the knowledge of the researcher, was done mainly around the pre and post war period, with the exception of few studies and articles. The subject of this research is the biggest financial and economic crisis in Lebanon's history, a daily agony for the Lebanese citizens (World Bank, 2021). Lebanon Economic Monitor (2021) finds that Lebanon's economic and financial crisis is likely to rank in the top 10, possibly top three, most severe crises episodes globally since the mid-nineteenth century (World Bank, 2022). By focusing on the recent currency depreciation, this thesis aims to fill the gap existing in previous studies.

The scope of this research is limited to the period 1989-2022. The reason behind choosing this period of time is because Lebanon witnessed many recurrent currency crisis and inflationary episodes in the 1980s and early 1990s. Rebuilding the shattered economy after the Taef agreement, levied a huge public debt, in addition to the fiscal crisis which resulted from July 2006's Israeli invasion (Harvie & Saleh, 2007). For the purpose of this thesis, the author chose to focus on the recent economic depreciation which has been going on since 2019 up until the time of this research. A limitation is faced with the little existing data of the time period under study (2019-2022), not yet being explored by scholars as a separate subject of study. Nevertheless, similar case studies of different countries were conducted that may help in the analysis of the Lebanese case.

In order to treat this subject, the thesis is divided into three chapters. Chapter one provides a brief historical background about the currency depreciation around the world. It also presents an overview of the history of the Lebanese currency by focusing on the history of currency depreciation. Chapter two explains the theoretical frame work of the research by using a Political Economy Perspective examining importance of Political economy and Economic Systems on Currency Depreciation. Chapter three presents the methodology and the respective research methods used for this research. It also analyzes and interprets the results of the research. In addition to highlighting the major factors affecting the stability of the Lebanese currency. Finally, this thesis is concluded with recommendations related to the political and economic reforms that Lebanon should take towards monetary stabilization.

Literature and Historical Review

This chapter consists of four main parts: A review of literature on currency policy and exchange rate, an overview of the currency depreciation around the world, the history of the Lebanese political economy and an overview of currency depreciation in Lebanon.

A- Literature Review

Currency policy is becoming increasingly crucial as the global economy gets more integrated; nevertheless, the general public has little understanding of it, and it is frequently neglected until a crisis occurs. The impact of contingent political considerations on governments' capacity to adjust monetary policy has been demonstrated to be significant.

Currency crises have been observed for decades, but their occurrence increased in the second half of the 20th century, when a number of fiat currencies expanded rapidly. Currency crises frequently have significant implications, including a high number of unemployment, a drop in a population's real incomes, a severe contraction in investment, and capital outflows. The credibility of domestic economic policy is also ruined. A crisis can act as an economic and political catharsis in some cases: depreciation helps to temporarily revive competitiveness and enhance a current account position, the crisis shock ushers in a new, reform-oriented administration, and politicians may learn some lessons for the future (D’browski, 2002).

In any economy, the exchange rate is the foremost critical price, since it influences all other prices. The government sets a policy for exchange rates, either directly or indirectly. Exchange rates are moreover central to the international economy, for they significantly impact all activities of the global economy. In spite of the basic role of exchange rate policy, there are few authoritative clarifications of why governments select the currency policies they do. Currency Politics claims a comprehensive analysis of the politics encompassing trade rates, which is supported by deep cases. Currency Politics explains the economic and political factors of exchange rate policies (Frieden, 2016).

The study of the political economy of exchange rates is significant because they are major characteristics of the economic life. Researchers have made significant progress in their analysis of how regional and global currency regimes form and develop, as well as why governments adopt the policies they do. At the global level, the study of regional and international monetary regimes has combined developments in the understanding of international collaboration and coordination to analyze the origin and functioning of such systems throughout the last two centuries. Domestically, there is a very well-developed set of arguments concerning the economic interests at stake, as well as how political systems influence currency policy decisions (Broz & Frieden, 2006).

Developing countries and emerging markets continuously face the hazard of depreciation in their exchange rate due to the instability of their currency. Precisely, inflation increased sharply in economies where currency pressures were most proclaimed. These stress scenes frequently obliged central banks to fix their policy to reduce currency pressures and fight off inflationary pressures in spite of decelerating growth. Shocks in the monetary system are likely to be smaller when central banks have a reliable track record in stabilizing expansion and are independent from monetary authorities. A reliable commitment to stabilizing and maintaining inflation is the foremost powerful way for central banks to limit currency depreciation and therefore inflation. The independence of the central bank helps decrease the devaluation of the exchange rate. Hence, countries with explicit inflation goals and a flexible exchange rate system seems to have a lower impact of currency fluctuations on inflation. Therefore, countries with similar characteristics can better cooperate and deal with shocks through currency alterations without destabilizing prices (Ha et al., 2019).

Various researches highlight that the fixed exchange rate regime permits governments to apply a monetary policy that evades the issue of time conflict, rises credibility, and preserves a moderate and low inflation rate (Giavazzi & Pagano, 1988). Therefore, for states with weak institutional capability or political instability aiming to preserve low inflation rates, the fixed exchange rate system may be an appealing option. In other words, adopting a fixed regime in the face of political unrest minimizes investor insecurity, enhances the capital market in the country concerned, and stimulates economic growth (Fraj et al., 2020).

There is a close relation between the independence of the central bank and the exchange rate policy. In fact, the latter is related with price stability. Hence, a country with a more independent central bank may choose to fix its exchange rate to provide a lower inflation credibility (Jacome & Vazquez, 2008).

The exchange rate regime may be influenced by the political instability of a country. This impact has been the subject of various researches. Among the basic indicators of political instability, we are able to cite financial conditions, internal clashes, and government stability. Each indicator of the above-mentioned can impact the exchange rate of a country. The theory of political economy claims a contradiction between the researchers who integrated political insecurity in their studies and concluded mixed outcomes. On the contrary, an unstable government is unable to maintain in a fixed exchange rate regime (Frieden et al., 2001). Moreover, this concept utilized a theoretical study to clarify the impacts of political insecurity on the determination of an exchange rate of a country (Edwards, 1996). On the other hand, other researches, have affirmed that an unsteady government can support setting its exchange rate (Honig, 2007; Alesina & Wagner, 2006).

The exchange rate regime can be influenced by the strength of a government. Past studies have deduced that a frail government cannot adopt a fixed exchange rate (Frieden et al., 2001). In fact, the exchange rate regime requires the government to react to exogenous shocks with internal alteration measures and eliminate the use of a monetary policy to fortify the national economy (Edwards, 1996; Rodriguez, 2016).

Moreover, the quality of the governments' institution has a very crucial influence on the exchange rate regime. Among the well-known indicators of the institutional quality are bureaucracy, law and corruption. The existing studies on institutional quality claims that countries with poor institutional quality have a difficulty in preserving a fixed exchange rate regime. They frequently have high levels of inflation and expansive ongoing depreciation, which leads them to fall freely. Weak governments with poor institutional quality may foster a fixed exchange rate, and the variation in the outcome will rely on the political and economic characteristics of a state (Alesina & Wagner, 2006; Fraj et al., 2018).

According to Arbetman (1995), exchange rate swings send the wrong signals to economic agents, undermine the government's legitimacy, and result in societal welfare losses. As a result, stable equilibrium exchange rates are important to the best economic and political future. Effective governments will induce trust in their ability to manage and implement the policies needed to minimize misalignments, particularly repeated devaluations. Powerful governments are at the mercy of economic forces, but weak governments, who may utilize political instruments to avert devaluations, are hampered by their own weakness. Political interventions are most successful when used by weak governments that rarely have the power to do so, and they are least effective when used by capable governments hoping to change their economic environment. The policy implications are significant because political interventions that are accompanied by minor advances in the political ability of weak governments may be quite effective (Arbetman, 1995).

Although the importance of a political aspect in causing currency crises appears to be clear, yet, further clarification is required. The term "political instability" can refer to a variety of circumstances. On one hand, major events such as external or internal armed wars can occur. Some nations have long-standing constitutional issues, such as conflicts between the legislative and executive arms of government, or between the central and regional regimes. Many emerging and transitional countries lack a well-established political party system, making it difficult to construct stable and predictable governments. Ultimately, even in the most stable democracies, corruption exists. There have been instances of minority administrations, unstable government alliances, and irresponsibility of politicians or political parties, as well as political uncertainty related to outcomes of the next elections. In contrast, it is worth noting that even the authoritarian system that is highly stable can be challenged by the societies' democratic aspirations (D’browkski, 2002).

Conflicts and political unrest have been linked to a higher likelihood of a systemic banking collapse. Conflicts may lead to a banking crisis in a variety of ways. For instance, lower economic growth, increased non-performing bank loans, decreased bank deposits and liquidity, and fiscal channels are among them. Conflicts harmed the financial sector's performance and harmed banks' capacity to maintain financial intermediation and payment systems (Rother et al., 2016). Political instability reduces bank balances, assets, and liabilities (Huang, 2019).

B- Overview of Currency Depreciation around the World

A study by the International Monetary Fund (IMF) reported that more than 130 of the IMF’s 180-plus member countries had experienced serious banking problems between 1980 and 1995, and this was even before the recent banking crises in East Asia, Korea, Thailand, Malaysia, and Indonesia as well as in Russia (Lindgren et al., 1996, as cited in Kaufman, 2000). Currency crises were even more frequent than banking crises. They are typically defined as historically large depreciations in exchange rates and/or large declines in foreign reserves.

Camdessus (1998) states that another IMF study of 53 industrial and developing countries identified 158 currency crises and only 54 banking crises in approximately the same time period.

The output loss was greater in emerging economies than in developed economies, although the crises lasted somewhat longer in industrial than emerging economies.

A currency crisis is generally started either by a sharp, substantial, and disorderly decline in the exchange rate in one country, frequently, although not always, from levels set by a fixed (pegged) or crawling peg exchange rate standard, or by a speculative run (attack) on a country's currency that exerts downward pressure on the exchange rate (Eichengreen et al., 1996).

Among the literature concerning currency depreciation around the world, Kaminsky (2003) quotes that the crises in Latin America in the 1980s, the Nordic countries in 1992, Mexico in 1994, and Asia in 1997 have prompted the economics profession to model the effects of banking problems on balance-of-payments difficulties. For example, Diaz-Alejandro (1985) and Velasco (1987) model difficulties in the banking sector as giving rise to a balance-of-payments crisis, arguing that if central banks finance the bail-out of troubled financial institutions by printing money, we have the classical story of a currency crash prompted by excessive money creation.

Within the same theme, McKinnon and Pill (1998) examine the role of capital flows in an economy with an unregulated banking sector with deposit insurance and moral hazard problems of the banks. Capital inflows in such an environment can lead to over-lending cycles with consumption booms and exaggerated current account deficits.

In the following, we will review four major currency crises, with the respective reasons that triggered them. The reason of choosing those cases in particular among the many financial crisis that took place around the world in the last century, is because they share common features with the Lebanese financial crisis.

The Eurozone crisis is the gravest crisis in the history of European integration, and is caused by a debt and balance-of payments crisis, (Frieden & Walter, 2017). The Turkish currency collapse is similar to the Lebanese currency collapse, and is due to increased interest rates that led to liquidity shortages in local banks that wanted to sell their holdings of government bonds (Ozkan, 2005). The last two cases were used as examples of how governments defend their exchange rate. In Latvia's financial crisis (2008- 2009), the authorities have successfully defended their exchange rate, while in South Korea, (1997-1998), the authorities tenaciously tried to defend their currency even when the pressure grew increasingly severe, but ultimately failed, leading to a sharp depreciation of the currency (Walter & Willet, 2012).

The Eurozone Crisis: Debt and balance-of-Payments Crises.

According to Frieden and Walter (2017), On January 1, 1999, eleven-member states of the European Union (EU) triumphantly introduced a single currency, the euro. Ten years after its introduction, the leaders of the Eurozone celebrated what appeared to be the successful launch of a new European currency. But within a year of the proud celebration of the euro's tenth anniversary, the Eurozone was thrown into crisis. And the Eurozone crisis has, over the subsequent years, turned into the gravest crisis in the history of European integration, which led the UK to vote to leave the EU in 2016, (Known as Brexit) and officially left on 31 January 2020.

In its essence, the crisis in the Eurozone is a classic debt and balance-of payments crisis. Financial institutions in the rest of Europe were willing to lend, which caused countries in the Eurozone to borrow a lot of money, mostly to finance current consumption. Large current account imbalances emerged as a result of the capital and product flows from nations with current account surpluses to those with current account deficits. Borrowing fueled economic growth, which then turned into a boom and, eventually, a bubble, mostly in the housing sector. When the bubble broke, credit stopped, leaving the heavily indebted nations unable to repay their debts, make up for the decline in domestic demand through exports, and obtain new loans to pay off their ongoing payments deficits. Economic hardship and political unrest followed, as with all debt and balance-of-payments crises (Frieden & Walter, 2017).

Collapse of Turkish Lira 2000–2001

Turkey implemented a comprehensive stabilization plan supported by the IMF at the end of 1999. Ozkan (2005) stated that inflation had been between 65 and 90 percent during the 1990s; this program intended to lower it. A strong commitment to the exchange rate, stringent monetary management, a sizable fiscal adjustment to reduce inflationary pressures, and a variety of structural measures aimed at liberalizing the economy were key components of the stabilization program. But in November 2000, a mere year after the program's launch, there was a serious liquidity crisis that severely hurt the economy. The situation was briefly able to return to normal, thanks to an emergency package led by the IMF, but in February 2001, the Turkish lira came under severe pressure (Ozkan, 2005).

The liquidity crunch that followed in Turkey is largely considered to have been caused by the emergence of financial issues in a few commercial banks in November 2000. In actuality, interest rates had already begun to rise, which prompted banks that were having trouble maintaining liquidity to want to sell their holdings of government bonds. This had major repercussions for the banking industry. Due to the financial market instability, there was also an increase in demand for the dollar, which led to a decline in the foreign exchange reserves of the central bank. Market stress was eased by news that the IMF would be providing a sizable emergency assistance the following week (Brinke, 2013).

However, the Turkish lira continued to be overvalued as a result of the slow fall in inflation. Ergocun (2020) claims that significant attack on the Turkish lira occurred on

February 21, 2001, in response to a public argument between the Prime Minister and the President. The next day, with a 28 percent value loss versus the dollar, the authorities decided to float the currency. The Turkish Lira lost over half of its value in the following two months. The economy shrank by nearly nine percent in 2001, the worst recession the country had experienced since World War II, as a result of the significant output loss that resulted (Ergocun, 2020).

According to Walter and Willet (2012), the root of these crises and the collapse of the Turkish lira were the weak fiscal position resulting from record levels of interest payments on domestic borrowing; the weak external position caused by the loss of competitiveness in the face of the tight exchange rate commitment and inflation rates that still sailed much above the target devaluation rates, and the weaknesses in the financial and especially the banking sector.

Global economies have been hit hard by speculative attacks and the resulting currency crises. It is particularly perplexing that after spending billions of dollars to defend the rate peg against speculative pressure, policymakers eventually give in and weaken their currency. Mexico in 1994, Thailand 1997, Russia in 1998, Argentina in 2001, and more recently South Africa are some examples (Walter & Willet, 2012, as cited in Ozkan, 2014).

The argument of Walter and Willet (2012) suggests that institutional settings and distributional considerations may work together to give policymakers substantial incentives to put off required depreciations and to hold their currency rate steady against speculative pressures for as long as possible. In nations, where powerful voter or special interest groups are susceptible to currency depreciation and even more susceptible to interest rate increases, a strong pro-defense bias can develop that encourages policymakers to postpone depreciations through sterilized reserve sales as long as speculative pressure on the currency is moderate.

Using a political economy approach, Walter and Willet (2012) argue that the interaction of distributional concerns, cognitive limitations, time-consistency problems, and institutional structures can keep governments from implementing the economically optimal policy response. Below are two examples on how policymakers reacted differently to the emergence of speculative pressure on their currencies. In Latvia's financial crisis (2008- 2009), the authorities have successfully defended their exchange rate, while in South Korea, (1997- 1998), the authorities tenaciously tried to defend their currency even when the pressure grew increasingly severe, but ultimately failed, leading to a sharp depreciation of the currency.

Latvia: Successful Defense (2008-2009)

Latvia is a small, open economy that experienced an unprecedented boom in the early 2000s. As a consequence, the exchange rate became increasingly overvalued in the years preceding the 2008/2009 global financial crisis, contributing to a huge current account deficit and a low competitiveness of Latvian exports (Andersen, 2009). While this results in a moderate vulnerability to depreciation because a decline in the value of the currency would increase competitiveness but also raise the price of imported goods, Latvia's balance sheet vulnerabilities to depreciation far outweigh these relative price effects of external adjustment:

The country exhibits an extremely high degree of euroization: 90% of all private loans and 70% of deposits are in foreign currency. This means that both households and corporations hold mostly foreign currency debt. Private external debt stood at 128.8% of

GDP in 2007, and one third of this debt was short-term (Andersen, 2009). This implies that overall, the vulnerability of Latvian voters and interest groups to external adjustment is extremely high. In contrast, vulnerability to interest rate increases is moderate, because most loans denominated in foreign currency, are not tied to domestic interest rates. Latvian banks are highly vulnerable to a tightening of monetary policy, but households, enterprises and the public sector face low or even positive risks associated with interest rate increases (IMF, 2006).

This vulnerability structure has arisen at least in part in response to Latvia's exchange rate regime. The country has a fixed exchange rate in the form of a currency board with the euro. Given the high level of exchange rate stability associated with such an institutional structure, it is not surprising that such a large proportion of Latvian debt is denominated in euros (IMF, 2006).

As predicted by this argument, the Latvian government refused to allow any significant exchange-rate adjustment to take place when speculative pressure on its currency increased in 2008, during one of the worst economic crises in the country's history. Instead, the authorities countered the pressure through a combination of foreign reserve sales (bolstered with funds from international sources such as the IMF and the EU) and internal adjustment measures, especially monetary tightening and severe budget cuts. This internal adjustment has been very harsh on the economy, leading to a decline in output by about a quarter and led to rioting and a government collapse in early 2009 (Walter & Willet, 2012).

South Korea: Delayed Devaluation and Currency Crash (1997-1998)

The South Korean case during the fall of 1997 represents one of the tragic cases in which a delayed devaluation resulted in a currency crash. The country had experienced a prolonged period of export-led growth and an investment boom principally financed through foreign capital, which resulted in a high level of foreign-currency denominated, which made Korean banks and the large industrial conglomerates extremely vulnerable to depreciation (Min, 1999). Nonetheless, Korean companies were even more vulnerable to interest rate increases, because debt ratios were extraordinarily high and debt was often short-term and denominated in domestic currency (IMF, 1998). Overall, this resulted in a corporate sector highly vulnerable to changes in both the exchange rate and the interest rate, but ultimately most vulnerable to monetary tightening. This vulnerability structure was partly caused by the Korean exchange rate regime. While officially declared as a managed float, the currency's actual behavior suggests that it followed a much more intermediate exchange rate regime in the form of a de facto crawling peg (Reinhart & Rogoff, 2004).

When the won came under growing speculative pressure in the early fall of 1997, Korean officials originally sold off a sizable amount of sterilized foreign reserves even while the economy was still getting worse. On November 17, 1997, just a month before the following presidential election, the government decided to give up the fight to defend the won because the pressure had grown too great to be controlled by interventions in the foreign exchange market (Min, 199). While this decision runs against the usual expectation that governments are highly reluctant to devalue the exchange rate in the run-up to elections. Walter and Willet (2012) have argued that the pro-defense effect of the electoral cycle should be less pronounced when speculative pressure becomes more severe and voters are highly sensitive to increases in interest rates. The fact that the current president was not running for reelection probably reinforced the high vulnerability to interest rate increase, this seemed an even less attractive option than devaluing.

The authorities consequently abandoned the defense of the won, after which it depreciated sharply and only stabilized after the Korean authorities had received a sizeable rescue package from the IMF. The prolonged but ultimately unsuccessful exchange-rate defense can thus be explained by a short-term pro-defense bias that was exacerbated by the institutional setting, particularly (initially) upcoming elections. When the time-inconsistent preference structure was confronted with intensifying speculative pressure, the authorities aborted their defense of the currency and the crisis ended with a currency crash (Walter & Willet, 2012).

C- History of the Lebanese Political Economy

The foundation of Lebanese political economy is based on the colonial and the post-colonial political economy. The history of the Lebanese political economy is linked to the history of Lebanon and can be divided into the following periods: Colonization and pre-independence, (1914-1943), independence and post-colonial (1943-1975), 1975 which marks the beginning of the Lebanese civil war, the war period (1975-1990), followed by the post war period (1991-2006), 2006 marking the Israeli invasion and finally the current (2019-2022) crisis.

Safieddine (2019) documents the political economy of Lebanon since the rule of the Ottomans through the French colonization, the independence until today.

In his book, Banking of the State: The Financial Foundations of Lebanon, Safieddine (2019) reveals how the financial foundations of Lebanon were shaped by the history of the standardization of economic practices and financial regimes within the decolonizing world. The system of central banking that emerged was the product of a complex interaction of war, economic policies, international financial regimes, post-colonial state-building, global currents of technocratic knowledge, and private business interests.

In September 1920, with the collapse of the Ottoman Empire, the country of Greater Lebanon was established under the authority of the French Mandate. During the French colonization, the Bank of Syria and Lebanon which replaced the Ottoman bank, was subject to French law and was linked to the French Franc, despite the local circulation of the lira. In the late forties, following the independence of the country in 1943, new conditions were set in the Bank of Syria and Lebanon for the issuance of currency, and gold and foreign currencies replaced the French franc to support the lira (Safieddine, 2019).

In the following years, it was necessary to think about the establishment of a central bank that would represent Lebanon's economic independence and exercise its authority in the monetary and banking system without any coercive influence, so the central Bank “Banque du Liban” was established in 1964 during Fouad Chehab’s Regime. Fearing a state-dependent central bank, the Association of Lebanese Banks (ABL), made sure to incorporate in the ‘Money and Credit Code’ some amendments requiring that the central bank won’t interfere with the fundamental principle of a free banking system, its independence from political authorities with an emphasis on his major role as an anti-inflationary institution and a currency stabilizer (Dibeh, 2002).

It was difficult for the central bank to enforce its power over the banking industry and regulate it in the early years, since there were insufficient statistics to create a complete picture of the economy. Furthermore, the financial system was stagnant, and long-term remedies were needed, particularly after Bank Intra collapsed in the fall of 1966 as a result of the outflow of Arab capital from Beirut and the purposeful rise in interest rates by the US, which left Bank Intra with a liquidity issue. As a consequence, withdrawals began to increase and Intra announced the cessation of payment and closed its doors. BDL followed a non-interventionist policy with the Bank Intra crisis, but it did conduct a deflationary policy to counter capital outflow (Dibeh, 2002). With the outbreak of the Lebanese war in 1975, whose first front was the commercial and financial markets in downtown Beirut, some banks stopped and others were destroyed as a result of the bombing, which led to a large deficit in budgets and inflation in prices. During the war, the relationship of the Banque du Liban and the Association of Banks and Private Banks was shaky due to the political situation and the militia’s control. The continuous depreciation of the Lebanese pound against the dollar led to a bad economic situation that continues to this day (Safieddine, 2019).

According to Daher (2022), the two main characteristics of the Lebanese state, even prior to independence, have been its sectarian nature and its liberal economics.
Furthermore, the relationship between the central bank, the government and the banking sector played a major role in shaping a weak Lebanese political economy, due to the country’s elite power-sharing system. A clientelist political economy is created by the cooperation and frequent overlap between the political and economic elites, which include the most powerful politicians, sectarian community leaders, members of parliament, and ministers. These elites fostered an ensemble of clientelist, institutional and discursive practices that incentivized individuals to coalesce into corporatized sectarian communities

at the expense of national affinities which defined the parameters of sectarianism in Lebanon (Salloukh et al**.,** 2015, as cited in Helou, 2022).

Helou (2022) further argues that in order to further the interests of the ruling elites, Lebanese official institutions have played a crucial role in strengthening and igniting sectarianism in society. Depending on one's race and religion, one has different rights and obligations. This system, like all sectarian manifestations, serves as a tool to maintain the subordination of Lebanon's leading political parties to the country's lower classes.

Regarding the liberal economy, there has consistently been a focus on both more private sector growth and deeper integration into the global economy. These neoliberal policies strengthened certain historical aspects of the Lebanese economy, such as its development model, which prioritized finance, real estate, and services and was marked by social inequality and geographical inequities (Helou, 2022).

Subsequently, during and after the Civil War, the country's liberal economic policies and Lebanon's sectarian political system became even more important to the country's governing economic and political elites as they sought to consolidate their hold on power (Daher, 2022).

With the Taef agreement (1989), a new economic elite developed in Lebanon that eventually rivaled the commercial and financial bourgeoisie that had vacated the nation during the conflict. A new bourgeoisie consequently emerged around the fusion of various capitalist segments, including wealthy "Gulf entrepreneurs" who had amassed substantial fortunes in the Gulf (Rafiq Hariri being the most notable); wealthy émigrés returning to the nation (especially Shi'a from West Africa); and some war profiteers and new wealthy businessmen who were connected to the militias. In addition, the Gulf Cooperation Council

(GCC) and the Sunni bourgeoisie had improved ties, exemplified by Prime Minister Rafiq Hariri, who had close ties to Saudi Arabia and a social base in the nation's clientelist system because to his business network (Daher, 2022).

Moreover, the use of social assistance and state jobs to increase the support bases of the nation's political parties in the post-Civil War era increased the clientelist aspect of the political system. The various groups of the Lebanese bourgeoisie were mainly involved in sectors such as banking, trade (both imports and exports) and real estate (development/construction), through large family-owned conglomerates (Helou, 2022).

The Taef Agreement also significantly strengthened the nation's economic liberal order, with a focus on further integration with the world economy. Neoliberalism in Lebanon placed focus on opening the economy to international investment flows in this environment. These were primarily directed at the banking, finance, and real estate industries, further strengthening the economy's heavily financialized nature and reducing the importance of the manufacturing and agricultural industries. With the privatization and liberalization of public assets, particularly in the commerce, real estate, and financial sectors, Lebanon in this regard followed the general economic dynamics of the MENA region beginning in the early 1990s (Daher, 2022).

Daher (2022) also further argues that, this fusion of Lebanon's political and economic elites was evident in state initiatives that favored the banking industry. The state debt instruments were sold at extraordinarily high interest rates by successive governments and were purchased by Lebanon's banks either directly or through the Banque du Liban (BDL). On the other hand, despite operating with relatively large margins, these banks offered depositors attractive rates. The adoption of the parity of the Lebanese pound and the State's debt in dollars, which encouraged a capital influx, improved the system at the end of the 1990s, leading to an artificially constructed USD-LBP peg in 1997. The Lebanese state paid the banks $87 billion in interest between 1993 and 2019. Public debt rose throughout this time from $4.2 to $92 billion (Daher, 2022).

Furthermore, the consolidation of the ruling class and the neoliberal system in Lebanon has been significantly aided by international actors, including governments and international monetary organizations (Abdo et al., 2021). The need for more foreign funding became significantly during the beginning of the 2000s as Prime Minister Hariri's measures failed to revive the economy and cut the steadily rising state debt. Neoliberal reforms have been strengthened throughout the nation as a result of the Civil War's outcomes. It is a course that is supported by all of the major political players in Lebanon, as well as by regional investors, especially those from the Gulf States, as well as by international actors (Abdo et al., 2021).

These actors include the World Bank and the IMF, which coordinated their efforts through the series of Paris aid conferences (France). The necessity to uphold and further their political and economic interests has been the basis of the agreement among these actors. These policies have exacerbated socioeconomic and regional disparities in Lebanon and are strongly related to the political economy of the nation's heavily financialized and marginalized sectors, such agriculture and industry. Through numerous privatizations' plans and the clientelist distribution of state contracts, the economic and political elites of sectarian communities gained most from these policies. The financial crisis that broke out in October 2019 has only served to highlight Lebanon's economic constraints and demonstrated the dominance of specific political elites and their prevailing economic policies (Bisat et al., 2021).

D- Overview of Currency Depreciation in Lebanon

"The roots of the current crisis in Lebanon are, however, to be found in the country's political economy and the way it has developed since the end of the Lebanese Civil War" (Daher, 2022, p. 5).

Many reasons contributed to the recurring currency depreciation in Lebanon. The first is a budget deficit that took place during and after the war leading to a tremendous increase in public debt (Dibeh, 2002). The second is the cost of reconstruction after the end of the Lebanese war, especially the cost of infrastructure and most importantly the electricity and the mismanagement of the "patron-client political system" (Harvie & Saleh, 2007). The third is a heavily dollarized economy with recurring public deficits and monetary financing of the public debt together with a contained inflation and a "de facto fixed exchange rate" lasting for more than 20 years (Bitar, 2019).

To understand the collapse of the currency that took place since 2019, a literature overview of the currency depreciation is essential.

According to Dibeh (2002), BDL had to intervene for the first time in the early 1980s to preserve the Lebanese pound's value and control inflation during the war period, which saw increased inflationary pressures, by raising T-bill interest rates from 2.5 % to 14 % and reducing its credit to the government despite a 300 % increase in governmental debt. Even though, the harsh measures failed to stop inflation. For the first time, the state borrowed money from the central bank, which ran counter to the government's strategy of managing inflation and the function of BDL. In order to offset the Lebanese pound's depreciation, the Lebanese government began seizing 80% of the gains on BDL's balance sheet. The BDL policy's inability to keep inflation under control during that time led to a full-fledged inflationary crisis in late 1984. Up until 1992, when bank pressure reached a peak, the Lebanese currency continued on a path of frequent depreciation and high rates of inflation.

On February 22, 1992, BDL made a public announcement stating that it will cease market operations in support of the Lebanese currency. As a result, the Lebanese pound lost more than 50% of its value, and by the end of the year, the exchange rate had dropped from 879 LP/$ at the end of January 1992 to 1,838 LBP/$ (Dibeh, 2002).

Harvie and Saleh (2007) argue that budget deficits climbed during the war and the post-war reconstruction period, from barely 3% of GDP in 1975 to a peak of 33.8% in 1990, one of the highest in the Middle East at the time, before dropping to less than 10% by the years 2003–2005. The post-Taef reconstruction focused upon rebuilding the country, providing infrastructure and services, consequently, state debt skyrocketed after 1975, reaching a gross public debt ratio of 99.8% of GDP by the end of 1990. From 9.2% of GDP in 1993 to 20.6% in 1996, the budget deficit grew until falling to about 8.5% in 2005.

Harvie and Saleh (2007) further elucidate that, the construction and real estate boom that was sparked by state spending at first increased GDP growth, but a heavy reliance on funding through domestic and foreign borrowing contributed to an even faster accumulation of public sector debt, higher interest rates, and its servicing represented a significant drain on public resources. The construction and real estate boom that was sparked by state spending at first increased GDP growth, but a heavy reliance on funding through domestic and foreign borrowing contributed to an even faster accumulation of public sector debt, higher interest rates, and its servicing represented a significant drain on public resources.

This came to a head in 2002 when the nation experienced a serious financial and economic crisis as GDP growth slowed and national debt rose to US$ 25 billion, or 15% of GDP. With debt servicing absorbing all future revenue gains as of April 2006, the total public debt was US$ 38.8 billion (183 percent of GDP), and rates on government bonds were still high (Harvie & Saleh, 2007).

Chami (1992) theoretically analyzed the macroeconomic performance in Lebanon during 1975–1990 (Civil War). He argued that:

"The central government has become completely paralyzed and unable to collect tax revenue but continues to spend in order to maintain essential services, pay wages and salaries and subsidize some basic imported goods" (Chami, 1992, p. 325).

As a result, this led to substantial budget deficits financed by the central bank and commercial banks. This study concluded that the budget deficits contributed to a massive increase in money supply, high inflation rates and a severe depreciation of the Lebanese currency (Chami, 1992).

In Lebanon, dollarization has reached one of its most advanced stages over the past three decades. People and businesses now interact in dollars, keep dollar accounts in local banks, and enter into dollar loans with those banks (Harvie & Saleh, 2007).

According to Bitar (2019), despite a relatively stable inflationary environment and a fixed exchange rate against the US dollar since December 1997, at the mid-rate of 1507.5 Lebanese Pounds, (LBP), the causes of dollarization in Lebanon date back to the hyper-inflationary environment during the 1975–1989 Lebanese Civil War. Nevertheless, the persistence of both deposits and loans dollarization has been a feature of the Lebanese banking sector for the last three decades.

Two main characteristics make the Lebanese dollarization case unique:

- Unlike the majority of emerging economies, capital inflows and consequently foreign currency liquidity in the hands of the domestic banking sector have been constantly abundant, despite the chronic current account deficit.

- The high level of gross international reserves in the hands of the central bank that contrasts with its low and sometimes negative level of net international reserves.

The government issues LBP denominated bonds and bills alongside USD denominated bond (Eurobonds).

Bitar (2019) studied the LBP denominated debt breakdown by holders to show the monetary financing of this debt by the central bank as well as by commercial banks (depository institutions), and found that the share of non-banks holders is minor comparing to the latter. He also studied the amounts outstanding of USD Eurobonds, and found that a minor share of the latter is held by non-bank and foreign investors, and the larger share is held by the central bank and commercial banks.

Bitar (2019) analysis plotted that cumulative capital inflows have largely exceeded the persistent current account deficit in Lebanon since the end of the civil war in 1989, leading to a high foreign currency liquidity level in the hands of the domestic banks sector. Bitar (2019) also claims that although capital inflows slowed down in the last decade, the level of foreign liquidity of the consolidated banks sector remained high.

Lebanon's central bank imposes mandatory reserves requirement on foreign currency deposits at banks, and holds remunerated foreign currency deposits of domestic banks in excess of those mandatory reserves. These operations do not increase net international reserves as they increase the foreign exchange liabilities of the central bank in the same amount, but they do increase gross international reserves. Lebanon's dependence on the monetary policy of a fixed-exchange rate, 1,507 LBP / USD as of 1997 implied that foreign currency reserves in the central bank were deteriorating and that the cost of maintaining the Dollar peg was increasing (Helou, 2022).

To attract foreign currency liquidity during this time, the central bank issued Euro-bonds, but the bulk of buyers were Lebanese, therefore very little foreign currency liquidity actually entered the country. By the summer of 2019, these financial distortions have caused a discrepancy between the Lebanese Lira's official exchange rate and its market rate.

Helou (2022) argues that the national rebellion on October 17, 2019, which is sparked by political decisions made in the council of ministers about a number of indirect taxes, necessitates the closure of banks for a number of weeks. A clear national crisis emerges during this shutdown as foreign exchange offices take the lead in currency trade and banks restrict dollar withdrawals. Following their re-opening, commercial banks implemented tacit restrictions on U.S. Dollar cash withdrawals, which widened the discrepancy between the official Lebanese Lira exchange rate (1,507 to the Dollar) and the market rate, which in the weeks immediately following the 17th of October 2019 was ranging between 2,000 and 2,600.

Then, a string of unfavorable economic circumstances, beginning with the government's inability to make interest payments on Euro-bonds on 7 March 2020 (a sovereign debt default), frequent lockdowns imposed by Covid-19, the loss of international credit lines, the restriction on the withdrawal of U.S. Dollars in cash from existing deposits, and alleged elite transfers to foreign banks outside Lebanon, aggravated the situation by widening the gap between the Lira's official and market exchange rates (Bisat, 2020).

Helou (2022) further argues that the Lebanese sovereign debt crisis erupting on 7 March 2020 accelerated informality in economic and financial markets by replacing the monopolistic roles of the central bank, the association of commercial banks and the Lebanese government in determining the Lebanese Lira’s exchange rate with more hybrid financial governance systems that now included foreign exchange offices and other registered and non-registered financial brokers.

This hybrid financial governance system, which hosts a variety of exchange rates, including the fixed rate of 1,507 Liras set by the central bank, the exchange rate of 3,900 Liras for each Dollar withdrawn from frozen U.S. Dollar bank deposits (commonly referred to as Lollars) and the floating market exchange rate determined by the volume of currency trading on the black market, encouraged people to adopt informal practices (Helou, 2018).

Therefore, with multiple exchange rates on the market and cash becoming the most dominant basis for all transactions, both elites and citizens try to ensure their survival by pursuing financial options made possible via informality (Helou, 2018).

The Lebanese Central Bank (the "BDL") issued basic circular number 157, on May 10, 2021, establishing the legal and regulatory framework that introduces, arranges, and governs the "Sayrafa" platform, that will track all foreign exchange transactions involving Lebanese pounds into any other currency that are carried out by all individuals and organizations who are authorized to do so. This Platform's goal is to show the exchange rates at any given moment so that the BDL can monitor and take appropriate action as needed. On December 09, 2021, the Lebanese Central Bank (the "BDL") issued intermediate circular No: 601 (basic decision No: 13377), (the "Circular") amending article 1 of basic circular number 151 (basic decision No: 13221), BDL Circular 151, (2021). This Circular increased the value of one "Lollar" from LBP 3,900 to LBP 8,000 effective immediately, marking a 105% increase since April 2020, (BDL, 2021), and the floating market exchange rate determined by the volume of currency trading on the black market, encouraged people to adopt informal practices.

Unfortunately, despite the IMF plan to rescue Lebanon, the Lebanese government hasn't started to introduce sustainable steps or reforms to put a hold on the crisis.

The Political Economy of Currency Depreciation

This chapter develops a theoretical framework to the political economy of currency depreciation in Lebanon. The aim of this thesis is to study how the political history of Lebanon and its geopolitics have played a major role in its economic situation and the current severe currency crisis. To do so, a deep understanding of the theories of International Political Economy IPE, Laissez-Faire Economy (Free Market Capitalism), and State Capture theories is required. To start with, it is important to examine what is political economy and how it affects currency depreciation. An International Political Economy approach is necessary to understand what the respective economic systems around the world are and how the political economy and economic system of a country affect its currency depreciation. The last part of this chapter discusses the Lebanese economic system, and how its political economy played a major role in its recurrent currency depreciation.

A- Political Economy Perspective

Understanding Political Economy

The founders of modern economics are generally acknowledged to be Adam Smith, David Ricardo, and John Stuart Mill, who identified themselves as political economists. Mill's Principles of Political Economy served as the standard reference work for the field from the time of its publication in 1848 until the end of the century. These original theories did not consider the economic and political worlds as separate (Frieden 2020).

According to Mill (1848), what is now commonly understood by the term "Political Economy" is not the science of speculative politics, but a branch of that science. It does not treat of the whole of man's nature as modified by the social state, nor of the whole conduct of man in society.

Political economy is a discipline of social science that analyzes the interactions between individuals and society, as well as between markets and the state, by combining tools and methods from economics, political science, and sociology. As a result, political economy can be defined as the study of how a country, or the public's household, is managed or administered, while taking both political and economic aspects into account (Mill, 1848).

Frieden (2020) argues that two trends divided the political from the economic analysis. First, governments started to have less direct influence on the economy. Second, new political structures emerged: from largely monarchical to more representative and extremely diverse forms of administration throughout Europe. Political science and economics were formed as independent disciplines by the early 20th century. On the other hand, the political issues of the time; two global wars, the emergence of fascism and communism were so significant as to need special attention.

However, it became obvious in the 1970s that the distinction between the political and economic worlds was false. The Bretton Woods monetary order collapse, two oil price shocks, and stagflation during that decade all served to underscore the interconnectedness of political and economic issues. Politics now revolved mostly around the economy, which had taken center stage (Broz & Frieden, 2001).

Frieden (2020) further argues that, the importance of the political economy has increased in the field of politics and the field of economics through three factors:

The first constitutes the political elements that influence the economy, in which economic policies are influenced by voters and interest groups, as well as the function of political institutions in limiting their influence.

The second represents the Macroeconomic factor that tends to either strengthen or destroy political opportunities. Furthermore, the characteristics of an economic agglomeration or the economic activities of specific enterprises or industries, influence the nature of their political activity and direction at the microeconomic level.

The third is that it forms a method for studying politics that is utilized as an economic instrument: Politicians can be compared to corporations, voters to consumers, and governments to monopolistic organizations that offer consumers with goods and services. This way Scholars use political-economic models to gain a better theoretical grasp of the fundamental factors that influence policy.

Scholars and policymakers have been greatly influenced by these three variables. Political economy is a valuable resource for analysts who are interested in the mechanisms that control societies or for those who want to change things.

International Political Economy (IPE) Perspective

It is important to understand International Political economy (IPE) in order to understand what’s happening around us on an international level and how it affects our lives. The study of IPE makes us understand different financial, economic and political events that took place around the world, like the 2008 global financial crisis which is considered the most severe financial crisis after the great depression and the impact of terrorism on IPE following the September 11 attacks (Balaam & Dillman, 2014).

So, what is IPE and what are the respective historical theories or school of thoughts of IPE?

"International political economy (IPE) studies how politics shape developments in the global economy and how the global economy shapes politics. It focuses most heavily on the enduring political battle between the winners and losers from global economic exchange" (Oatley, 2019, p. 25).

On the other hand, Balaam and Veseth (2005) define IPE as the study of those international problems and issues that cannot be adequately addressed by resource to economic, political or sociological analysis alone. IPE, therefore, looks at the ways that the individuals, states and markets of the world are connected to one another in addition to the arrangements and structures that have evolved to connect them.

Because of this, IPE is often shaped by two abstracts, far bigger questions. First, what influence does politics have on how societies choose to use the resources? Second, what effects do these choices have (Oatley, 2019)?

Historically, theories of International Political Economy have been developed in three broad schools of thought: mercantilism, liberalism, and structuralism.

Oatley (2019) elucidates that Mercantilism, often known as economic nationalism, is a perspective with strong roots in political realism that primarily considers the national interest when analyzing IPE issues. Political science, and particularly the political philosophy of realism, are most closely related to the IPE standpoint of mercantilism. The notions of the seventeenth and eighteenth centuries about the connection between economic activity and state authority are the foundation of mercantilism. National wealth and power are closely related, according to the classical mercantilists. Wealth is a major source of national power in the system of international states. Having the state take a significant role in the economy is the only way to guarantee that societal resources are utilized effectively. Economic policy can be used to direct resources away from economic activities that don't serve the national interest and toward those that do in order to advance and safeguard it.

IPE concerns are mostly viewed from the perspective of individual interests under liberalism, or economic liberalism (also called laissez-faire). The market system, which is the subject of economists' study, and liberalism are most closely related. In order to counteract mercantilism's dominance in political circles, liberalism, the second traditional school, evolved in Britain throughout the eighteenth century. Scholars like David Ricardo and other liberal intellectuals like Adam Smith worked to change the direction of government economic policy (Oatley, 2019).

According to Balaam and Dillman (2014), politics and economics were meant to be clearly separated by liberalism. Liberalism made the case that economic activity should be carried out to benefit individuals rather than to strengthen the state's authority. Countries become wealthier by producing things that can be produced domestically at a relatively cheap cost and exchanging them for items that can only be produced domestically at a relatively high cost. Consequently, liberalism holds that governments should exert little effort to affect the trade balance of a nation or to influence the kinds of things that the nation produces. Liberal theory places an emphasis on the welfare of the individual and contends that societal welfare is at its maximum when people are allowed to choose how to use the resources they have.

Furthermore, in a perfectly operating market, people will keep buying and selling resources until the resulting allocation provides no more chances for profitable trade. In this process, the state has a significant but constrained role. The majority of liberals also acknowledge that governments have the power and responsibility to address market failures, which are situations in which voluntary individual transactions based on the market fail to allocate resources to socially acceptable activities (Balaam & Dillman, 2014).

Balaam and Dillman (2014) also argue that structuralism, a perspective that has its roots in Marxist analysis but is not exclusively based on it, examines IPE concerns primarily in terms of how classes, class interests, and eventually the entire society are influenced by the dominant economic institutions. Marxism, the third classic school, was founded as a critique of capitalism in the writings of Karl Marx.

Marxists contend that capitalists decide how society's resources are spent, contrary to liberalism's reliance on the market as the primary mechanism of resource allocation. Moreover, because capitalist systems encourage the concentration of capital, investment decisions are rarely influenced by market-based competition, at least not in the traditional liberal sense of the word. The few companies who hold the appropriate investment capital, however, are the ones that decide what to create. In the capitalist economy, the state has no independent function.

Marxists argue that the state acts as a representative of the capitalist class instead. The state implements measures that support capitalism and, as a result, the capitalists' dominance over resource distribution. Thus, Marxists emphasize huge businesses as the primary player determining how resources are employed, in contrast to mercantilists who focus on the state and liberals who focus on the market. The systematic exploitation of the developing countries by the major capitalist nations results from the concentration of capital and the control of the state by capitalists in the global economy. This systematic exploitation of the poor by the rich implies that the benefits of the global economy do not flow to all nations, but rather to the capitalist superpowers at the top of the international hierarchy (Balaam & Veseth, 2005).

B- Importance of Political economy and Economic Systems on Currency Depreciation

According to O'Keeffe and Terzi (2015), the political economy of finance literature highlights the impact political institutions have on the development of the financial system (Haber & Perotti, 2008; La Porta et al., 1997; Beck & Levine, 2008). From a political economy perspective, institutions are "the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction" (North, 1990, p.3). Institutional approaches capture the ways in which institutions mediate domestic pressures through the distribution of veto players in the political system, or try to understand how different political regimes select, structure and constrain decision-making.

Government decisions to use public funds to stabilize financial institutions during a crisis are ultimately political ones. Politicians also determine whether to change the regulations governing crisis management and bank resolution after a crisis. Therefore, political restrictions may be to blame for the various and frequently unsatisfactory policy decisions made prior to, during, and following financial crises. Politicians, voters, businesspeople, and bureaucrats interact strategically to form policies, which are then governed by institutional norms from the viewpoint of political economy. The political economy of financial crises focuses on the ways in which these variables interact in this setting (O'Keeffe, 2014).

On the other hand, Nguyen et al. (2020) argues that previous studies tend to focus on only one type of financial crisis (see, e.g., Demirguc-Kunt & Detragiache, 1998; Vaugirard, 2007; Yu, 2016). However, crises have different specificities that make it possible to distinguish them into different types. Moreover, different types of financial crises tend to be related and come in waves (Laeven & Valencia, 2020). Therefore, it is important to dig deeper into the effects of different political factors on different types of financial crises. Motivated by the works of Laeven and Valencia (2020) and Kim et al. (2013), three main types of financial crises are considered: systemic banking crises, currency crises and sovereign debt crises.

Nguyen et al. (2020) elucidate about the linkage between the different types of financial crisis leading to the so-called twin and triple crises and distinguish the impact of the political environment on the likelihood of systemic banking, currency, debt, twin and triple crises. Their analysis uncovers the impact of political factors on the prevalence of different types of crises, with the causes and timing of those financial crisis.

Furthermore, it is necessary to explain two interrelated sets of global monetary occurrences. The first is at the national level and relates to the exchange rate policies of certain governments. The second is a worldwide issue: the nature of the global monetary system. There are significant interactions between these two. The nature of the global monetary system is significantly influenced by national policy decisions, particularly those of big nations. The Bretton Woods monetary order and the classical gold standard, which were largely created by the United Kingdom and the United States, respectively, were put to an end as a result of their respective withdrawals. Likewise, the global monetary system has a significant impact on national policy decisions, particularly for small countries that are more likely to fix their exchange rate (Broz & Frieden, 2001).

Governments do not always adopt the economically best course of action due to distributional factors and temporal asymmetry difficulties. As long as market pressures are light, governments instead tend to begin with a “bias” in favor of currency defense. The politically more appealing option to not depreciating, however, when market pressure is high, is to raise interest rates rather than just deplete reserves. The perceived trade-off between the disadvantages and advantages of an exchange rate defense thus alters as speculative pressure increases. Depending on the nation’s economic and political structure, these costs and benefits will vary in size (Walter & Willet, 2012).

Currency depreciation is also a crucial component in understanding political economy because it is one of the most dramatic and even traumatizing financial policy actions a government can take.

Currency depreciation is the loss of value of a country’s currency with respect to one or more foreign reference currencies, typically in a floating exchange rate system in which no official currency value is maintained (Pettinger, 2017).

Governments are hesitant to devalue their currencies. However, beneath the current rules of the international monetary system, laid down within the Articles of Agreement of the International Money Fund (IMF), currency depreciation is encouraged when a country’s international payments position is in “principal disequilibrium”, whether that disequilibrium is due to external factors or by fundamental developments (Cooper, 1971).

By principle, changes within a currency's value are measured with the American dollar, so a depreciation means a decrease within the dollar price of a unit of foreign currency or, on the other hand, an increase within the number of units of the foreign currency that can be obtained for a dollar (Cooper, 1971).

Currency depreciation is caused by a variety of factors. For instance, the increase of government debt, the trade balance deficit, the occurrence of political instability, the existence in the nation of a group that dominates the economy, the occurrence of natural disasters, and other events that directly affect the economy (Nordmeyer, 2021).

Using a political economy approach, the next section examines the Lebanese economic system and the reasons behind the recurrent currency depreciation.

C- Political Economy Approach to Currency Depreciation in Lebanon

The Lebanese Economic System

"The Lebanese economy was and is basically a confessional economy that grew as a natural outcome of an extensive intersection of interest basically Maronite bureaucrats and Sunni trading families" (Kubursi, 1999, p.71).

This intersection of interests manifested itself politically in the National Pact, an implicit economic and social contract that gave the political accord a strong economic base. Kubursi (1991) argues that the conditions of this implicit contract required the public sector to make significant investments in creating a vast infrastructure of trade routes, ports, airports, warehouses, and a top-notch communication network. Additionally, it required the government to limit its efforts to support rival commodity-producing industries or areas that would threaten the dominance and unhindered importation. A pro-free trade and probusiness atmosphere with no government interference, little to no income or profit taxes, regulations protecting banks' confidentiality, and a free foreign currency market were all required by the agreements.

Lebanese affluence was also significantly influenced by Lebanon's early economic and social growth relative to its neighbors, who were resource-rich but lacking in skills, global connections, and development experience. Lebanon had some actual advantages in its ability to serve as the essential middleman in the communication of the Gulf and other Arab countries with the West, thanks to its advanced educational system and the wide-ranging links the Lebanese had developed with the West (Kubursi, 1991).

Kubursi (1991) further argues that, the sub-economy of the Palestinian enclave also boosted Lebanon's prosperity. Although the Palestinian "infrastructure" in Lebanon may have had a negative political impact, it undoubtedly contributed to the country's economic growth by providing inexpensive labor, first-class bankers, and entrepreneurs, as well as a significant quantity of operating and capital funds. This economy once funneled an estimated $4 billion a year into its "goods and services in the domestic economy" in the form of social services, wages, and salaries. Last but not least, Lebanon was able to benefit from other nearby countries' political instability and rising difficulties because of its stable political neighbors and foreign hot capital banking system. The majority of these beneficial elements and procedures were damaged by the 1975 war, which also produced some highly unfavorable attitudes and mechanisms of its own that are proving to be challenging to change or reverse.

For over 40 years, Lebanon has been the only laissez-faire economy in the developing world (Gaspard, 2003).

Lebanon’s economy has operated without interruption since independence 1943, with free-markets and a high degree of laissez-faire. It continued to operate during the civil war, within an unsettled security and political environment.

Along with maintaining its position as a center for banking, finance, and services in the Middle East during the war, Lebanon also upheld its stance on open capital and foreign exchange markets. These actions had been successful in solidifying Lebanon's regional status as the bridge connecting the West and oil-rich Arab states. Moreover, up to the start of the conflict in 1975, the nation's finances were largely balanced or in surplus, the currency was stable, and inflation was low (Srouji, 2005).

Lebanon has also traditionally had a non-interventionist state, with the government doing little over time to promote domestic competition or balanced development policies. Gates (1998) argues that the state has limited its role to providing the basic services and infrastructure necessary for private sector activity. This has made development heavily biased towards greater Beirut and created social and regional inequalities in the country. (Sbaiti, 1994, as cited in Srouji, 2005).

Since the end of World War II, commodities and foreign currencies in particular, have been traded freely. The Lebanese laissez-faire system takes on a clearer model feature when it is discovered that it has rarely had capital shortages at the private sector level and that capital is primarily held and controlled by local rather than by foreign companies. In other words, the economy’s performance and its laissez-faire attitude are tightly related. The peculiar confessional representational political system used in Lebanon, which runs in a politically unstable region, has a strong impact on the country's economic performance (Gaspard, 2003).

Beirut established itself as a center of economic activity in the Eastern Mediterranean, and Lebanon’s position in the global market was solidified; however, the competitive force of economic liberalization was severely hampered by a lack of domestic institutions and organizations to oversee and ensure fair competition. The ensuing economic climate helped a group of company titans gain financial dominance, while financial inequality developed into a widespread issue. The mid-1980s saw a severe and unusual monetary crisis that entailed intense speculation against the Lebanese Pound and seriously harmed the economy's ability for expansion, placing significant strain on the Lebanese laissez-faire system (Farah, 2021).

Gaspard (2003) clarifies that, the seriousness of the economic situation started to become apparent to the government and the general public in the late 1990s, amid a persistent economic crisis. An international rescue effort culminated in November 2002 when Lebanon's gross public debt was approximately $31 billion and 180 percent of GDP. A group of donors, primarily Arab and European, met in Paris and pledged a total of $4.4 billion, mostly to refinance Lebanon's debt at lower interest rates. Domestic banks contributed a refinancing package worth $2 billion at no interest, joining the effort of the international contributor. However, the economic and political environment continues to be significantly impacted by the debt problem as well as the ongoing currency depreciation.

Prior to 1975, the year in which civil war started, the Lebanese economy was the most dynamic in the Middle East region. Among its distinguishing features were low rates of inflation, high economic growth rates, large balance of payments surpluses, small fiscal deficits, and a floating, stable, and fully convertible domestic currency. The liberal economic regime was characterized by limited regulations on the functioning of markets for goods and services, labor, capital, and trade, as well as by low levels of taxes compared to other similar developing countries. Lebanon also served as an important intermediary between Europe and the rest of the Middle East. Its well-educated population gave it a comparative advantage in service sectors like banking and finance, and tourism and this, combined with the factors mentioned earlier, made Lebanon the hub of economic activity in the region. In addition to the above listed considerations, Lebanon's educated population provided it a comparative edge in the service industries such as banking and finance and tourism. This made Lebanon the center of economic activity in the area. (Sadjadi, 2006).

The war did serious damage to Lebanon's infrastructure, economic base and people. The collapse of government revenues led to inflationary state financing and widespread dollarization of the economy, something which has persisted following the war (Srouji, 2005).

The effects of the war can be summarized in the following. First, the Lebanese economy's lost output was estimated at US$24 billion in 1986 (Saidi, 1999, as cited in Dibeh, 2005). In 1990, the GDP per capita was less than one third of the GDP per capita in 1974 at the eve of the war. Second, the economy experienced a massive destruction of capital stock. It is estimated that the physical assets destroyed during the war are around US$25 billion (Gressani & Page, 1999, as cited in Dibeh 2005). Third, Lebanon suffered from the loss of human resources through war casualties and emigration. Fourth, there was a deterioration of the infrastructure of the economy; mainly the electricity, telephone, water and road networks. Fifth, the negative productivity shock and the inflationary crisis of the 1980s led to massive redistribution of income and factor shares. The prewar wage share which reached 50-55 per cent was reduced to 15-25 per cent by the end of the war. Sixth, the war caused a weakening of state institutions including the military, security forces, administrative capacities and especially revenue generating capabilities and resource mobilization (Dibeh, 2005).

The Taef Accord of 1989, which put an end to the civil war, strengthened Lebanon's unsatisfactory consociation system of government and contributed to the country's high wealth and income inequality. Theoretically, consociation democracy is favorable since it requires an equitable distribution of power among many different groups in order to minimize civil unrest. In actuality, though, it profoundly distorts governance. In the case of Lebanon, it gave the elite—the sectarian political leaders who established a "party cartel" system various opportunities to enrich themselves at the expense of the majority, particularly in the years after the assassination of former prime minister Rafik Hariri in 2005 and the Doha Accords of 2008 (Assouad, 2021).

Assouad (2021) further argues that National unity governments, cannot consistently carry out cohesive public policies in the common good due to their fragmented nature and the frequently opposing interests of the political parties they represent. Despite their ideological differences, the elites who support such administrations frequently work together to pillage the state, defend their economic privileges, and thwart political competition from outsiders, especially those who want to alter the system.

The Effect of the Lebanese Political Economy on Currency Depreciation

A political-economic regime conducive to inflation was born out of the failure of the 1979-83 attempt by the central bank of Lebanon at the resurrection of the pre-civil war classical deflation-biased laissez-faire economy (Dibeh, 2002).

Dibeh (2002) argues that disequilibrium forces in the economy were caused by the state's fiscal crises and the rigidity of real wages, and they contributed to the emergence of this new political-economic regime. The attempts by the central bank to stabilize the currency were failed because the financial, industrial, and public sectors profited from the inflationary and currency crisis.

The years 1991 and 1992 proved to be difficult both politically and economically. Contributing to this situation were the needs for reconstruction of physical, social, and legislative infrastructure. While the Lebanese pound-US dollar exchange rate stabilized in 1991 (to about 880 pounds per dollar according to Banque du Liban), hinting at some economic and political confidence, it dropped rapidly by 64 percent in nine months by September 1992 (Gaspard, 2004).

According to Shahnawaz (2006), political stability increased in 1993 while Rafik Hariri was prime minister, who held the position from late 1992 to 2004 with just a brief break from 1998 to 2000. His administration prioritized reconstruction, and this decision was supported by a public declaration of its commitment to stable exchange rates.

The Lebanese government's rehabilitation plan was outlined in "Horizon 2000, for Reconstruction and Development." In this plan, \$14.3 billion was projected to be spent from 1993 to 2002 on sectorial and regional restoration and development (Shahnawaz, 2006).

In addition, the plan called for the private sector to take the lead by investing twice as much as the governmental sector, with a total rate that averaged 31 percent of GDP during the course of the plan. However, the plan did not adequately consider post-war reality and did not establish its foundation on the availability of the economy's already-existing resources or the severely damaged economic structure. The suspension of the plan's implementation by 1997 did not come as a surprise as a result of these structural and macroeconomic issues as well as other severe economic developments. The Horizon 2000 program had to be suspended as a result of mounting public debt levels and associated financial issues (Shahnawaz, 2006).

Furthermore, a war-torn economy is likely to receive significant foreign investment as it recovers. In reality, Lebanon in particular changed its tax structure to promote both domestic and foreign investment as well as entrepreneurial activity. The pressure to appreciate the Lebanese currency would also be explained by this. In general, the trade balance deteriorates up until the year the real exchange rate reverts (Dibeh, 2005).

After the program's implementation, Lebanon's trade balance continued to decrease steadily. Nearly four years later, there was a very modest trend toward improvement, but this has subsequently changed to the country's greatest trade deficit since the end of the civil war.

As was already mentioned, the Lebanese currency gained overall value before stabilizing at a stable nominal exchange rate. As a result, the real exchange rate has been rising over time and has been nearly stable in recent years. Real interest rates have likewise been steadily falling after showing no real pattern in the few years immediately following the program (Shahnawaz, 2006).

The political unrest, which has a negative impact on investors' and businesses' confidence in the Lebanese economy, is another factor that undermines credibility. The economic climate also had to deal with Israeli attacks in 1996 that destroyed crucial infrastructure (Shahin, 2002, as cited in Shahnawaz, 2006).

As of 1990, a constant negative trade balance was the result of the political and economic elites' convergence, with political elite cooperation facilitating the economic elite's companies, monopolies, cartels, and dominant market position. Because the Lebanese Lira was overvalued, it meant that Lebanese items were overpriced in comparison to their overseas competitors (1,507 Liras to the U.S. Dollar as of 1997). This made imports more competitive with locally manufactured goods in Lebanon. The national economy suffered, but it gave Lebanese residents' access to a lifestyle that a floating currency rate may have prevented (Helou, 2018).

Helou (2018) elucidates, that the elites' cooperation resulted in an economic arrangement that increased the nation's debt through the financing of government expenditures by banks, the issue of bonds with high interest rates, and a collusive bond-ownership pattern that frequently allowed political elites to spend money in public office while collecting rent from the growing debt. In the rentier economy, where Lebanon developed into a center for real estate development, import-focused consumption, and tourism, their shared interests came together.

But remittances started slowing from 2011 as Lebanon's sectarian squabbling led to more political sclerosis and much of the Middle East, including neighbouring Syria, descended into chaos. Sunni Muslim Gulf states, once reliable supporters, started turning away because of the rising influence in Lebanon of Iran, via Hezbollah, a heavily armed Lebanese Shi'ite group whose political power has grown (Blair, 2022), which contributed to a sharp decline in financial inflows to Lebanon that resulted in a negative balance of payments as of 2011. This implied that foreign currency reserves in the central bank were dwindling and that the cost of maintaining the Dollar peg was increasing (Helou, 2018).

As mentioned previously, during this period, the central bank issued Euro-bonds to attract liquidity in foreign currencies, but a majority of those who purchased the bonds were Lebanese, meaning that very little liquidity in foreign currency entered the country. These financial distortions led to a gap between the official exchange rate of the Lebanese Lira and its market rate by the summer of 2019 (Helou, 2018) and the currency lost its value steeply on the open market, losing 80 to 90 percent of its worth, even as the official rate stayed stuck at its 1997 peg (Vohra, 2021).

Some economists have described Lebanon's financial system as a nationally regulated Ponzi scheme, where new money is borrowed to pay existing creditors. It works until fresh money runs out. As transfers fell short of imports, the budget deficit widened and the balance of payments deteriorated further. That is, until 2016, when banks started providing astounding interest rates for new deposits of dollars, a recognized currency in the dollarized economy, and even more astounding rates for deposits of Lebanese pounds (Blair, 2022).

In October 2019, a proposal to charge for WhatsApp calls served as the final ignition for rebellion. A political elite, including elderly militia commanders who prospered while others struggled, was the target of large-scale protests organized by dissatisfied youths demanding radical change. Foreign currency inflows stopped as dollars left Lebanon. Banks had to close their doors because they ran out of cash to pay depositors who had gathered outside in a line. The nation's international debt was also in default. When the crisis hit, the currency's value plummeted from 1,500 to the dollar, reaching 34,000 early in the month, to a street rate of roughly 23,000 in late January 2022 (Blair, 2022).

Theories of State Capture

Srouji (2005) considers Lebanon's public debt crisis as a case of state capture. The elite strengthened its control over monetary and fiscal policy, reconstruction policy, and other areas of personal interest by seizing key state institutions. This allowed the elite to manipulate these policies to direct resources away from other areas of public interest and toward the banking and financial industry. This capture caused the Lebanese state to quickly reach unmanageable levels of public debt.

The neo-liberal perspective of state capture, which currently holds sway, is propagated by the World Bank and other international financial institutions. For neo-liberals, state capture occurs because policymakers are inherently corrupt and use state power for rent allocation and patronage (Robison & Hadiz, 2004). Neo-liberals believe in self-regulation, the economic assumption underpinning their view of state capture being that the forces of demand and supply are better determinants of interest and exchange rates, ensuring availability of capital through savings. Rent-seeking and capture of economic policy by policymakers militate against efficient allocation of savings and investments, thereby hampering economic development (Srouji, 2005, as cited in Dassah, 2018).

According to the World Bank Lebanon Economic Monitor (LEM) Fall 2021 “The Great Denial”, Lebanon’s deliberate depression is orchestrated by the country’s elite that has long captured the state and lived off its economic rents. This capture persists despite the severity of the crisis -one of the top ten, possibly top three most severe economic collapses worldwide since the 1850s; it has come to threaten the country’s long-term stability and social peace. The country’s post-war economic development model which thrived on large capital inflows and international support in return for promises of reforms is bankrupt. In addition, the collapse is occurring in a highly unstable geo-political environment making the urgency of addressing the dire crisis even more pressing (World Bank, 2022).

Lebanon today is almost three years into an economic and financial crisis that is among the worst the world has seen. The assessment of Nassar et al., (2021) estimates that "Lebanon will take between 12 and 19 years to recover." Yet, there is no way to recover without a credible, comprehensive and coordinated macro-financial stability strategy, and while waiting for a significant breakthrough, Lebanon is rapidly heading toward oblivion. For the most vulnerable groups as the nation falls apart, terrible outcomes are anticipated over time.

Research Methodology and Data Analysis

This chapter comprises the research methodology for this thesis. We will describe the research method and approach, data collection method and tools used, and sample selection. We will also cover the research process, keeping in mind the ethical considerations and research limitations.

A- Research Methodology

Research Method

A qualitative research method was deemed best for this study. It is a research design that places more emphasis on words than on numbers while gathering and analyzing data (Hammersley, 2013). This method would best assist this study, because the effect of politics and economics on the economic collapse in Lebanon in addition to the relationship between the Lebanese currency depreciation and the Lebanese political economy require a deep understanding and inquiry and cannot be measured in numbers. In fact, qualitative research recently has been the most widely used methodology in the field of social sciences in general, and in political science and international relation in particular (Blatter et al., 2016). Since, the political economy of currency depreciation in Lebanon is the subject of our thesis, it necessitates a complete qualitative document analysis of historical events and secondary data, which was done in all of the earlier sections of the study. According to Sandelowski (2004), the term "qualitative research" refers to a collection of perspectives that aims to understand how people see, comprehend, interpret, and create the social world. The social world, according to interpretivists, “is not an objectively existing entity”; it is rather built by subjectivity (Tsang et al., 2019, p.2). And if so, then the actuality and the fact cannot be discovered and attained through objective scientific methods (Tsang et al., 2019).

Furthermore "Qualitative research is also referred to as naturalistic research or inquiry into everyday living (Taylor, 1977). Direct observations are made of human behavior in everyday life. Drawing on Symbolic Interaction Theory (Blumer, 1969), naturalistic researchers contend that "intimate familiarity" (Lofland, 1976) is a considerably superior source of knowledge than the "objective" distancing approach purportedly characteristic of quantitative methodologies (Haworth, 1984). According to Creswell (2007), one only needs to contact individuals, acknowledge their points of view, and explain the significances that they bring to the world in order to understand and find subjective truths. The primary distinction between qualitative and quantitative research is that the former gives a complete interpretation and description of the study issue without limiting the scope of the latter (Collis & Hussey, 2003). For this reason, qualitative research method was adopted in this thesis.

Research Approach

The research approach adopted for this study is an inductive approach which does not involve a formulation of a hypothesis. The relevance of hypothesis to the study is the main distinctive point between deductive and inductive approaches. Deductive approach tests the validity of assumptions (or theories/hypothesis) in hand, whereas inductive approach contributes to the emergence of new theories and generalizations. It starts with research questions, and the aim of the research process will focus on finding answer to these research questions. The answers to the research questions to be found by the end of the research process (Bryman & Bell, 2015).

In qualitative research, information is acquired through using the inductive approach instead of the deductive one (Lai, 2019), where theories are not evaluated after data gathering but rather conceptions and perceptions are generated from samples in the data (Taylor et al., 2016). Thus, the inductive approach begins with data collection, from which generalized theories are produced (Blaikie, 2004); it contends from a sequence of details to a universal statement (Maxim, 2004).

This is what we are doing in this study, whether in our secondary data analysis, where we examine every case in detail to create generalizations, or in our analysis of the primary data that we gathered from the chosen sample of interviewees, where we try to make a broad conclusion, and this is what will be shown in the following section of this chapter.

Furthermore, because we noted in the preceding section that a key benefit of qualitative research is that it exhibits a full analysis and interpretation of the research issue, this analysis is carried out using the inductive approach in order to develop findings and concepts (Whitman-Cobb, 2020). Consequently, it would be necessary to use the inductive approach and qualitative research method that are most appropriate for our study, like most scholars of political science who also believe that such methodology is more appropriate and pertinent than digits or numerals that could barely convey something outside an econometric or statistical software (Whitman-Cobb, 2020), and which might not benefit our research subject in particular in any way.

Data Collection Method

To reach the aim of this research, in-depth interviews were used. Social researchers depend heavily on rhetorical techniques to gain information about the social world (Taylor et al., 2016). And because our research subject is classified within the field of social science, the interview is considered to be the most recommended method to be used by researchers in this field (Benney & Hughes, 1956), and political science researchers particularly often use interviews as their method for collecting data (Lynch, 2013). Cammett (2013) validates that in-depth interviews are a valuable method for gathering accurate data for political science research, in which they involve open-ended and unstructured types of questions (Taylor et al., 2016); implying they are adaptable and efficient at the same time. In terms of efficiency, well-managed interviews may supply us with information or facts that may not be found in any other source (Lynch, 2013). In-depth interviews assist us in comprehending the experiences people have had and the relative significance they have drawn from them (Seidman, 2013). Consequently, the reason behind adopting in-depth interviews in this thesis, is to fill in or replace any material that may not be easily available in the secondary data we have gathered.

To be more specific, understanding the Lebanese political economy and its relationship with the recurrent currency depreciation in Lebanon, especially the most recent one which lead to a dramatic economic collapse, may not be tangible without an intensive inquiry. Furthermore, the reasons behind the currency depreciation in Lebanon need to be investigated and the evaluation of the Lebanese political economy can be better assessed through interviews.

In addition, the lack of recent academic sources, such as books, and articles about the Lebanese economy, since most of the previous studies were done about the pre-and-post war period, and that was previously stated as a limitation of the study, necessitates interviews for better interpretation and analyses of subject. Nevertheless, the effect of the Lebanese political system and its geopolitical situation, needs to be taken into consideration, since Lebanon is a country that was historically unstable, and the aim of this study is to draw a clear conclusion on how the stability of Lebanese political system affects the stability of the Lebanese currency, which cannot be accomplished without in-depth interviews.

Therefore, the use of such interviews is crucial because from one side we are given the opportunity to be following up the interviewees' responses and asking them to elaborate particular points (Gillham, 2000), and from another side because they are more inclined to draw out trustworthy answers (Cammett, 2013), provided of course that interviewers have acquired the essential competences to effectively perform interviews (Fischer, 2006; Kothari, 2004).

Additionally, the use of in-depth interviews "complements other modalities of data collection" in a thesis (Cammett, 2013, p.134). In other words, interviews are frequently combined with other types of data to build arguments in order to take advantage of the efficacy of the data gained from interviews and minimize the deficiencies as much as possible (Lynch, 2013); and this is what will be done in this thesis. The decision to use in-depth interviews is also an effort to strengthen the validity of the findings drawn from our documents' analysis, in the first chapter and second chapter of this thesis, which needs to be validated by consulting experts from the economic and political Lebanese sectors.

Data Collection Tools

According to Gillham (2000), the tools used for data collecting should be consistent with the nature of the questions the research is posing. Since our research involves in-depth interviews to produce detailed responses, it should require the use of semi-structured questions. Such inquiries do not necessitate that the researcher or interviewer stick to a predetermined set of questions (Doyle, 2020). Instead, they serve as a researcher's interview guide and can provide reliable qualitative data (Cohen & Crabtree, 2006). The advantage of using this interview guide is that it allows the interviewer to direct the process of gathering information from the participant, while yet having the freedom to deviate from the predetermined range of questions (Bernard, 1988). In order to achieve the goals of the research, we produced a precise list of questions for our study that served as our guide when conducting the interviews. But as the interviews progressed, new inquiries surfaced; this occurred because the questions asked at the start of every interview served only as issues of inquiry. Later on, however, and because each person had unique expertise and experience to give, more questions were asked in order to better understand and support their viewpoints.

As a result, as we progressed through our interviews, we learned and uncovered more material that was more relevant to our issue and that we had never even considered looking for in our secondary data. In actuality, we gained a lot of knowledge and confidence from conducting each interview, which is how we knew more about what to ask in later interviews than in earlier ones. Gillham (2000) confirms that "as you find out more, more specific questions emerge" (p.20). Despite the method employed, he continues, some topics become more important as your research goes on, and you want to learn more about them, especially for in-depth interviews and semi-structured questions (Gillham, 2000).

Since the aim of this study is to understand the reasons behind the Lebanese economic crisis and how the Lebanese political system affected the Lebanese currency depreciation, the following basic semi-structured questions that were involved in our in-depth interviews, were addressed:

Question 1: *How does political stability and various political factors affect the value of currency?*

Question 2: *What are the key economic factors that caused currency depreciation in Lebanon? And how can the Lebanese government revalue its currency and stabilize it?*

Question 3: *Which political path should Lebanon take towards monetary stabilizations?*

Question 4: *Lebanon is never at low risk of political unrest, to what extent do its numerous internal conflicts as well as its geo-political connection to the region's turbulences have a negative effect on the country's economic growth?*

The questions were carefully selected, as was their placement. The questions must be arranged logically, either topically or sequentially (Gillham, 2000). In other words, whether in terms of their subjects or in terms of their generality and specificity, questions should be organized in a series-way in which they appear to follow one another.

In our thesis for instance, the questions were asked according to their importance to the subject of research and in terms of their interrelated relationship. The first question elucidates the major reasons behind the Lebanese currency depreciation. Logically speaking, this question acts like an introduction for the interviewees about our topic, putting them at ease to elicit from them the most satisfying responses during the interviews; as far as content, the first question constitutes the core essence of our topic or the most important part of our research, since it discusses how the Lebanese political stability affect the value of its currency.

The second question is also important content wise, because the aim of this thesis is to find out how the Lebanese political system affects the Lebanese currency rate. With this question, we moved to discuss the key economic factors that caused currency depreciation in Lebanon and how can the Lebanese government revalue its currency and stabilize it.

As for third question, it is important to mention that, up to the present and while we are writing this study, Lebanon is still facing the same problematic and the outcome of the Lebanese political system is devastating on both the Lebanese population and the Lebanese economy with all its sectors. Hence, it is important to investigate further and add to the theoretical framework that described best the Lebanese political system and its political economy, another question about, what is politically necessary to stabilize Lebanon's situation and which political path should Lebanon take towards monetary stabilizations.

It is necessary now to dig deeper in our research and complement the secondary data stated previously in our review of literature and theoretical framework. The aim of the fourth question is to validate what was previously written about the history of the Lebanese political economy, the internal conflicts as well as Lebanon's geo-political connections. Thus, we gathered our participants' opinions about the relationship between the Lebanese political stability and its economic growth.

Finally, it is substantial to mention that the order of the questions and their formulation were based on the structure of the thesis. While questions one and two complement and provide more evidence to the review of literature and theoretical framework, questions three and four offer a deeper analysis and suggestions about Lebanon's monetary stabilization and economic growth.

Sampling Method

Another important issue that needs careful attention is choosing our samples from the relevant population. This is the rationale for our decision to use non-random persuasive sampling to choose our interviewees. This method, which some sources may also refer to as judgment sampling, is a non-probability sampling technique (Walliman, 2011). This type of non-random persuasive sampling necessitates choosing individuals based on their experience and knowledge that would best assist a research project (Freedman et al., 2007), as well as having enough information about them to ensure that they are pertinent to the subject being studied (Lynch, 2013).

To fulfill the aim of this thesis, we have chosen our interviewees very cautiously based on their knowledge and profession in order to provide a rich and valuable answer for each question. While some questions could be answered by political analysts, or politicians, other questions may require much explanation from academic professors, researchers and economists. For this reason, we chose to interview five participants from different professions, mainly, from the fields of economy and politics. To protect their anonymity and ability to freely express their thoughts, the interviewees and their various professions are listed below as blind profiles.

Interviewee 1: Adjunct Assistant Professor of Political Science and International Affairs, Department of Social and Education Sciences, Lebanese American University.

Interviewee 2: Member of Lebanese Parliament, Former Deputy Prime Minister, Former Minister.

Interviewee 3: Professor, Faculty of Economics and Management, Lebanese University. Member of the Municipal Council of Ashkout, Kesserwan and Head of Social Affairs.

Interviewee 4: Economic Expert and Analysist, Professor and Former Dean of the Faculty of Business administration and Economics, Notre Dame University. Board Member of the National Council of Scientific Research in Lebanon.

Interviewee 5: Former Minister, Associate Professor, Faculty of Humanities, Notre Dame University, Lebanon.

Research Process

The interviews with the participants indicated above took place between February and July of the year 2022 and were done "face to face". The live discussions ranged in length from one participant to the next, but they often lasted around an hour. We have recorded the discussions and made notes in order to analyze the data collected properly and effectively, always with the respondents' permission. This is because, according to Gillham (2000), if interviews are not entirely recorded or written down, they cannot be analyzed and afterwards produce a coherent sense. As we previously mentioned, this is consistent with the nature of the qualitative research method in general, and the in-depth and semi-structural interviews in particular. During the course of the interviews, the interviewees had the absolute freedom to express their point of view, even beyond the themes that were included in our specified list of questions. Overall, we can state that the research process was smooth and enjoyable.

Ethical Considerations

According to Brooks (2013), securing the protection, comfort, and respect of the research participants is a fundamental responsibility for all researchers. For this reason, our research was dependent upon certain ethical issues. All interviewees attested to their willing participation in the interview and were informed in advance by mail of the content and objectives of our study. They were also informed that their participation and responses would only be used for academic purposes, specifically for this study's purposes, and that they would not be shared with anyone else. However, and as we previously stated, the names of our interviewees are not mentioned (blind profiles) in order to protect their privacies and their comforts while expressing their opinions.

Research Limitations

The major drawback associated with qualitative cultural analysis is that this process is time-consuming (Bowen, 2006). Since qualitative study delves into personal interaction for data collection, often discussion tends to deviate from the main issue to be studied (Chetty, 2016). Also, the interpretations of researchers are limited. Personal experience and knowledge influence the observations and conclusions related to the research problem. In our case, some of the interviewees gave an extensive answer and deviated from the original question, which made the analysis and interpretation more complex and time consuming. However, the decision to use non-random persuasive sampling has played a significant role in minimizing the extent of complexity as much as possible. To do this, as we previously indicated, we carefully picked the respondents based on their knowledge and professions. Another constraint was the limitations in the existing academic literature as mentioned previously leading us to restrict our analysis on the last financial crisis that took place since 2011 and specifically after October 2019.

B- Data Analysis

Data Representation and Discussion

The aim of the interviews is to analyze the political and economic factors that contributed to the currency depreciation and to investigate further the relationship between the political stability from one side and the political economy from another on the value of the currency. As discussed in chapter one, the two main characteristics of the Lebanese state, have been its sectarian nature and its liberal economics. Furthermore, the relationship between the central bank, the government and the banking sector played a major role in shaping a weak Lebanese political economy, due to the country's elite power-sharing system.

The following tables include the answers of the respective interviewees to the research questions:

Table 1

	Question 1: ***How does political stability and various political factors affect the value of currency?***

Interviewee 1	The political stability affects the value of the currency. He said that the political stability depends on how we define it vis a vis of the different economic factors that contribute to that political stability. The first factor is that, Lebanon's economy in general and the size of its economy and the nature of its economy is very volatile, meaning that, the Lebanese resources and its export are minimal when compared to other countries. In Lebanon our resourses are limited to few local manufactured products, that doesn't allow us to compete with the regional environment around us, with the regional trade. During the post Taef agreement, we depended on non-productive sectors, such as tourism, real estate, and banking, meaning that those sectors, specially the banking sector, were not able to keep up with a good financial sector. The second factors, is the Lebanese policy of a fixed exchange rate since 1997, which contributed to our current crisis because it made imports more affordable to the Lebanese population at the expense of locally produced goods. If we take a look at the balance of trade in Lebanon, it has been in the negative since 1990 consistently.
Interviewee 2	Currency is usually backed up by foreign reserves available in the central bank. However, the economic and political stability of a country also have a direct impact on the currency because it increases the risk of trade and investment and economic risks which also back up the currency. Currency is not only backed up by foreign reserves it is also backed up by economic growth and stability and political stability as well, which also impact foreign reserves, because foreign reserves are formed and made from foreign currency coming into the country, and it can only come into the country if there is stability. So, this how the political stability affect the value of currency.
Interviewee 3	When talking about political stability, we mean the Rule of Law, strong institutions, efficient governance, low corruption, and an enabling business and investment environment. Consequently, when a country lacks such fundamentals, local and foreign investors' confidence in the country weakens and so do foreign direct investments and remittances, which have been essential over the past decade-plus to maintain the peg with the US dollar in Lebanon. The unstable political environment in the country, the unstable Democracy, the abuse of power, and the overall corruption weakened the state's ability to submit a coherent and cost-saving budget, to plan strategically and to provide the fundamental public services, such as infrastructure, access to food, education, health care and other. This influenced in a negative direction the level of GDP, which affected the value of the currency, and led to its depreciation starting 2019.
Interviewee 4	At a first sight, my first impression is that there is no direct relation between these two issues. Because the monetary policy is conducted by a public monetary institution called the central bank. Which is totally autonomous, totally independent from the government or from politics, if we consider that the government is politics or practice politics. Unless, the governors and the administrators of the central bank open the door for politicians to step in to intervene to have their say or influence on the central bank. In Lebanon, the government and the other administrators were mistaken, because they didn't apply the total neutrality or independence from politics of the central bank. Personally, I don't find any legal or at least legal relation between politics and the monetary policy conducted by an autonomous institution which is the central bank if again and again the governor, the other administrators, insist on applying strictly the rules and regulations of this institution that manage and condition this institution. You could have an unstable political situation and at the same time you can have a reasonable strong currency. If the central bank is fulfilling its full mission properly and applying the Lebanese law on money and credit, you can still have a strong currency with all the political instabilities.

Interviewee 5	The issue is about how the government is managing the social affairs. They fixed the currency in an artificial way and then the situation was out of hands because of the corruption in the country. In fact, is not about the nature of the economy, if it's industrial, touristic or else, but it is how the government is managing the flow of money generated from these sectors. Lebanon has passed through a lot of critical political situations since the 1975 war, one of them is the era of the Syrian regime control that ended in 2005. The political corruption surely led to the economic corruption, thus affecting the value of the currency. During the cabinet sessions of the Council of Ministers, we witnessed how they used to agree on the table how they will distribute the money even before receiving the revenues from the various sectors. The Lebanese lira has no value now, because of that, the country dollarized itself.

Table 2

	Question 2: ***What are the key economic factors that caused currency depreciation in Lebanon? And how can the Lebanese government revalue its currency and stabilize it?***
Interviewee 1	The economic factors that contributed to the currency devaluation, are the money that disappeared, since the beginning of the revolution, around 30 US billion, and this is not the consumption money (spent on the subsidies, oil, medications, wheat and so on so forth), nor the money that was transferred outside the country. The looted money is the money that was corrupted or spent on the government's projects. Returning the money requires may be European or American sanctions, and this is a political decision. Of course, there are experts in law that might know the legal procedure to do so, but from a political perspective, I don't see it politically viable. The depreciation in the currency market is directly connected to the size of the reserves in the central bank. When the amount was up to 4 billion the central bank was able to price the fixed exchange rate at 1500. As long as the central bank was able to supply these dollar bills (since in Lebanon, we depend on using the cash) we didn't have any issue in the exchange rate. The depreciated Lebanese lira can no longer support its reserves, when you print money, you are automatically feeding your inflation. The market has become so volatile and sensitive that it allows a lot of political intervention. Today if Riad Saleme agreed with a couple businessmen or politicians to pressure any political side, he will float the dollar. The government cannot fix this issue unless they have a complete economic plan. On the other hand, the World Bank and the IMF plan, will create austerity measures downsizing the public sectors, this will all affect the country for the years to come. If the IMF reaches a certain solution with Lebanon, this will lead to the currency stabilization, not currency fixation, because the fixed exchange rate will lead us to the same problem, which means we keep the currency floating within a certain range. Unless we address the negative balance of payments and start putting it in the positive through the balance trade, financial sector, productive sectors, small and medium enterprises, investments, and enlarging the private sector. Restructuring the baking sector in Lebanon is another important thing. I don't believe that the baking sector in Lebanon should be unscaled. According to Jad Chaaban, a

	Lebanese economist, there is 40 to 41 % of politicians that sit on the board and trustees of major banks in Lebanon. So, they were lending money to the government and then took part of the governments' budget. They knew that the government and the economy were unproductive, yet they were happy with that. There is a need to address these losses, the bank's continuous credit to the Lebanese government did contribute to this economic crisis and therefore the people cannot bear the brunt of full losses in Lebanon. Not the people should bear all the haircut, capital control and all those restrictions. All the above reasons are connected.
Interviewee 2	First, let us start from the end. Currency depreciation started by the lack of foreign currency available in the central bank to back up the local currency. This lack was triggered basically by the consistent economic downturn over several years, due to consistent public spending without any development, and by the consistence of a negative trade balance. So, we were actually buying more than selling for several years. All of this reduced and shrunk the foreign currency reserves and the capacity for the central bank to back up the local currency. On top of that, a consistent political instability over years, due the void in the presidency for two and the half years. The lack of investments in infrastructure, corruption, and the bad policy by the political majority, as well as, a fiscal policy that was almost non-existent from the finance ministry and the cabinet. The Lebanese government can only stabilize the currency if it actually lets it float freely while conducting reforms on the political side and the structural side. It can introduce new policies to make sure that there is economic stability by conducting reforms in the public sector, by installing independent authorities for each sector, by opening the markets for foreign direct investments for competition, and by protecting its sovereignty from the uncertainty of the existence of the paramilitary groups outside the control of the government, on the contrary they are controlling the government rather. So, all of the above measures, can have a direct impact on the currency stabilization.
Interviewee 3	Years of sectarian wars and political unrest in the region have led to the degradation of Lebanese society creating many unnatural and unilateral sectarian fractions under one flag. They led to the collapse of the Lebanese currency that slid from 1.500 LL to the dollar in 2019, to 34.000 LL in January 2022. Mismanaging the economy blocked long-needed reforms and produced a rentier economy feeding off a corrupt state. The mismanagement was covered by the state borrowing from foreign entities and then from the Lebanese banks which totally ignored their fiduciary duty to depositors by lending a failed state. Eventually, Lebanon began to run out of reserves and the banks were not able to attract foreign funds to cover the deficit. Key reasons behind the currency depreciation include: (i) The widespread corruption across ministries and industries most notably the ministry of energy which cost Lebanon more than $40 billion over the years (a substantial amount of the current debt). (ii) The halt of foreign exchange inflows that were discouraged after the deterioration of the Lebanese relationships with the Gulf countries and KSA, and dropped the GDP to $21 billion in 2021, according to the World Bank reports. (iii) The different financial engineering operations led by the BDL, based on accumulating foreign currencies with high interest rates, causing a Ponzi scheme effect and a consumption bubble. (iv) The subsidy program, financed by the BDL foreign currency reserves, and estimated at $405 million per month, that was meant to import items such as fuel, wheat, medicine and other; but wasted the hard currency, only to smuggle the imported items into Syria, through the Hezbollah controlled borders. (v)The government default by $1.2 billion Eurobond, in 2020, that was the first sovereign default for the country. (vi) The monopoly power of some sectors and industries, such as the Telecommunications sector, EDL, Casino Du Liban, The MEA, and others, who set the price they want, offer products

	with no substitute, and cause inflation. (vii)The tourism sector that had been repeatedly hit, because of the different wars with Israel, the Covid-19 pandemic, the closure of the airport, compounded by the 4th of August Beirut port explosion. And finally, (x) The undeclared haircut on dollar deposits that affected the smaller depositors, while funds were bleeding out of the country considering the parliament's failure to pass a capital control law, on time, in response to the crisis. What is needed is a deep political transformation, and the willingness to apply harsh reforms starting with the abolishment of sectarianism and clientalism. Before the upcoming elections, the government will need to strike a deal with the IMF, secure enough funds to jumpstart its economy, and guarantee a safe passage to foreign direct investments. As inflation is hitting high records, the currency board would have been a good starting option. It could have built confidence, organized the multiple exchange rates, and stabilized the Lebanese economy. But now, with \$28 billion in reserves, including gold, and with a banks' balance sheets hole surpassing \$83 billion; a program to restructure the banking system had become more than vital. The program can help the banking system regain its liquidity and solvency, operate with the international financing system, and preserve its relations with the correspondent banks. Around 50% of the banks need to be liquidated while mergers and acquisitions between banks should be designed. After decreasing the number of banks, and lifting banking secrecy, it would be of interest to follow the example of the Swiss National Bank, described as a joint-stock company, and convert the remaining \$12 billion in reserves, into bank *shares*, known as "*bail-in*". Voting shares will be then held by the public shareholders. Furthermore, the government will need to deal with all the leakages in its vital industries such as electricity, government positions, the airport, the port, the communication sector, and other sources of corruption and waste. Establishing a National Sovereign wealth fund based on clear standards and external audits can limit corruption and build public confidence in the management of the resources revenues. There is an urgent need to digitizing the public sector including the customs processes while reforming the public procurement. The government will also need to boost the main economic drivers, which are the family centered startups and SMEs that can create jobs, foster innovative and creative activities, produce, and invest. Encouraging the entrepreneurial ecosystem can reduce brain drain and poverty, develop competitive advantages and contribute to the country's economic growth. Encouraging exports can help the country gather more USD and enhance its reserves. Also, tourism which used to be a great source of foreign currency flows into the country can help build reserves further. The government should lend serious attention to this sector and make the country appealing to foreign visitors. Lastly, the availability of gas and oil on Lebanese land could be a great source of wealth that is much needed. But that won't be available for 7 to 8 years and will require full transparency and modern laws to bring this project to fruition. Meanwhile, the country can benefit from the abundance of water, wind and sun and embrace these resources sustainably. Legal and policy frameworks should be ratified to grow renewable energy, through public and private sector partnership.
Interviewee 4	We know that the most important guarantee for the stability of any domestic currency is no more gold after the fall of the Britain woods agreement precisely in 1971. But in 1971 the quantity of dollars "Mass Monitaire" became so important and the stock of gold didn't expand as the expansion of the money (\$). Therefore, such conversion wasn't at that time anymore applicable. That's why President Nixon declared that from now on our dollar will be directly linked to a series of indices like, evolution of inflation rate, of the unemployment rate, the deficit in the trade balance, the deficit in the balance of payments,

	the expansion of the public debt, consumption in general, demand in general and the economic growth. In other words, if this quarter the unemployment rate has increased automatically the dollar will depreciate on the exchange rate market in the states Vis a vis toward other international currency for example the euro. This was the best way that this flexibility of the exchange rate was considered as the most important solution for any domestic economy to adjust itself by itself. In Lebanon surely, we did the opposite. We fixed the exchange rate and this was a very honorous policy it cost the Lebanese depositors, and public treasury billion and billions of dollars that the central bank was obliged to use in stepping in the exchange rate market to keep the exchange rate of the lira fixed vis a vis the USD and it wasn't the best way to keep the entire competitiveness of our domestic production. What is happening now with the depreciation of the lira is due to many factors. First, we have a central bank that doesn't owe/ possess anymore expect 9 million 2 hundred and 20 thousand ounces of gold that are worth now around 20 billion dollars. This is the only real reserves that our central bank owns. While the dollars that were deposited in the central bank by the banks were the ownership of the Lebanese depositors or the non-Lebanese depositors in the commercial banks. And those deposits in the central bank amounted up to 75 billion dollars that most of them have disappeared. That's why an international company society has been in charge to investigate about the reasons behind this financial gap by the central bank that is estimated around 55 billion dollars. 55 billion dollars does not exist anymore. We call this "forensic Audit". Here, we don't only notice an error in the figures but we investigate about the reason behind committing these errors. This is the difference between auditing and forensic audit. Then, all the dollars that still exist in the central bank are the ownership of the depositors. The central bank does not own any penny of the cash, it owns only the stock of gold. In parallel, and since 2019, the beginning of what we have called the social revolution in Lebanon, around 20 billion dollars has been withdrawn from the banks and transferred inside the country and outside the country deposited in foreign banks. After this illegal operation, why illegal? Because the information at that time was given for a limited number of big depositors and influential people and there it was hidden from the rest of depositors that banks will be exposed to a serious risk of illiquidity. Here, the Lebanese depositors have lost practically their money savings in the banks plus the central bank has lost the financial gap the 55 billion dollars belonging to the Lebanese depositors and the public treasury have lost billion and billions of dollars indebted from international conferences like the Paris conference or from other international banks and financial markets. The public sector, central bank, commercial banks and the private sector have incurred a national bankruptcy in the absence of capital and because the government was obliged to pay at least its employees, the employees of the public sector like the army and the military forces. The government was indebting from the central bank liras through the creation of new liras. The only institution capable of creating liras/ domestic currency is the central bank. Because of these facts, the Lira is weak and will continue to depreciate. In this very particular case, we can perhaps discover a certain relationship between politics and the depreciation of lira. Where exactly? When the governor acts against our law on money and credit and lent the public treasury billions of dollars. Why? When we read carefully our law on money and credit in Lebanon we see it stipulated very clearly that the central bank doesn't have and prerogative to lend the public treasury but only to give it what we call an exploitation credit. Here, we can at the same time assure that this governor fell under the influence of politicians and perhaps together they were partners in stealing the savings of the Lebanese and non-Lebanese depositors in the banks, benefitting from a certain external political protection if we consider that there was a plan against Lebanon

	to let it fall financially, not because of terrorism but because of a financial crisis, provoking a financial crash.
Interviewee 5	Again, the political corruption has led to the economic corruption. For example, the decision of the Central bank to debt money to the government was taken during the cabinet sessions. The maladjustment of political life led to the maladjustment of economic life. We can have a rentier system because there is a lot of money that enters the country, in addition to foreign investors that used to have trust in the banking sector in Lebanon, however, the result was that everything collapsed together. In addition, the largest mistake that was made, is fixing the value Lebanese lira to 1,515 for each 1$. This fixation of the currency, made us live in a delusion, rather than letting the currency flow, so that the economy regulates itself. With all the mess in the country today, I consider that the economy is regulating itself with the flow of the currency, yet, there is still a need to unify the value of the L.L./dollar, rather than having 3 or 4 different prices, leading to the dollarization of the economy.

Table 3

	Question 3: ***Which political path should Lebanon take towards monetary stabilizations?***
Interviewee 1	The path to monetary stabilization cannot be separated from the path to economic salvation which includes a full recovery plan for the economy, promoting interest rates, promoting some productive agricultural sectors (for example the barriers, wine, slugs and weed that can be used for medications and other thousands and thousands uses of these drugs other than simple consumption). From the liberal economic perspective, I would tell you that those that want to consume will consume regardless of whether it is legal or illegal, well that is my own personal opinion. But, when you put a regulatory authority and make sure that there is a process that buys this weed from the plantations and farms process it in packages and sells it automatically abroad and all companies internally that might use it, in other words, when you control the supply chain all the way from raw material to production then you can make sure that it does not violate any laws or religious or conservative or social values or anything of this sort. This can be a very important resource for Lebanon and the path to monetary stabilization since it brings us around 2 billion dollars, creating a highly productive agricultural sector. All of this goes back to the same issue, we should support the pillars of the economy. And this is what I mean by the politics of money. I cannot tell you, put 100 billion of dollars in the central bank and the lira will be fine. It will be fine. But for how long? There should be a change in the economic pattern and thought in Lebanon. You need to change the way you think and the way you spend your money.
Interviewee 2	Again, we've said that the political path is political stability, reforms and a good fiscal policy that allows the government to stabilize the economy and its income, curbing corruption and at the same time creating enough reserves of foreign currency through better trade deficit management.
Interviewee 3	Institutional frameworks are the critical key to the relative success of any economy. In a predatory state based on the exploitation of its people, massive reforms are to be conducted, including: (i) A clear separation of powers that requires a clear division between the principal institutions of the state- executive, legislature, and judiciary-, to

	safeguard the citizens' liberties and break the curse of corruption, sectarianism and confessionalism. (ii) The rule of Law. A fair judicial system, to enforce internal order and internal peace, and protect human rights, against violations committed by those who hold power, is vital. (iii) The Implementation of sound and good governance to enhancing transparency and accountability. (iv) The application of an expanded administrative decentralization. According to the Taef agreement, it should be adopted *at the level of the smaller administrative units…in every district, to ensure local participation*. The flourishing of some regions will dismantle the "raison d'être" of those who created the 'state within a state". (v) Freezing the consensus democracy that empowers elites who are resistant to change. The agonizing consociationalism is associated with many underlying institutional problems, including confessional quotas, power sharing of political forces, and trans-sectarian movements. The state is weak because diffused fragments of society have stayed strong. They should be dismantled. (vi) The implementation of the Security Council resolution 1701(2006), the Taef accords, and of resolutions 1559 (2004) and 1680 (2006), that prohibit all armed militias and groups from operating in all of Lebanon. The resolutions call that there will be no weapons or authority other than of the Lebanese state. And lastly, (vii) The resolution of the maritime border dispute between Lebanon and Israel to exploit the gas fields and produce enough electricity.
Interviewee 4	Economics in general need optimistic expectations based on trust and confidence in the political deciders, the governor of the central bank who is a very important money decider, the minister of finance and the minister of economics. Within any state we have some key positions that should be occupied by outstanding people not only have a good performance but an outstanding one. And at the same time, very faithful and highly virtuous. 50% of the economic, financial and monetary issues are based on expectations, trust and confidence in the group of deciders. Any new presidential term should be very careful in appointing those deciders. They should be appointed in a very precise way. Because those people build or destruct. There is no in-between. The other 50% is mastering the techniques. When you are a minister of finance you should be a good financial individual, a good economist and expert in monetary policy to be able to conduct a central bank and to contribute efficiently in boosting the national economic growth, to create more jobs for the future generations, to avoid accumulating debt on the public treasury, activating the money and exchange rate market and respect the forces of these two markets not eliminate these markets as it happened here since 1993, when Mr. governor has replaced by his honorable person and decisions the two markets and the exchange rate market. He didn't recognize the existence of a money market because in the money market the price of money is determined by the demand and supply forces. He also decided in a centralized way, what the interest rate should be. Unfortunately, he decided a very high interest rate that paralyzed the domestic investment and therefore the job opportunities, exports and building of a diversified national economy. Also when he fixed the exchange rate at 1500 lira Vis a Vis USD and vice versa. So here he neglected also the exchange rate market where there are also forces of demand and supply in the market. This clearly acts against our constitution where it is clearly stipulated that Lebanon has a free liberal economy which means a market economy where we are supposed to have markets everywhere as well as a market for money and exchange rate.
Interviewee 5	In order to make a change in the country, the "Accounting Decision" for anti-corruption and digital transformation should not stay ink on papers. When these decisions were adopted it in the Council of Ministers, they said it still need "Application Decrees", that unfortunately, were not implemented. In order to organize the economic system in the country, fighting corruption is a must. The intentions to do so, are not pure in our

	government. That's why we say now that we need a new covenant, new presidential elections, in which it focuses on fighting corruption and reform. In Cedars Act, we received 11M Dollars, 4M as a gift and the other 7M are for investment in order to fight corruption, yet nothing was implemented. The issue of importing gas from Egypt to Lebanon to produce electricity is not working, because the World Bank is requesting to establish the Electricity Regulatory Authority (ERA), which is not accepted by the Ministers of the Ministry of Energy and Water, because they want to be the decisions' makers.

Table 4

	Question 4: ***Lebanon is never at low risk of political unrest, to what extent do its numerous internal conflicts as well as its geo-political connection to the region's turbulences have a negative effect on the country's economic growth?***
Interviewee 1	The important thing to notice is that no country in the world, due to our international trade regime, can exist without collaboration regionally and internationally. In the case of Lebanon, in a country with a population size already considered a population density for its territory. With the refugee crisis, we will see that this requires certain resources on behalf of the government and therefore the international community perhaps did not address the refugee issue in the Middle East as much as it is currently doing in Europe. Again, we've had some NGOs we've had some assistants and so on, but again this of course impacts the economy. I am not blaming anyone here but I am saying that yes of course the region impacts the Lebanese economy. At the same time, we have to add another complex dimension, which is the international relations that sometimes chain the Lebanese governments. Whenever you talk about US sanctions that have been imposed on the region or any regional state that would cooperate with non-U.S. allies. This further complicates the situation because if you were in a region much as the European Union whereby trade with any European member state is a natural outcome you will see who have something better than yours you will get it from there and what can I do better than the others I will trade it. For all these reasons, Lebanon is skating on a very thin ice, and yes, the regional dynamics affects Lebanon a lot. Although Lebanon has an independent foreign policy, but to what extent? You have certain dimensions that you will have to take a decision in, because Lebanon is diverse nation with very ethnic groups, with various religious and sectarian groups and unfortunately in these sectarian groups each one them have its own external relations in which they prefer certain countries over another. In my opinion, federalism does not solve any problem. Our problem in Lebanon is that there is no proper governance system. I support administrative decentralization. There are parties in Lebanon that are controlling the details of decisions in Lebanon in a lot of places, in the sense that they are ruling the political economy in a direct way. I am not saying it's unbreakable, it is hard to break it for sure, but they are ruling us.
Interviewee 2	We mentioned this before, political stability leads to economic stability leads to economic growth leads to foreign investments and foreign currencies flowing into the country and the turbulence that exists regionally and internally definitely impacts the drainage on foreign reserves, it drains foreign reserves because we are not able to attract foreign investments and foreign cash into the country. So, the political instability, particularly, has the highest impact on the currency value.
Interviewee 3	The higher the geopolitical uncertainty index, the lower the business sentiment index. The geopolitical uncertainty in Lebanon is based on threats and risks that originate from power rivalries aiming to take and maintain control over the Lebanese territory. We cite: (i) the continuous war threats and peace threats, such as the Lebanese civil war that started in

	1975 and came on the background of its complex geopolitical connections, the Israeli invasions in 1982 and in 2006, and the political ecology of wars that are related to the availability of the natural resources. (ii) The military and weapons buildups of the most heavily armed non-state actor, the Hezbollah, who works as a proxy to Iran and to pro-Iran allies, such as Syria. The "state within a state" is opposing the western powers operating in the Middle East, while it was involved in the Syrian civil war and is currently supporting Iran in its fight against the Houthis in Yemen and its struggle against Saudi Arabia. (iii) The risk of terrorism: The Hezbollah was designated as a terrorist group by the US and the European Union. The Sunni extremists committed terrorists' attacks, including the 2015 Beirut bombings. Other severe risks and threats are related to the exports drug smuggling to gulf Arab countries and to money Laundering. But on the other side, geopolitical connections can have some positive effects, if Lebanon knows how to redefine its role, reassert its influence, and expand its relationships in the region. According to the McKinsey report in 2018, developing some centers of excellence, in some specific niches with high export potential, can improve the country's competitiveness, mobilize the country's talents, and reduce the brain drain. Leveraging digital, analytics and Fintech, for example, while targeting some regional markets, including the GCC, the Levant and nearby core markets, can shape positive micro and macroeconomic outcomes. Lebanon needs a new start. The parliamentary elections are the first step to usher change!
Interviewee 4	If we have a strong governor, this person will separate the central bank, lira and the economy from all other factors. He will separate those 3 things from the politicians and all external indicators and tells them that you are trespassing my authority. Does he have the confidence to say such words? He is obliged to. The government advisor is the central bank. The central bank upon the law has a prerogative of advising the politicians and government. He can tell them that here you are ruining the country and the currency. You are mistaken and you are exposing my work and the whole country to a very serious risks that we can avoid easily if you adjust your policies and also your relationship with the region.
Interviewee 5	The unrest is originated from a lack of trust of the international community in the country. When the trust in the Lebanese political system is established, everything will be stabilized, and this stability will affect positively the economic situation. We are in an unlucky region surrounded by two enemies; Israel and Syria (even if it's considered an Arab country), so, our surrounding is not safe. We are handling geopolitical burdens and all the problems in the region. For example, the issue of the Palestinian- Israeli conflict, meanwhile, other countries did the Abraham Accords with Israel. We have the issue of the borders, and Iran is using the resistance with Israel through its branch in Lebanon that keeps on stating that we are fighting Israel. This affects the investors whether internal or foreign investors, as well as it affects the touristic sector which all leads to economic instability. That's why we are asking for neutrality. Another issue, is the poor management in all sectors of the country with no exceptions. In addition to "Hezbollah", that plays a major role in the geopolitics of the country. Moving forward to the illegal crossings that is a major cause for the financial bleeding. They use the support policy to support the Lebanese people, and then the money goes out through these illegal crossings. Even this policy is not being used efficiently to start the reform. In addition to the corruption in the port and the airport. We cannot regulate the economy in the country as long as we have a "state within a state".

Comprehensive Reasoning: Findings

This section is devoted to the analysis and interpretation of the answers given by the interviewees to the major questions asked about the reasons of the currency depreciation. The main point of the inquiry is to validate our secondary data and to determine how political stability affects the value of the currency.

The aim of the first question was to discuss how the political stability and various political factors affect the value of the Lebanese currency. **Interviewee 1**, affirmed that the political stability affects the value of the currency. He said that the political stability depends on how we define it, vis a vis of the different economic factors that contribute to that political stability, which are mainly the size and nature of the Lebanese economy. The Lebanese policy of a fixed exchange rate, created a volatile economy. **Interviewee 2** mentioned that currency is not only backed up by foreign reserves, it is also backed up by economic growth and political stability because foreign reserves are formed and made from foreign currency coming to a country that needs to be politically stable. As for **Interviewee 3,** the unstable political environment in the country, along with the abuse of power, and the overall corruption, weakened the confidence of local and foreign investors' and this influenced in a negative direction the level of GDP, which affected the value of the currency, and led to its depreciation starting 2019.

On the other hand, **Interviewee 4** found that, there is no direct relation between these two issues. He stated that, we can have an unstable political situation and at the same time have a strong currency, if the central bank is an autonomous institution, and is fulfilling its full mission properly by applying the Lebanese law on money and credit, which is not the case unfortunately in Lebanon. This answer validated our research in chapter one, which specified that the central bank, since its establishment, as per the rules and regulations, is independent from political authorities, and won't interfere with the fundamental principle of a free banking system, while emphasizing on his major role as an anti-inflationary institution and a currency stabilizer. Finally, **Interviewee 5** stated, that the political corruption surely led to the economic corruption, thus affecting the value of the currency.

With the exception of **Interviewee 4**, most of our interviewee's answers to this question, were that economic stability and political stability are interconnected, meaning that one leads to the other and vice versa. However, regarding the relationship between the central bank, the government and the banking sector, which played a major role in shaping a weak Lebanese political economy due to the country's elite power-sharing system, only **Interviewee 4** discussed this relation.

Hence, our findings from both research methods, to how the political stability affects the value of the currency, are: (1) the value of the currency is correlated with the political stability, (2) The political corruption led to the economic corruption. (3) the weak political economy is due to the cooperation and frequent overlap between the political and economic elites, which include the most powerful politicians, sectarian community leaders, members of parliament, and ministers, (5) the illegal interference of the central bank, the fixed exchange rate and the unstable political environment, in addition to the economic mismanagement are also reasons that led to currency depreciation.

The second major purpose of our research was to investigate about the major economic factors that caused currency depreciation in Lebanon and how the Lebanese government can revalue its currency and stabilize it. All interviewees' answers to this question validated our secondary data in chapter two, and they all agreed, that the "patron-client political system", the political corruption, the fixed exchange rate, an economic mismanagement and the financial engineering of the central bank lead to the currency depreciation. **Interviewee 1** said that the currency depreciation that started in 2019 was due mainly to the looted money (around $30 billion) that was corrupted or spent on the government's projects. In his opinion, returning the money requires international sanctions, and this is a political decision. There is direct connection between the currency depreciation and the central bank that no longer can support its reserves. The market is volatile and the political interventions are feeding the inflation. The IMF plan, if applied, will create austerity measures on the public sector, but will also lead to currency stabilization. An economic plan is needed, by addressing the negative balance of payments in the financial sector and restructuring the banking sector. **Interviewee 2** clarified that currency depreciation was due to the lack of foreign currency available in the central bank to back up the local currency, which lead to a negative trade balance, as well as the political corruption, and a missing fiscal policy. Stabilizing the currency requires political and structural reforms. Floating the currency is the most important decision, opening the markets for foreign direct investments for competition, and protecting the sovereignty from the uncertainty of the existence of the paramilitary groups outside the control of the government.

Interviewee 3 gave a detailed and structured answer. Being a university professor, she described all the reasons that lead to the currency depreciation and delivered a road map to a political and economic reform, which can be found in table.2. Nevertheless, the major opinion that validated our secondary data in chapter one was sectarianism and clientelism. While **Interviewee 1** didn't believe that the banking sector in Lebanon should be unscaled, but restructured, a detailed program for this restructure was delivered by **Interviewee 3,** suggesting the following:

Around 50% of the banks need to be liquidated while mergers and acquisitions between banks should be designed. After decreasing the number of banks, and lifting banking secrecy, it would be of interest to follow the example of the Swiss National Bank, described as a joint-stock company, and convert the remaining $12 billion in reserves, into bank shares, known as "bail-in". Voting shares will be then held by the public shareholders.

Interviewee 4 attributed the currency depreciation to the fixed exchange rate and the missing of almost $75 billion deposited at the central bank. He explained that "Forensic Audit" was conducted by an international company, to investigate the reasons behind the central bank's financial gap of $55 billion. Another reason is, that the government was indebting from the central bank to pay its employees, in the absence of capital. A national bankruptcy incurred including the public sector, the central bank, the commercial banks and the private sector. **Interviewee 4 and Interviewee 5** attributed the currency depreciation to the political corruption and did not provide an answer on how Lebanon can stabilize its currency.

The results of our research, in chapter two and question two concerning the economic factors that contributed to the currency depreciation are: (1) political corruption in governmental projects (specially the electricity), consequentially leading to the looted money ($80 billion), (2) again the fixed exchange rate, (3) a volatile market and the weak central bank's reserves of foreign currency to back up the Lira, along with a negative balance of payments, (4) economic mismanagement producing a rentier economy feeding off a corrupt state, (5) the government's borrowing from the central bank, (6) the Lebanese banks which totally ignored their fiduciary duty to depositors by lending a failed state, (7) The halt of foreign exchange inflows that were discouraged after the deterioration of the Lebanese relationships with the Gulf countries and KSA, (8) the government default by \$1.2 billion Eurobond, in 2020, (9) the undeclared haircut on dollars deposits and the failure to pass a capital control law.

As on how Lebanon can revalue its currency and stabilize it, the suggestions were: (1) restructuring the banking sector to regain its liquidity and solvency (2) addressing the negative balance of payments, (3) a political decision to float the currency, (4) a comprehensive economic plan to boost the main economic drivers (5) introducing new policies to make sure that there is economic stability by conducting reforms in the public sector, by installing independent authorities for each sector, by opening the markets to foreign direct investments for competition, and by protecting its sovereignty from the uncertainty of the existence of the paramilitary groups outside the control of the government, (6) making a deal with the IMF to jumpstart the economy, and guarantee a safe passage to foreign direct investments.

We move now, to discuss the political path that Lebanon should adopt towards monetary stabilizations. As mentioned previously, Politics and economy are interrelated, that's why, **Interviewee 1** requested a change in the economic pattern by promoting productive economic sectors, like legalizing the weed plantation, and controlling the supply chain all the way from raw material to production. In his opinion, this can be a very important resource for Lebanon and the path to monetary stabilization since it brings around \$2 billion, creating a highly productive agricultural sector. On the other hand,

Interviewee 2 affirmed that political stability is the path to monetary stability in addition to a good fiscal policy which creates enough reserves of foreign currency through better trade deficit management.

Furthermore, **Interviewee 3** again, gave a full political reform plan including a clear separation of powers between state- executive, legislature, and judiciary, the abolishment of corruption, sectarianism and confessionalism, an administrative decentralization in reference to the Taef agreement, in addition to other political reforms related to the implementation of the Security Council resolution 1701(2006), the Taef accords, and of resolutions 1559 (2004) and 1680 (2006), that prohibit all armed militias and groups from operating in all of Lebanon.

Being an “Economic Expert and Analyst”, **Interviewee 4** said that 50% of the economic, financial and monetary issues are based on expectations, trust and confidence in the group of deciders; so, the political reform requires political trust in the leaders. As for the remaining 50%, it is mastering the techniques, that were unfortunately not applied by the minister of finance and the central bank governor who fixed the exchange rate at 1500 lira Vis a Vis USD and vice versa, and neglected the exchange rate market of demand and supply. In his opinion, this clearly acts against our constitution where it is clearly stipulated that Lebanon has a free liberal economy which means a market economy where we are supposed to have markets everywhere as well as a market for money and exchange rate.

Finally, **Interviewee 5**, explained that the political path to currency stabilization starts with the “Accounting Decision”; anti-corruption and digital transformation, that should be implemented, hoping that the parliamentary and presidential elections will bring this accountability.

Our findings on the political path that Lebanon should adopt can be summarized as follows: (1) a political reform that requires political trust in the Lebanese leaders and separation of powers, (2) a stable political environment, (3) a good fiscal policy and the promotion of productive economic sectors.

As mentioned previously in chapter 2, the political unrest, had a negative impact on investors and the overall economy. Unfortunately, Lebanon is never at low risk of political unrest, because of our internal conflicts and our geopolitical connection to the region's turbulences; the repetitive Israeli invasions and threats and the resolution of the maritime border dispute, in addition to the negative effects of the Syrian war, are all good examples.

Our interviewees' discussions on this important part of this research, clarified this dilemma. **Interviewee 1** stressed on the importance of the international trade regime, and the regional and international collaboration with Lebanon which witnessed drawbacks, especially with the Syrian refugee's crisis, and the US sanctions on the region. Although Lebanon has an independent foreign policy, but each of its religious and sectarian groups, have its own external relations favoring one country over another. He continued, another drawback, is the control of the Lebanese parties (political elite) on major decisions, which make them control the political economy. In his opinion, administrative decentralization is the solution.

Interviewee 2 mentioned that, the turbulence that exists regionally and internally definitely impacts the drainage on foreign reserves and investments, affecting the flow of foreign cash into the country. To him, political stability is the answer to stabilize and revalue the currency.

Interviewee 3 answer was that, in order for Lebanon to create positive geopolitical connections, it needs to redefine its role, reassert its influence, and expand its relationships in the region. According to the McKinsey report in 2018, developing some centers of excellence, in some specific niches with high export potential, can improve the country's competitiveness, mobilize the country's talents, and reduce the brain drain. Leveraging digital, analytics and FinTech, for example, while targeting some regional markets, including the GCC, the Levant and nearby core markets, can shape positive micro and macroeconomic outcomes.

Furthermore**, Interviewee 4**'s solution was in the hands of the central bank governor. A strong governor duty is to separate the central bank, the currency, and the economy from the politicians and all external indicators. The central bank governor, upon the law, has a prerogative of advising the politicians and government, not the other way around. In his opinion, politicians are ruining the country and the currency, and this can be avoided by economic policy and regional relationship adjustments. A last word to **Interviewee 5**, who attributed the unrest, to the lack of trust from the international community in Lebanon's political system. When the trust in the Lebanese political system is established, everything will be stabilized, and this stability will affect positively the economic situation.

Our research recommendations for economic growth are: (1) restore the regional and international trust in the Lebanese political system, (2) an independent and strong governor of the central bank, who separates the central bank activities and economy from political decisions, (3) create positive geo-political connections and reshape our fiscal policy, (4) strengthen the Lebanese international trade regime and unify its regional and international relations.

At this stage of our research, and to conclude our finding from both research methods, the secondary data analysis and the semi-structured interviews, we are confident to claim that, political stability is the answer to stabilize and revalue the currency.

Conclusion

This thesis examined how the political history of Lebanon and its geo-political connection to the region's turbulences, have played a major role in its current severe economic crisis. The thesis explored the reasons behind the recurrent Lebanese currency devaluation. The thesis also provided an overview of the International Political Economy IPE, Laissez-Faire Economy (Free Market Capitalism), and State Capture theories. By analyzing the political and economic factors which contributed in creating a weak Lebanese political economy, this thesis demonstrated that Lebanon's weak economic performance is interrelated to its political system. This thesis suggests a comprehensive political and economic reform, in order for Lebanon to stabilize its currency and create economic growth, by conducting a radical political change of the sectarian system of power-sharing, by creating a new financial economic model, and by fighting corruption.

As discussed in chapter one, sectarianism and a free-market economy are the two main features of the Lebanese state. The use of public funds by governments to stabilize the economy before, during, and after a financial crisis has been suggested to be politically motivated. Researchers argued that political systems have an impact on decisions about currency policy. Despite the fact that a fixed exchange rate system may be an appealing option in the face of political unrest because it reduces investor unease, the exchange rate regime may be influenced by the political instability, and the independence of the central bank helps decrease the devaluation of the exchange rate.

However, prior research has found that a weak government cannot implement a fixed exchange rate. Despite the country's consensual democracy and free market capitalism, mostly depending on the banking and real estate industries, which were both impressive and long-lasting, the political economy of Lebanon began to collapse since 1989. The ruling class of Lebanon, which consists of interconnected political and business elites, has failed to carry out effective reforms supported by a new economic model. Due to the elite power-sharing structure of the nation, the connection between the central bank, the government, and the banking industry also had a significant impact on the development of a weak Lebanese political economy.

While highlighting currency policy of exchange rate, and currency depreciation around the world, chapter one overviewed the history of Lebanon's political economy and currency depreciation. The history of the standardized economic norms and financial systems throughout the decolonizing world influenced the financial foundations of Lebanon. The system of central banking that eventually developed in Lebanon, was the result of a complicated interaction between war, economic policies, international financial regimes, post-colonial state-building, global currents of technocratic expertise, and private commercial interests. Since its establishment in 1964, "Banque du Liban" followed a non-interventionist policy, but the outbreak of the war in 1975, led to large deficits and inflation in prices, and the continuous depreciation of the Lebanese pound against the dollar created a bad economic situation. During the war, the relationship between the central bank, the Association of Banks and Private Banks was shaky due to the political situation and the militia's control. A clientelist political economy was created by the cooperation of political and economic elite that strengthened sectarianism within the society.

With the Taef agreement (1989), this new economic elite (bourgeois) grew in Lebanon, and was mainly involved in sectors such as banking, finance, trade (both imports and exports) and real estate (development/construction). In this setting, neoliberalism in Lebanon focused on opening the economy to foreign investment flows. Furthermore, as Prime Minister Hariri's initiatives to revitalize the economy and reduce the continuously increasing state debt fell short, the need for further foreign assistance increased during the start of the 2000s.

BDL had to intervene for the first time in the early 1980s to preserve the Lebanese pound's value and control inflation during the war period. For the first time, the state borrowed money from the central bank, which ran counter to the government's strategy of managing inflation and the function of BDL. The BDL policy's inability to keep inflation under control during that time led to a full-fledged inflationary crisis in late 1984.

Up until 1992, when bank pressure reached a peak, the Lebanese currency continued on a path of frequent depreciation and high rates of inflation. To attract foreign currency liquidity during this time, the central bank issued Euro-bonds, but the bulk of buyers were Lebanese, therefore very little foreign currency liquidity actually entered the country. By the summer of 2019, these financial distortions have caused a discrepancy between the Lebanese Lira's official exchange rate and its market rate.

Among the many reasons which contributed to the recurring currency depreciation in Lebanon, are the budget deficit that took place during and after the war leading to a tremendous increase in public debt, the cost of reconstruction after the end of the Lebanese war, especially the cost of infrastructure and most importantly the electricity and the mismanagement of the “patron-client political system” and a heavily dollarized economy with recurring public deficits and monetary financing of the public debt together with a contained inflation and a “de facto fixed exchange rate” against the US dollar since December 1997, at the mid-rate of 1507.5 Lebanese Pounds (LBP).

The Lebanese sovereign debt crisis erupting on 7 March 2020 accelerated informality in economic and financial markets by replacing the monopolistic roles of the central bank, the association of commercial banks and the Lebanese government in determining the Lebanese Lira’s exchange rate with more hybrid financial governance systems, which hosts a variety of exchange rates, including the fixed rate of 1,507 Liras set by the central bank, the exchange rate of 3,900 Liras (which went up to 8,000 Liras in December, 2021) for each Dollar withdrawn from frozen U.S. Dollar bank deposits (commonly referred to as Lollars) and the floating market exchange rate determined by the volume of currency trading on the black market.

In order to examine the political economy of currency depreciation in Lebanon, Chapter two elucidated the theories of International Political Economy (IPE), Laissez-Faire Economy (Free Market Capitalism), and State Capture. The field of international political economics (IPE) investigates the relationship between politics and both global and regional economic changes. IPE concerns are primarily seen from the perspective of individual interests under liberal, or economic, liberalism (also called laissez faire). The objective of liberalism was to distinctly separate politics from economics. Liberals believe that little should be done by governments to affect a nation's trade balance or the types of goods that the nation produces.

As previously stated, Lebanon's economy has continuously run on free markets and a high level of laissez-faire since the country gained its independence in 1943. In a volatile political and security climate, it carried on operating throughout the civil war. After the end of the war, the failure of the central bank's attempts to stabilize the currency was a result of the financial, industrial, and public sectors' profits from the inflationary and currency crises. Some economists have compared Lebanon's financial system to a nationally regulated Ponzi scheme in which new money is borrowed to pay off previous creditors. It continues to function until there is no more new money. The budget deficit grew as transfers lagged behind imports, severely deteriorating the balance of payments. That is, until 2016, when banks began offering astounding interest rates for brand-new deposits of dollars, a recognized currency in the dollarized economy, and much more astounding rates for deposits of Lebanese pounds. Lebanon's public debt crisis is considered as a case of state capture. Key governmental institutions were taken over by the elite, who then increased their grip over monetary and fiscal policy, reconstruction strategy, and other spheres of personal interest. The elite were able to use these laws in order to shift funding away from other areas of public concern and into the banking and financial sector. The Lebanese state swiftly accumulated amounts of public debt that were insurmountable as a result of this capture. According to neo-liberals, state capture happens because politicians are naturally dishonest and exploit their positions of authority to distribute rent and favors.

It is undeniable that Lebanon is experiencing one of the worst financial crises the world has ever seen. Despite this, there is no way to recover without a reliable, all-encompassing, and coordinated macro-financial stability strategy, and while waiting for a significant breakthrough, Lebanon is rapidly sliding into oblivion. Inevitably devastating effects are expected for the most vulnerable populations as the country disintegrates.

To conclude, our finding from both research methods, the secondary data analysis and the semi-structured interviews, were briefly as follow: (1) the weak political economy is due to the cooperation and frequent overlap between the political and economic elites, which include the most powerful politicians, sectarian community leaders, members of parliament, and ministers, (2) the illegal interference of the central bank, the fixed exchange rate and the unstable political environment, in addition to the economic mismanagement are also reasons that led to currency depreciation, (3) the political stability is the answer to stabilize and revalue the currency.

Lebanon can revalue its currency and stabilize it, by: (1) restructuring the banking sector to regain its liquidity and solvency, (2) a political decision to float the currency, (3) a comprehensive economic plan to boost the main economic drivers (4) making a deal with the IMF to jumpstart the economy, and guarantee a safe passage to foreign direct investments.

Finally, our suggestions for a successful political reform are: (1) a stable political environment, (2) separation of powers between the political, juridical and economic sectors, (3) restore the regional and international trust in the Lebanese political system, (4) strengthen the Lebanese international trade regime and unify its regional and international relations.

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