

The Dollarization Of The Lebanese Pound

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Abstract:

Since the 2019 financial collapse, Lebanon has undergone an unprecedented monetary shift characterized by the rapid depreciation of the Lebanese Pound (LBP) and a pervasive transition toward a dollarized economy. This study utilizes a qualitative research methodology and descriptive economic analysis to investigate whether this movement—defined by the adoption of the US Dollar for pricing, wages, and savings—reflects a temporary adjustment to hyperinflation or a permanent structural transformation. By reviewing market behaviors, banking sector constraints, and inflationary trends, the research identifies a clear erosion of confidence in national financial institutions.

Findings reveal that while dollarization acted as a market-driven stabilization mechanism allowing economic continuity, it has simultaneously weakened monetary policy efficacy and exacerbated social inequalities between "dollar-earners" and "pound-earners." The study concludes that the persistence of dollar-based pricing and hybrid wage systems suggests a long-term structural shift. Reversing this trend would require not only currency stabilization but also deep-rooted institutional reforms and a restoration of trust in the Lebanese banking sector.

Keywords:

Dollarization, Lebanon Financial Crisis, Monetary Policy, Currency Depreciation, Lebanese Pound (LBP), Hyperinflation, Economic Sovereignty, Financial Stability, Market Behavior.

Introduction: "The What & Why"

Since 2019, Lebanon has faced one of the worst monetary and financial crises in modern history. The Lebanese pound (LBP) rapidly depreciated because of political unrest, unsustainable public debt, and the collapse of the country's banking industry. The Lebanese currency was tied to the US dollar for many years, making it strongly dependent on inflows of foreign capital. Confidence in the local currency suffered when these inflows decreased, causing severe inflation, a loss of savings, and an intense financial crisis. Lebanon developed a movement known as "Dollarization" in reaction to this instability, where people and companies depend more on the US dollar rather than its local currency. Dollarization is important because social services, investments, and economic activity all rely on currency stability. Governments can implement monetary policy, manage inflation, and stabilize economic growth with the help of a functional national currency. However, people will always choose a more stable currency when they lose faith in their current one. The dollar emerged as the preferred option for commerce and store of value in Lebanon. Rent, salaries, tuition, and consumer prices started to be expressed mostly in US dollars. The Lebanese currency is still in circulation but has a smaller function in the dual currency system that was established because of this change in ordinary economic behavior. Beyond everyday interactions, dollarization is significant. It completely changes the way the economy works. Using a stable foreign economy can reduce inflationary pressures and maintain purchasing power. However, it reduces the effectiveness of monetary policy tools like currency issuance and interest rate regulation, which makes it more difficult for the government to handle economic crises. Dollarization further expanded in social and economic increasing the inequality between individuals earning income in dollars and others earning in Lebanese pound.

Therefore, analyzing Lebanon's economic position requires an understanding of the reasons behind dollarization. The primary focus of this study is: Does the dollarization of Lebanese pound reflect a short-term adjustment or a long-term structural transformation of the Lebanese economy, and to what extent is it a required market response to financial collapse?

The purpose of this study is to analyze the consequences and sustainability of the dollarization in Lebanon. This study aims to determine whether dollarization acts as a stabilizing solution or whether it generates new economic vulnerabilities that could affect Lebanon's long-term recovery by considering economic instability, public confidence in financial institutions, and changes in monetary behavior.

Literature Review: "The story so far "

Economic literature has carefully examined the issue of dollarization, especially in nations that are facing financial instability, excessive inflation, or a decline in trust in their own monetary systems. Analysts largely believe that when citizens lose faith in their national currency to maintain value or enable steady economic transactions, dollarization arises as a market-driven reaction. Early studies on dollarization concentrated on Latin American economies during hyperinflationary times where researchers saw that people willingly embraced foreign currencies, mostly the US dollar, to preserve purchasing power and protect savings. Economic theorists distinguish between unofficial or partial dollarization, in which governments formally embrace a foreign currency. Studies on nations like Ecuador and El Salvador shows that formal dollarization can effectively control inflation and rebuild macroeconomic credibility. But experts also highlight the trade-off: during

economic downturns, governments lose their monetary sovereignty and the capacity to establish an independent monetary policy. Financial dollarization in banking systems and its connection to crises are the subject of more recent research. According to academics, dollarization frequently starts in the banking industry when loans and deposits are valued in foreign currencies. This exposes economies to currency mismatches, where revenue is made in local currency values, even if it may initially improve financial stability. High levels of financial dollarization can exacerbate rather than lessen economic shocks according to a number of empirical studies.

In the Lebanese context, researchers examining the post 2019 crisis point to particular structural elements that sped up dollarization. Due to decades of currency pegs, reliance on remittances, and a banking strategy reliant on foreign capital inflows, Lebanon already had a highly dollarized economy before the crisis, according to academic and policy research. Public mistrust of financial institutions increased after the banking crisis due to withdrawal limitations and the quick depreciation of the Lebanese pound. The main cause of the extensive use of cash dollars and parallel pricing systems in Lebanon, according to literature on the country, is confidence erosion rather than just inflation. Previous studies also examine the social consequences of dollarization. Dollarization can stabilize prices but in frequency exacerbates inequality between those with access to foreign currency income and those reliant on local salaries, according to economists and development specialists. Long-term studies may damage state institutions by decreasing the efficacy of monetary and fiscal policies, making attempts at economic recovery more challenging. Scholars continue to disagree whether Lebanon's experience is a short-term crisis response or a long-term structural change despite a wealth of international study on dollarization. Therefore, by placing Lebanon within the larger theoretical framework of dollarized economies and investigating whether dollarization serves as a stabilizing factor or a constraint on future economic growth, this study expands on previous research.

This study examines the dollarization of the Lebanese pound and its effects on Lebanon's economic system using a qualitative research methodology reinforced by descriptive economic analysis. The technique was created to analyses current economic data, scholarly research, and observable market behavior after the 2019 financial crises to determine the causes, trends, and effects of dollarization. In order for future researchers to apply the same techniques to comparable economic situations, it was necessary to make sure the research process is transparent and repeatable.

Methodology: "The how we did it "

Using Lebanon as an example of unofficial or partial dollarization, the paper employs a case study methodology. Because each nation's political, social, and institutional circumstances have a significant impact on dollarization, a case study method was chosen. The research enables an extensive evaluation of how economic collapse, public confidence, and monetary instability interacts to promote dollarization by focusing on a single country context.

Data was collected using secondary sources, as opposed to primary experiments or surveys. Publicly available economic reports, scholarly journal articles, policy papers, and statical data generated by international financial institutions and economic organizations were all used in the study. Reports on banking limitations, wage payments, inflations rates, currency rate fluctuation, and pricing practices in Lebanon following 2019 were among the sources. In order to understand

actual economic practices like dollar pricing, cash dollar transactions, and more, news analysis and economic commentary were also examined. Only reputable and well-known sources, such as institutional publications, peer reviewed research, and official economic statistics, were taken into account to guarantee trustworthiness. Materials that specifically addressed currency substitution, financial crisis, and monetary confidence were the main emphasis of data selection.

Thematic And comparative methodologies were employed in the analysis. Initially existing dollarization theories found in the literature study served as analytical frameworks. The experience of Lebanon was then Contrasted with well-established trends found in other dollarized economies. The collapse of the banking sector inflation dynamics loss of confidence in currency and behavioral adaptation by families and companies were among the key themes that emerged. Recruiting economic patterns across sources were interpreted using qualitative content analysis the study looked at connections between economic events and public reactions rather than only testing numerical hypothesis which allowed for a more comprehensive understanding of how and why dollarization increased within Lebanon. By using this methodical approach, the study seeks to clarify the mechanism behind dollarization and assess whether it is a short-term crisis and response or a long-term change to Lebanon's monetary system.

Results: "The facts "

Following the 2019 financial crisis Lebanon's monetary system underwent substantial structural changes according to data gathered from statistical indicators institutional publication and economic studies. Without commentary or assessment, the findings below provide a summary of observable economic patterns associated with the dollarization of the Lebanese pound.

Before 2019 the Lebanese pound maintained an official exchange rate of approximately 1507 LBP per US dollar for more than two decades. What are the market currency rates first appeared in late 2019 and quickly deviated from the official peg. The Lebanese pound had lost a significant amount of its market value by 2020 and official banking and black market exchange rates were all in use at the same time. The Lebanese pound continued to weaken between 2020 and 2023 according to data from economic monitoring organizations indicating persistent currency instability.

Inflation increased significantly after the currency crash according to statistical statistics. After 2019 consumer prices indices show extremely high record inflation rates in the triple digits for a number of years in a row. The cost of necessities including food, fuel, shelter and medical care increased significantly. Market inspections and retail surveys revealed that prices were frequently converted from Lebanese pound to U.S. dollars especially in restaurants supermarkets private schools and real estate contracts.

Data from the labor market showed that patterns are changing in several industries. Employees in the private sector are increasingly receiving dollar link compensation or whole or partial wage payment in U.S. dollars. Certain employers have implemented hybrid payment methods that combine cash dollars and Lebanese pounds. However, the majority of public sector pay continued to be expressed in Lebanese pound, resulting in quantifiable variation in the purchasing power of different job sectors.

Strict withdrawal restrictions on foreign currency deposits were implemented starting in 2019 according to banking sector figures. Cash based dollar transactions outside of the official banking system emerge as a result of depositors limited access to U.S. dollar savings. Bank deposits and trust and financial institutions declined significantly according to financial data. Physical U.S.

dollar cash circulation rose significantly and domestic markets however exact amounts are still hard to gauge because of unofficial transaction.

The growth of dollar denominated transactions across economic activity is confirmed by market data and business surveys. U.S. dollars were used more often in rental agreements core purchases real estate sales and many other service-related transactions. While some industries switch almost totally to dollar pricing businesses used dual pricing systems that displayed both Lebanese pound and dollar values.

Discussion and conclusion: "The so what ? "

The study's findings show that monetary instability the collapse of the financial sector and the decline in public trust in national economic institution all directly contributed to the dollarization of the Lebanese pound. Clear patterns of currency substitution and pricing systems, wages, saving behavior and business transactions are evident in the gathered data. These results shed light on the topic of whether dollarization is a short-term response to the crisis or a long-term structural change in Lebanon's economy. The US dollars extensive use shows that stability and predictability were more important to economic actors' households' companies and employers than dependence on the national currency. The Lebanese pounds usefulness as a dependable store of value and unit of account diminished as inflation increased and exchange rates changed. Dollarization may have functioned as a market driven stabilization mechanism and the absence of efficient monetary regulation, as evidenced by the fact that dollar usage permitted economic activity to continue despite significant financial chaos. But the results also show that economic management is drastically changed by dollarization. Increased reliance on foreign currency diminishes the government's capacity to affect inflation lending conditions and economic recovery because monetary policy instruments rely on control over a national currency. Because the two currencies coexisted there was a parallel economic structure where people who were paid in U.S. dollars had more purchasing power than those who were paid in Lebanese pound. This result demonstrates how dollarization can both stabilize trade and exacerbate social and economic inequalities. According to the findings dollarization in Lebanon is both necessary short-term adaptation and a possible long term structural change in response to the study topic. The durability of dollar-based pricing and pay systems suggests that reversing dollarization may be challenging in the absence of substantial financial reforms restored banking trust and ongoing currency stabilization measures even though it allowed economic continuity during times of crisis. Therefore, rather than being a merely emergency response the Lebanese situation represents a shift toward a highly dollarized economy. Examining household level financial behavior calculating the long-term impact of dollarization on income inequality and assessing policy alternatives for either managing permanent dollarization or restoring face and the Lebanese #are some ways that future research could build on this study. Studies comparing Lebanon to other dollarized economies may also teach us important insights about monetary reserve resilience institutional reform and economic recovery tactics. In conclusion, dollarization has made it possible for Lebanon's economy to function in the face of severe instability but it also poses important queries regarding the nation's future monetary identity policy efficacy and sovereignty. It is still crucial to comprehend this equilibrium in order to create a durable economic recovery and direct economic decision making in the future.