

Abstract

This thesis attempts to analyze the 2019 Lebanese financial crisis through the lens of the Financial Instability Hypothesis (FIH) that was developed by the 20th century economist Hyman Minsky. The study offers insight into how an economy develops internal financial fragility which eventually renders it susceptible to crises due to speculative and Ponzi financing. In Lebanon's case specifically, there is noticeable elements that pinpoint a potential application of Minsky's theory prior to the crisis. In this regard, the goal of this paper is to understand whether the FIH shows a clear trend that the Lebanese economy was headed towards the state it is in today i.e. experienced a "Minsky Moment". However, the FIH does not cover all potential elements that could lead an economy to crash and while the factors elaborated by Minsky are extremely relevant, the case at hand offers other unique characteristics that cannot be ignored. The paper shall therefore also cover some financial variables that are not a part of the FIH as well as examine the country's political, social and cultural history which played a crucial role in leading to the crisis. The paper then tries to suggest some potential policies such as reforms and structural adjustments to prevail over the current situation that the country is in.

The crisis in question is relatively recent and is still ongoing therefore, this research not only contributes to the global discourse on financial instability and ways to minimize their severity but also offers a unique view on the Lebanese financial crisis as there is currently no paper discussing the application of Minsky's theory to this case and most people do not realize the root causes that led to this financial meltdown.

By analyzing the stages of financial instability as well as elements that contributed to the Minsky Moment and are apparent in the case at hand, the research's main takeaways are that Minsky's framework can indeed be applied to the Lebanese financial crisis and is a fair way to try and pinpoint the reasons that led to it. However, the paper also goes through some economic factors not mentioned by Minsky as well as the fact that the country's political, social and cultural situation contributed to the crash.