IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 13, Issue 6 Ser. II (Nov. – Dec. 2022), PP 37-45
www.iosrjournals.org

Impact of exchange rate variation on the financial policy of Lebanese SMEs

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Abstract:
Lebanon has experienced a large number of financial, economic, political and health crises marked by banking restrictions and currency depreciation[1]. Foreign exchange risk is one of the risks considered as a source of concern in the company's international relationship. Companies are subject to the risk of exchange rate fluctuation because they carry out import and export activities invoiced in a currency different from the one used by the company in its balance sheet. The exchange rate is the value of a national currency or a currency against a national currency of another country. It represents the amount of a foreign currency that can be purchased with a unit of another currency[2].
The exchange rate is divided into two types: a fixed exchange rate and a floating exchange rate. The currency market is a type of financial market in which currencies are exchanged. It is the place where different players can exchange money according to a specific exchange rate. However, this rate is not fixed and changes every day according to supply and demand. The exchange rate risk arises when a company uses a foreign currency to conduct international transactions[2].
The risk of changing the exchange rate to not use the fixed parity system in the year 1971, exchange rate risk is the uncertainty about the exchange rate of one currency against another in the short to medium term. It is the risk based on the value of one currency in exchange for another due to a future change in the exchange rate. Currency risk is a real disadvantage for companies with international activities. Importing and exporting companies see their profitability largely affected by changes in the value of currencies. These influences lead companies to consider techniques to manage the risk of exchange rate variation[3].
Therefore, when facing these potential risks on the foreign exchange market, there are techniques, tools and instruments that allow companies to reduce the consequences of this exchange rate divergence. These methods consist in reducing or eliminating the risks related to the foreign exchange centers through internal or external methods by transferring the management of the foreign exchange risk to the financial or banking institutions.
The economic crisis in Lebanon has started since the year 2019 and has contributed to serious consequences on businesses that are paralyzed by banking restrictions on cash withdrawals and transfers abroad since October and a prolonged liquidity crisis since August[4].
The private sector, composed of more than 90% of SMEs, is working to ensure its survival. Many of the companies have reduced the salary of the employees also other companies have laid off employees. The decrease in income has been one of the main factors to reduce the quality of goods and services and also this decrease has influenced the stock of the company from where a large number of companies are facing a shortage of stock or lack of stock[5].
Key Word*:Exchange rate, currency, imports, exports, exchange risk, future contract, arbitrage, forward contract, foreign exchange market, Lebanon, SME.*

Date of Submission: 10-11-2022 Date of Acceptance: 25-11-2022

I. Introduction

Over the last few years Lebanon has experienced a large number of financial, economic, political and health crises marked by banking restrictions and depreciation of the value of the local currency. Recently most of the Lebanese are affected by the circumstances of the country on the one hand the health crisis which is translated by the covid-19, on the other hand the most important is the monetary crisis which is translated by the fluctuation of the exchange rate which has negatively affected the purchasing power of the individuals[6].
Since December 1997 the Bank of Lebanon has fixed the exchange rate of the Lebanese pound against the US dollar for a rate equal to 1507.5 which means that $1=1507.5LBP. The presence of a crisis of confidence, due to the popular uprising of October 17, 2019, and the panic of depositors, the national currency lost 90% of its value against the U.S. dollar, while the official rate is constant at 1.507 LBP for one dollar. The Lebanese pound reached an all-time low on the black market where it touches 40,150 LBP for a dollar according to Sayrafa

platform (issued by Banque Du Liban) as at 18 October 2022, continuing its free fall in the passage of an economic collapse.

Monetary crisis is an economic crisis that affects the national currency, in such a way that the exchange rate of this parity suffers a strong fluctuation in relation to other currencies. The abandonment of fixed exchange rates has implied large fluctuations in the exchange rate, which has led to serious financial and commercial consequences on companies that are assimilated to international trade[7].

Companies are confronted with many sources of risk, such as legal, political, economic, technological and financial risk. As far as financial risks are concerned, we can mention: exchange rate fluctuations, interest rate fluctuations, raw material price fluctuations and company bankruptcy. Also social and political problems and economic crises in the country or in other countries, which makes the improvement of the company's profitability a difficult process. The exchange rate risk is present whenever companies and nations decide to use a foreign currency to process an international commercial or financial transaction due to a depreciation or increase of the national currency[8].

Companies are subject to a risk of exchange rate because it performs activities of imports and exports whose invoice is by a currency that it deferred from the one that the company uses in his balance sheet. These fluctuations of the rate can have positive influences on the company realizing profits or attracting new clients, but on the other hand this variation can be accompanied by negative consequences that are translated by losses of income or clients or dismissal of employees[9].

This paper deals with the management of the risk of foreign exchange variation while the problematic articulates on the financial policies adopted by the Lebanese SMEs in order to manage this risk and reduce its impacts, and also to present the historical aspects of the problem and the points of view of the theorists, to get an idea of the beginning of the exchange risk and the methods adopted to manage this risk.

II. Literature Review

The exchange rate represents the value of a national currency in relation to a national currency of another country. A currency exchange rate changes every day in relation to the supply and demand for these currencies. Foreign exchange is a transaction consisting of buying or selling the national currency of one country in exchange for the currency of another country[9]. The exchange rate is divided into two types: the official exchange rate and the market rate:

The official exchange rate represents a constant or fixed rate, determined in relation to a reference currency which is often the dollar or the euro. This rate is often fixed by the competent authority which is the Government and which is practiced on the official market, however this rate can be modified only by a decision of devaluation which means a fall of the value of the parity or of revaluation which means an increase of the value of the currency, this decision is taken by the Government/Government[10].

The market rate can also be called the unofficial exchange rate. It is not determined by the monetary authorities and is based on supply and demand. In this exchange rate system a decrease in the market rate of a currency is considered depreciation while an increase in the market rate of a currency is considered an appreciation. A huge number of countries have used the floating exchange rate since 1973[11].

The foreign exchange market differs from the stock market because it carries out transactions all day long, 24 hours a day, 7 days a week, whereas the stock market is subject to the opening hours of the stock exchange. On the other hand, the foreign exchange market knows no borders, there is only one foreign exchange market in the world, unlike the stock market which has a specific location, for example: New York, London, Paris[12].

According to the 2016 edition of the Bank for International Settlements survey, the US dollar is the dominant currency in the transactions; about 87.6% of the transactions carried out in the foreign exchange market are in US dollars. The foreign exchange agreements are on bank bills, coins the foreign exchange market is completely dematerialized[13]. Several theories have treated the context of the exchange rate, among them the following theories:

The theory of purchasing power parity which is based on the idea that a monetary unit must be exchanged for the same quantity of goods in any country or in any exchange that takes place.For example if a product costs two dollars it must be sold at the same price regardless of the place of transaction. The ratio between the price of domestic products and the price of foreign products expressed in the same currency must be equal to 1.This exchange rate ensures an international equalization of the prices of goods and services[14].

The portfolio theory represents the stocks with the highest returns (foreign or domestic stocks) that have been purchased by shareholders, which will lead to an improvement in the value of the currency of the country with the highest interest rate[15].

The Speculative bubble theoryinvolves examining how traders' expectations and actions influence the setting of the exchange rate. While most prices predict a price and make a decision based on their expectations, in order to engage in this, it increases the expectation. Then the price matches the value demanded by traders; we say that expectations are fulfilled and a bubble forms. The disadvantage of speculative bubbles is that they end up bursting because, according to the same principle as the tradition made when the bubble is formed, one day information announces a change in price and then the expectations fall[16].

Several variables intervene in the foreign exchange market in order to better understand the process of the foreign exchange market let's go back in history[17].

- Trading was the first system of exchange it consists in exchanging a good against another good but this system shows that it is inefficient and weak because it is limited has a market which does not exceed a precise geographical zone like a village; also it faces difficulties to specify the value of the objects. The first men used shells, then calibrated silver, and finally gold.

- In the 14th century, promissory bills were created in Italy in order to stabilize the exchange value and even the interest value. Later on, these bills would be exchangeable, especially during the first European exchange created in Bruges, in the 15th century. It was at this time that the first brokers appeared to serve the country[18].

- The gold standard is a monetary system in which each unit of a currency corresponds to a fixed value of gold, and all monetary issues are guaranteed by the exchange of gold. In 1866, London became the world's main financial center and trade was mainly in pounds sterling, which was known to be a reliable currency. The first war marked the end of the gold standard and England reverted to the gold standard in early 1925, but England saw the value of its economy depreciate due to the high price of the pound sterling against gold. Since then, England, Germany, Japan and the United Governments have abandoned the gold standard[19].

- The Bretton Woods Agreement: World War II affected the economies of countries especially European countries met at the International Monetary Conference to discuss various monetary issues including exchange rate fluctuations and interest rates. Most economies experienced collateral imbalances in the national and global economies. This situation only led to a reduction in economic growth and improvement in international trade and business growth, so countries came together through the Bretton Woods Agreement by creating two international organizations: the International Monetary Fund and the World Bank. The objective was to help and give hope to the economic improvement, to the improvement of trade on a fair basis and to the strengthening of monetary exchanges. In this context, each country must announce an official exchange rate with other currencies and commit to maintain it constant, except in case of necessary adjustment approved by the International Monetary Fund. These Bretton Woods agreements, which are based primarily on fixed exchange values, are intended to reduce currency competition between countries. This agreement fixed the dollar at $35 per ounce; it also established the levels of other currencies against it[20].

- The use of a floating exchange rate: In the Bretton Woods agreements a monetary system based on a fixed exchange rate between currencies and the international reference currency is the dollar was set. However, the accumulated U.S. deficit, which was increased by massive spending because of the Vietnam War, in the 60s and 70s exerted a strong demand on the dollar, and thus on other currencies. In December 1971 the price of the ounce of gold increased from 35 dollars to 38 dollars, the ounce of gold depreciated again to a price of 42.20 dollars, because of its fluctuations the American president announced in August 15, 1971 the end of the convertibility gold dollars. The U.S. deficit due to military spending related to the Vietnam War increased the devastating economic impact on various economies of the world, and thus the monetary instability, mainly due to the depreciation of the dollar against other currencies. Thus, in March 1973, countries witnessed the abandonment of the fixed exchange rates of various foreign currencies in relation to the dollar and, the adaptation of a new principle that is the variable exchange rate[21].

Foreign exchange risk arises when a company uses a different currency to conduct business transactions. The risk of exchange rate variation is due to the non-use of the fixed currency valuation system in 1971.In the currency market, the exchange rate is constantly changing and large fluctuations can often be observed. This makes it extremely difficult to predict the future value of a currency. For many activities, the exchange rate is used, for example, to calculate the cost price (cost of raw materials), the selling price (export) and the interest repayment (foreign currency loan)[22].

Thus, any unfavorable price change can have a significant effect on the component in question. This is known as the exchange rate risk. The exchange rate risk refers to the uncertainty of the exchange rate of one currency against another in the short and medium term. It is the risk that the value of one currency in exchange for another is based on a future change in the exchange rate[23].

The risk of exchange rate fluctuations is a real threat for companies conducting international operations. Fluctuations in the exchange rate during payment terms can affect the amount of the invoice, and this is called transaction risk. A change in the exchange rate from one currency to another can affect the competitiveness of a company's goods and services. Exchange rate risk can be thought of as the risk of loss associated with changes in currency exchange rates[24].

III. Research Methodology

SMEs are companies that are legally and financially independent, and work in different sectors of activity such as primary, manufacturing or services, and which have a single manager. SMEs differ from large companies in their small size and the most common ceiling is 250 employees, especially in European countries[25].

However, some countries have set the ceiling at 200 and the United Governments considers Small and Medium Enterprises to include all businesses that have fewer than 500 employees. Small businesses are generally those with fewer than 50 employees, and small businesses have a maximum of ten, sometimes five. SMEs are classified into three types:

- Very small companies with 1 to 9 employees.
- Small companies between 10 and 49 employees.
- Medium-sized companies between 50 and 199 employees[25].

Lebanese small and medium enterprises are the most important factor in Lebanese entrepreneurial activity. They employ about half of the working population in Lebanon[26]. Most of the Lebanese companies work in the retail and repair field and also there are companies working in the production field. Lebanon takes the 3rd place among the countries of the Middle East and North Africa (MENA) region in the loans granted to small and medium enterprises (SMEs), according to a survey conducted by the World Bank. The percentage of bank loans was 16% for Lebanon[26].

Lebanese companies face a large number of risks such as the sanitary risk especially the COVID-19 and the political risks which are manifested by wars and political instability, but the most important risk is the economic risk which is presented recently by the fluctuation of the exchange rate of the Lebanese pound against the US dollar[6].

The economic crisis in Lebanon has started since the year 2019 and has contributed to serious consequences on businesses that are paralyzed by bank restrictions on cash withdrawals and transfers abroad since October and a prolonged liquidity crisis since August. The private sector, composed of over 90% of SMEs, is working to ensure its survival. Production costs have increased by 40% due to the depreciation of the Lebanese pound against the dollar on the parallel market, triggered by the liquidity crisis, which has contributed to higher imports. All these consequences contribute to the bankruptcy of companies and the dismissal of employees[5].

This paper studies the impact of exchange rate variation on Lebanese SMEs and what policies these companies adopt to minimize this risk.

In order to answer all these questions a survey was conducted within the Lebanese SMEs, intended for all Lebanese who have a small or medium enterprise whatever its field of activity and its location. 120 SMEs answered the survey, representing an acceptable sample with a confidence level of 95% and a margin of error of 9%.

The survey grouped 18 multiple choice questions based on the impact of the variation of the exchange rate, on the relationship of the company with its customers and suppliers, also how this variation affects the revenues of the company and finally some questions are asked about the strategies adopted to reduce this risk.

In addition to an open question that gives the opportunity to people to propose solutions to manage the risk of the variation of the exchange rate.

IV. Analysis and Results Discussions

The majority of the companies work in the agricultural and food sector, textile/clothing/shoes, trade/negotiation/distribution because these two sectors are linked to our daily life and there is a huge demand for food products and clothing and the rest of the companies are distributed on several sectors like multimedia, automobile, petroleum sector, data processing/telecom, machine/equipment.

The majority of the companies have a number of employees that varies between 0 and 5 employees. These companies constitute about 67% of the sample, which is mainly related to the sector of activity that consists of selling either clothing or food products. Also the companies with a number of employees that varies between 5 and 10 employees constitute 20% of the sample. Companies with more than 15 employees are very few, about 7% of the sample.

The companies have two options to secure their products either by importing their products from a foreign country or by buying their products locally from Lebanon. The majority of the companies resort to importing their products from foreign countries, these companies constitute 64% of the total sample because Lebanon is a non-productive country and with the lack of industries the companies find that importing is the best solution to secure their products. The rest of the companies resort to buying their products and raw materials locally, these companies constitute about 36% of the total sample.

The majority of companies working in the clothing sector import their products in order to meet the needs of their customers, while some companies buy locally produced products because they have their own customers.

In the food sector, each imported product can be substituted by another one that is locally produced, but the director of the company leaves the choice to the consumer to choose the products that suit him/her.

For this reason there is no relation between the sector of activity and the origin of the products because this depends on the policy of the company and the customers of the company[28].

The majority of companies use the market rate whether they buy locally or import their products. The companies that use locally manufactured products use the market rate as a reference for the price, they are about 78% of the total companies that buy their products locally, also the companies that import use the market rate constitute 70% of the total importing companies or the rate 3900 fixed by the government applied by the banks these companies constitute about 20% of the total importing companies. Due to the daily variation of the exchange rate, the price of imported products evolves proportionally with this variation. For this reason, Lebanese companies resort to pricing imported products according to the market rate. However, the products that are purchased locally can be priced according to the market price because the production of these products requires raw materials that are imported from outside for that these products are both priced according to the market rate. This explains the non-existence of a relationship between the source of the products and the exchange rate adopted.

Importing companies find it very difficult to insure foreign currency (the US dollar). About 66% of importing companies find it difficult to insure the US dollar. While the companies that use locally produced products are independent of all these difficulties about 68% of the non-importing companies do not find difficulties in insuring foreign currency. The import of products requires the payment by foreign currencies which creates problems in securing these currencies for this reason according to the study made the importing companies make more difficulty in securing the currencies while the companies that buy goods locally are independent and do not find any difficulty in securing the currencies because they realize their payments in Lebanese pound. This explains the existence of a relationship between the origin of the products and the difficulties of securing foreign exchange.

The change in the exchange rate can have an impact on the employees of the company. Companies with a number of employees between 0 and 5 about 67% of these companies are unable to pay the salaries of these employees or it resorts to reduce the salaries of the companies while 15% of these companies have dismissed their employees however 18% of these companies have not suffered any change.

However, about 50% of the companies that have a number of employees between 5 and 10 have also reduced the salary of their employees and are in situations of inability to pay the salaries of the employees also 34% of these companies have not undergone any change. While about 76% of the companies with more than 10 employees did not undergo any change.

The risk of exchange rate fluctuation has serious consequences on employees especially on small companies with less than 5 employees as these companies miss the necessary means to keep their employees and therefore resort to either laying off employees or reducing the salary of their employees in order to reduce the costs of the company. While companies with more than 15 employees are often prepared to protect their employees in case of a risk that affects the company, for this reason these companies resort to increasing the salary of employees in order not to lose any employee.

The revenue of the company is directly related to the customers of the company in a way that if the number of customers increases the revenue increases and if the number of customers decreases the revenue decreases immediately. About 80% of the companies that suffer a high loss these companies also have a high customer loss, while the companies that suffer a low loss 56% of these companies suffer a low customer loss and 10% of these companies suffer a high customer loss. However, 44% of the companies with a normal profit have not lost any customers and 28% of the companies with a normal profit have attracted new customers.

Companies initially depend on their customers to make a profit, so a loss of customers means a deterioration of the company's profits. For that the company works to attract the greatest number of customers in order to increase its profits. So the relation between the number of customers and the income of the company is proportional[29].

The income of the company can influence the daily activity in a way that makes the companies either increase their working time or reduce their daily work, 50% of the companies that experienced a high and low loss reduced the days and hours worked while the other half experienced no change in their daily activity. For companies making a normal profit 58% of companies kept the same level of daily activity and 12% of companies increased work hours but 27% of companies decreased work hours.

The companies with high and low losses are subject to a lack of stock. These companies constitute about 53% of the total companies with high and low losses. While 30% of the companies with a small loss do not have any inventory changes and about 6% of these companies have excess inventory. For the companies that make neither a profit nor a gain 50% of these companies do not experience any change in stock and 18% are subject to a decrease in stock. However, the companies that make a normal profit are subject to an increase in stock these companies constitute 36% of the companies making a profit and 27% of the companies do not undergo any change in stock but 19% of the companies make a shortage in their stocks.

The stock of the company directly affects its income because the companies that find themselves in case of a lack of stock and sometimes a shortage of stock due to the fact that these companies find themselves unable to buy new products due to the increase of the price of these products then these companies find themselves unable to meet the needs of its customers which contributes to decrease the income of the company. While the companies that increase their stock in order to meet the needs of their customers and in order to attract new customers which implies made profits.

The income of the company can influence the nature of the goods and services, for companies with a high loss 50% of the companies do not change the quality of their products, 29% of the companies reduce the quality of their products a little and 19% of the companies reduce the quality of their products a lot. For companies with a small loss 53% of the companies do not change the quality of the products, 25% of the companies have a small reduction in the quality of the products and 20% of the companies have a big reduction in the quality of the products.

However, the companies that suffer a normal profit do not change the quality of their products and work to improve this quality, 58% of these companies remain on the same quality and 17% of these companies work to improve their quality.

The relationship between product quality and companie's revenue is determined through the chi-square test of independence. The income of the company has a direct influence on the quality of their products because the Lebanese companies are subject to the risk of variation of the exchange rate and the evolution of the prices of their products for this reason the companies which suffer losses are unable to ensure the same quality of the products due to the rise of their prices and the decrease of the return for this reason the companies resort to reduce the quality of the products to ensure its continuation. While companies that make a profit work to improve the quality of their products in order to attract new customers.

The forward contract is one of the ways to reduce the exchange rate risk. It is a long or medium term exchange is an agreement to buy or sell a specified amount of one currency for another currency at a price that is specified and determined, the exchange is carried out at a specified period. This technique eliminates foreign exchange risk by buying currencies from the bank or selling currencies. To counter the risk of exchange rate fluctuations due to a possible devaluation, the issuer sells the amount of his debt to his bank. In this way, he determines precisely the total amount of the national currency that will be received at maturity. The importer, on the other hand, hedges the risk of exchange rate variation linked to a possible appreciation of the currencies, and buys the forward currencies corresponding to the sum of his debt. He therefore knows exactly how much he will have to pay in national currency.

The results show that 50% of the companies have no idea about the forward contract, 17% do not know if they know it and 28% have some information about the forward contract. The forward contract is one of the methods that companies can use in order to reduce the exchange rate risk but unfortunately the companies that are aware of this method are rare this is due to the poor training of the company managers, the lack of guidance on the most used techniques in the world and the lack of young people in these companies in most cases the company managers are old people.

One of the methods adopted to reduce the cost of production is to substitute foreign products with locally produced products. 58% of the companies do not substitute their foreign products with local products, 25% of the companies sometimes substitute their foreign products with local products and finally 17% substitute their foreign products with local products. The substitution of imported products by local products is an effective solution to reduce the costs of the company but a great number of companies refuse this solution because the quality of the Lebanese products are less competitive especially their quality. According to their opinion, the quality of Lebanese products is inferior to the quality of foreign products and these products do not attract customers.

The effectiveness of the government's intervention depends on the individual, some find that the government can play a more effective role; some are satisfied with the role of the government, 83% of the companies surveyed find the role of the government is not at all sufficient, 5% of the people find that its role can be improved and 5% of the people are more or less satisfied with the role of the government.

The future of the company is linked mainly by the company's income. Companies with a high and low loss expect to stop their activity completely[30]. These companies constitute about 42% of the companies with a loss, 28% of these companies expect to stop their activity partially and 22% of these companies expect to continue with the available resources.

For the companies that do not make a profit and do not suffer a loss, 38% of these companies foresee a continuation with the available resources; also 38% of these companies foresee that the company will not suffer any change. Finally, 38% of the companies that make a normal profit expect to continue with the resources available, 17% of these companies expect the company to remain unchanged and 22% of the companies expect their company to improve.

The income of the company is the initial factor to determine the future of the company. In the case of a company that makes a profit it has several possibilities either to improve the company due to the high yield or to continue with the same level of activity.

While the companies that are subject to losses also have several possibilities either to stop the activity of the company completely or to stop the activity of the company partially until finding solutions to the economic crisis or to continue with the available resources hoping for the improvement of the situation.

V. Conclusion

Exchange rate fluctuations can have a positive impact on companies because the depreciation of the national currency results in an increase in the price of imported products which implies a decrease in imports which implies an increase in the demand for locally manufactured products and also this depreciation attracts foreign countries because the price of locally manufactured products decreases so the demand for these products increases which means an increase in the company's exports.

On the other hand this variation brings serious consequences for the companies because the depreciation of the national currency will increase the price of the imported products and which are often necessary in the procedure of production what implies an increase in the cost of production, this increase leads to the fall of the demand of the customers also to a fall of the exports. The exchange rate directly affects the profitability of the company and on the selling price of goods and services initially established in foreign currency.

Lebanon is going through one of the most difficult periods it has ever experienced, this period is generated by a large number of crises, and be it health, social, political, economic or financial. One of the economic crises is the variation of the exchange rate of the US dollar against the Lebanese pound; this crisis leads to negative consequences on the small and medium enterprises[31].

The majority of the Lebanese small and medium enterprises import their goods and services from foreign countries which create huge difficulties for the companies to secure a foreign currency which is often the invoicing currency. In most cases these companies resort to adopting the market rate as the exchange rate which means increasing the price of goods in a significant way, this increase leads to a decrease in income due to the decrease in the purchasing power of the Lebanese citizens.

The decrease in income and the daily variation of the exchange rate has directly affected the quality of the goods because the managers of the companies substitute their products with low quality products because it is cheaper but this step is not very welcomed by the customers who prefer that the companies keep the same quality, also this decrease has caused a decrease in stock or sometimes an out of stock either because of the monopolization of products by some distributors or because of the increase of the prices of these goods for that the director finds that to buy some products whose costs is superior to the benefits that they bring is an irrational act.

On the other hand, this drop in income has had serious consequences on the company's employees, many of whom have resorted to either laying off employees or reducing their salaries, as companies find themselves unable to pay the salaries of their employees and also seek to reduce their costs as much as possible. In order to further reduce costs, some companies resort to reducing working hours and sometimes working days.

However, the inability of the government to put effective strategies to manage the risk of exchange rate fluctuation and its serious consequences on citizens and SMEs makes companies all alone to face this risk[27].

The absence of orientation of SMEs' managers on the new methods to fight against this risk as the forward contract, the choice of the factoring currency, the options of exchange, and the refusal to substitute foreign products with locally manufactured products because of the decline in the quality of Lebanese products and the decline in demand for its products makes the significant increase in prices the best solution adopted by companies to ensure their continuation but this method is not effective on the long term because with the continuous decline in the purchasing power of customers companies are unable to sell any products for this reason it is necessary for these companies to adopt a slight increase in a way that this increase is in accordance with the decline in the purchasing power of customers.

This study could serve as base for future researches to work on and improve the quality of work by reaching a larger number of SMEs'with a better rate for confidence level and lower rate for margin of error.

Finally, the only effective solution is the effective intervention of the government that starts by putting a policy of reviving the Lebanese economy from which this policy is based on a productive economy and to help small businesses to overcome all these difficulties, but the question that arises is that it is able to do all these economic and social reforms with the existence of this political class?

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