



The Lebanese Monetary Policy: Background and Prospects

Raed H. Charafeddine, First Vice-Governor, Banque du Liban

AMF-BIS Working Party Meeting on Monetary Policy in the Arab Region
Arab Monetary Fund
25–26 November 2015 | Abu Dhabi - UAE

Table of Contents

I. Background	2
II. The Operational Framework of Monetary Policy in Lebanon: Objectives, Instruments, and Transmission Mechanisms	2
III. The Regulatory Framework of Monetary Policy in Lebanon: Stability, Governance, and Compliance	4
IV. The Implications of Economic and Financial Developments on Monetary Policy Implementation in Lebanon	9
V. Monetary Policy Implementation in Lebanon: Main Challenges, opportunities, and Reforms	10
VI. Conclusion	13

I. Background

For the fourth consecutive year, the Lebanese economy has not been shielded from political tensions, security challenges, and regional unrest, to a great extent, specifically the spillover risks from the Syrian crisis. In effect, the main economic indicators, namely foreign trade, tourism, investment and consumption for instance, have been witnessing steady decrease since 2011. In addition, the debt-to-GDP ratio has risen from 130 percent to about 143 percent; and debt is expected to increase again in 2015 by about \$4 billion to exceed \$70 billion.

Yet, despite all of these challenges, the Lebanese economy was able to achieve real annual growth of two percent in 2014 while inflation remained below 4 percent, in line with BDL's objectives. Meanwhile, GDP growth is expected to be almost flat and inflation rate to be negative in 2015.

A stable monetary policy, a solid and highly liquid banking sector, confidence in the markets and in the Lebanese Lira, as well as steady flow of remittances from the Lebanese Diaspora have been the main components that enabled the economy to maintain its relative strength.

Challenging circumstances never inhibited the Lebanese banking sector to flourish. Its performance remains healthy with total banking activity growing by around six percent and with total assets of banks exceeding \$180 billion in August 2015, as compared to \$142 billion in December 2008. Bank deposits grew by an average annual rate of six percent to reach a new level of \$156 billion in August 2015, with a dollarization ratio of 65 percent after peaking at 77 percent in early 2008. In parallel, lending activity registered around five percent growth during the first half of 2015, with total credit to the private sector exceeding \$53 billion in August 2015, as compared to \$25 billion in 2008. The loan dollarization ratio continued its downward trend to reach 74.8 percent at end-2014, its lowest recorded level in more than two decades. The Lebanese banking sector's high levels of liquidity enable commercial banks to finance the government and private sector needs while maintaining a stable interest rate structure.

II. The Operational Framework of Monetary Policy in Lebanon: Objectives, Instruments, and Transmission Mechanisms

At the monetary operational level, Banque Du Liban (BDL) has been committed to ensure the basis for sustained social and economic growth through achieving the objectives of maintaining exchange rate and interest rate stability, developing money and financial markets, enhancing payment systems and money transfer operations, managing liquidity, targeting inflation, and contributing in the management of public debt.

The attainment of these objectives has been pursued through the prudential and efficient use of several instruments: first, BDL's record level of foreign assets, which have exceeded \$38 billion in June 2015 excluding gold, thus

providing it with sufficient means to confront any crisis and safeguard exchange rate stability; second, BDL's prudent intervention in the bonds markets, aiming at stabilizing interest rate without disrupting market mechanisms; third, BDL's initiatives in providing stimulus packages and enhancing equity financing in the context of developing money and financial markets; fourth, BDL's development of a domestic payment system that provides a secure platform for e-services in the Lebanese financial sector; fifth, BDL's efforts in managing excess liquidity that exceeds \$16 billion, aiming at curbing inflationary pressures, through issuing certificates of deposits and encouraging lending in local currency to productive, residential, environmental, and educational projects; sixth, BDL's effective management of public debt through its continuous commitment to allocate financial resources for the cost of this debt.

As for the transmission mechanisms of monetary policy, BDL has been utilizing several channels through which monetary policy can affect aggregate demand, some of which are conventional while others lie within nonconventional contexts.

1. Conventional Transmission Mechanisms

a. Interest Rate Channel

BDL has strived to maintain a stable interest rate level that is market-relieving and superior to Lebanon's credit ratings, without disrupting market mechanisms, hence securing effective sources of financing for private and public sectors and enhancing financial inclusion, which reaches around 47 percent in Lebanon, compared to 18 percent in the Arab World, according to the Global Financial Inclusion Index (Findex).

b. Exchange Rate Channel

BDL has adopted a policy of managed exchange rate regime, keeping the LL/USD rate within a narrow band that has been set at LL 1501-1514 to the dollar for the past decade and a half. This policy served the purpose of safeguarding the stability of local currency, thus enhancing the confidence and demand for local currency and curbing the deposit and loan dollarization rates.

c. Equity Financing Channel

In the context of developing money and financial markets, BDL has initiated the Capital Markets Authority, aiming at augmenting equity financing, specifically oriented towards securing financing resources for SMEs while curtailing exhaustive debt costs.

2. Nonconventional Transmission Mechanisms

In light of political and socio-economic upheavals in the Arab region and its spillover repercussions on the Lebanese scene, the Lebanese economy has witnessed a relative slowdown in activity, with foreign trade and tourism

receipts being adversely affected while investment and consumption having slowly but steadily declined. Consequently, BDL has resorted to nonconventional financial engineering tools that benefit the economy and society. These tools serve to support the government in creating the necessary conditions for sustainable growth, providing the potentials to revitalize the labor market, reinforcing social and environmental security, and promoting human development. They include:

a. The Provision of Stimulus Packages

BDL resorted to nonconventional monetary policy tools to stimulate internal demand and sustain the country's growth and job creation potential. The stimulus packages took the form of exemptions in the required reserve ratio and soft loans extended to Lebanese banks in order to boost lending activity and fuel economic growth. These packages, extending from 2013 through 2015 and amounting to a total of \$5 billion, proved to be successful by contributing around 50 percent of real GDP growth. These included incentives to support housing, education, renewable energy projects, innovative projects, research and development ventures, entrepreneurship, and other productive sectors of the economy. Moreover, BDL announced a fourth stimulus package amounting to \$1 billion for the year 2016.

b. Creating Knowledge Economy

More recently, BDL placed additional focus on targeting the knowledge industry, as being considered a strategic comparative advantage for the Lebanese economy. Lebanon's highly qualified human capital is apt to effectively turn innovative ideas into successful businesses, creating room for new employment opportunities, therefore expanding the country's GDP and ensuring sustainable development. Believing that this is the new growth model, and having faith in the Lebanese youth, BDL accordingly issued Circular 331 in August 2013 to encourage Lebanese banks to invest in the equity capital of startups, incubators, accelerators, and other companies working in the knowledge economy. This innovative scheme made available around \$400 million to support creativity and innovation. Some \$250 million has been committed by the banks and invested in start-up funds and companies.

III. The Regulatory Framework of Monetary Policy in Lebanon: Stability, Governance, and Compliance

Developing a sound and secure banking sector has channeled BDL's efforts in the past 20 years in order to build a prudent financial model which has inspired confidence in the system. In fact, lessons drawn from the Lebanese model are similar to many of the recent reforms suggested by international financial regulators, most important of which are: decreasing leverage, regulating derivatives and structured products, strengthening banks capital and liquidity requirements, enhancing the corporate governance and transparency of financial institutions, enabling the central bank to oversee all players in the financial market, drawing a clear demarcation between

commercial banks and investment banks, and prohibiting any defaulting of banks that threatens the systemic stability. Furthermore, intensive measures have been enacted towards implementing compliance measures with respect to Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT), risk management and effective internal control, and global sanctions.

1. Improving Financial Stability

BDL has equipped the banking sector with the appropriate regulatory and supervisory framework that is in line with international standards for the sake of reinforcing prudent precautionary regulatory measures. Such regulations aim at deepening the resilience of the banking sector against risks in general, without contradicting with free market rules. Hence, banks were required to: maintain high levels of liquidity; exceed international standards on capitalization requirements; comply with investment and balance-sheet regulations; and avoid excessive leveraging along with building adequate provisions.

In this context, BDL has always assured high levels of liquidity in the Lebanese banking sector, thus enabling commercial banks to finance the government and private sector needs and aiming at thrusting growth and development, while maintaining a stable interest rate structure. BDL's prudent efforts in managing this liquidity are also of an utmost importance for curbing inflationary pressures within the objective of four percent. In terms of capitalization, Lebanese banks are exceeding the required ratio of 10 percent, as stated by Basel III, and have even exceeded the rate of 12 percent, which is the objective to be attained by the end of 2015. Exposures of Lebanese banks operating abroad are regularly monitored and assessed by BDL.

BDL has historically regulated banks' dealings with derivatives and structured products by forbidding banks from making subprime investments both domestically and overseas. BDL has also regulated the on-and-off-balance sheet operations and ensured that the off-balance sheet assets were related to the actual solvency of the banks. Moreover, BDL has issued circulars regulating consumer loans and requiring the formation of provisions, intended as preventive steps to avoid any future crisis. Accordingly, BDL has set out lending regulations that place a ceiling of 50 percent on the value of an equity portfolio and a requirement of a 20 percent down-payment on foreign exchange operations. In order to prevent a real estate bubble, banks are not allowed to lend more than 60 percent of a project's value. In addition, BDL has set maximum acceptable levels for consumer lending, so as not to exceed 45 percent of the household income with a maximum limit of 35 percent for housing loans.

BDL has strived for a well-organized financial market through regulating the establishment and management of all financial market participants, including financial institutions, brokerage firms, collective investment schemes, and money dealers. All these institutions are under the supervision of the Central

Bank and the Banking Control Commission. BDL has also set a clear distinction between the role of commercial banks and investment banks, which has protected both banks' and customers' interests.

Moreover, BDL plays a key role in the development of domestic payment systems. It has regulated e-banking to provide a secure platform for e-services in the Lebanese financial sector, stressing compliance with international norms and standards in order to promote safety and improve efficiency of the multi-currency payment system in Lebanon. In order to enhance economic efficiency, BDL has adopted real time online connections with the financial sector through implementing the Real Time Gross Settlement (RTGS) system for domestic settlement, offering the banking and financial sectors a secure, reliable and real time method of payment that adheres to international standards. Moreover, BDL has set in place the automated Retail Payment and Clearing System (BDL-CLEAR), a low value - high volume bulk payments system, for clearing retail payments, including cheques, direct debits, and card transactions.

BDL has strived to preserve the reputation of the banking sector by reinforcing anti-money laundering measures while maintaining banking secrecy; encouraging small banks to merge with bigger ones in order to avoid bankruptcies or losses to depositors; solving the problem of non-performing loans by allowing creditors to reschedule their loans over a 10-year period; imposing academic, technical, and ethical requirements for staff in key banking and financial positions; and promoting the export of banking services by supporting the regional expansion of leading Lebanese banks. BDL has further established the Financial Stability Unit whose mission is to monitor the financial sector in Lebanon in order to avoid any likely crisis, and the Consumer Protection Unit to ensure that banks deal equitably and fairly with all their customers in a transparent manner.

2. Implementing Corporate Governance Practices

Being aware of the importance of corporate governance in optimizing the performance of the financial sector and protecting the interests of its stakeholders, BDL emphasizes on the compliance with the principles of good governance at all banking and financial managerial levels, including boards of directors and senior management, whereby training programs have been set by BDL for this purpose. This is done in parallel with the creation of appropriate awareness in financial institutions, whereby compliance units were established to protect the banks. This approach aims at increasing transparency and enhancing prudent management as main objectives of BDL policy, which has established for this purpose the Unit of Corporate Governance.

3. Setting an AML/CFT Process

BDL and Lebanese banks comply with international standards and AML/CFT norms. Hence, BDL regularly reviews and amends its AML/CFT regulations, keeping up with the latest international legal and technical developments and setting the foundations of a financial sector in line with global financial expectations.

From the perspective of measures taken, BDL had required banks to be fully informed of the laws and regulations governing their correspondents abroad, and deal with the latter in conformity with the laws, regulations, procedures, sanctions, and restrictions adopted by international legal organizations or by the sovereign authorities in the correspondents' home countries, in order not to jeopardize their sound and good reputation, or their relationships with any of their correspondent banks.

In 2012, BDL suggested amendments to the Lebanese AML/CFT law to incriminate terrorist financing acts. The suggested amendment also calls upon lawyers, public notaries and accountants, when carrying on their mission, to notify the head of the SIC immediately of any operation they suspect is linked to money laundering or terrorism; moreover, the amendment introduces financial sanctions for non-compliance with the AML laws and regulations. BDL also proposed a draft law on the cross-border transportation of funds and the exchange of tax information law. All were approved in 2012 by the Council of Ministers and were consequently forwarded to Parliament.

In order to preserve the good reputation of the Lebanese financial sector and prevent money dealers from being used as a safe haven for money laundering, BDL has regulated the electronic transfer of funds, especially the non-official channels to transfer cash, forbidding small money changers from performing cash transfers using these unofficial channels. It also tightened its regulations regarding the activities of exchange institutions, by increasing their initial capital, prohibiting them from carrying out any of the banking transactions, putting restraints on transporting cross-border cash and precious metals, and requesting the appointment of a certified Compliance Officer in order to control the institution's conformity with the AML/CFT law.

In 2012, BDL requested Lebanese banks to abide by the FATCA, the US law that concerns all US taxpayers worldwide, in the context of preserving the sound and good reputation of the Lebanese banking sector, in addition to maintaining its relationship with correspondent banks that comply with FATCA.

4. Enhancing Risk Management and Effective Internal Control

In 2001 BDL issued circulars that regulate the means by which banks and financial institutions control their operations with their customers in order to avoid any involvement in operations related to money laundering or terrorist financing.

Implementing the notion of the risk based approach, BDL requires banks to adopt a risk-based approach in classifying customers and operations according to the risk levels (low, medium or high risks), taking into account the country risks, customer risks and services risks. It also requested the establishment of risk-based control measures and procedures.

In the scope of risk management, the stage was set through establishing risk policies and monitoring. In 2011, each bank operating in Lebanon was requested by BDL to establish compliance and risk management units and to appoint independent members in their Board of Directors. These units include an AML/CFT Special Committee, an AML/CFT Compliance Unit (in charge of verifying compliance with AML/CFT procedures, laws, and regulations in force), and an AML/CFT Branch Officer in each of the bank's branches in charge of controlling the operations.

Additionally, BDL requires banks and financial institutions operating in Lebanon to strictly implement the Regulations for the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing, particularly with customers who request the conduct of cross-border operations by way of correspondent banks and financial institutions. It stipulated that banks and financial institutions should follow a risk based approach by verifying the identity of individuals or companies involved in the transaction and those that have economic ownership, as well as by developing procedures to continuously monitor the related operations and accounts. Within this scope, banks and financial institutions must adopt the utmost accuracy and due diligence to vet the identity of the economic right owner in the operations conducted. Banks are requested to update their database related to AML/CFT information and to notify the SIC about suspicious transactions.

In order to further intensify the legal aspect of compliance and risk management, BDL have requested in 2013 banks and financial institutions operating in Lebanon to establish a Legal Compliance Unit that is in charge of identifying and preventing legal risks, taking the required measures to mitigate these risks.

5. Adopting Global Sanctions Measures

The global scene is witnessing more than ever the interconnection of a diversity of systems to form complex ecosystems that inflict intense compliance requirements, which are undeniably subject to international fluctuating political-economic balances of power. In this sense, BDL, is keen to guard the vital interests of the Lebanese banking sector, as a strategic national sector, through abiding by the international sanctions. This compliance serves the Lebanese banks in maintaining good and clear relations with correspondent banks by avoiding any operations that might expose correspondent banks and jeopardize the relationship with them by involving them in situations contravening the regulations enforced in their respective countries.

IV. The Implications of Economic and Financial Developments on Monetary Policy Implementation in Lebanon

At the global level, the IMF estimated global growth at 3.3 percent in 2015, marginally lower than in 2014, with a gradual raise in advanced economies from 1.8 percent in 2014 to 2.1 percent in 2015, and a slowdown in emerging market and developing economies from 4.6 percent in 2014 to 4.2 percent in 2015. In 2016, global growth is expected to strengthen to 3.8 percent. According to the IMF, the underlying drivers for this gradual acceleration in economic activity in advanced economies are easy financial conditions, more neutral fiscal policy in the euro area, lower fuel prices, and improving confidence and labor market conditions. In emerging market and developing economies, the prevailing growth slowdown indicates several factors, including lower commodity prices and tighter external financial conditions, structural bottlenecks, rebalancing in China, and economic distress related to geopolitical factors. However, a rebound in activity in a number of distressed economies is expected to result in a pickup in growth in 2016. The distribution of risks to global economic activity is still negatively manifested. In both advanced and emerging market economies, near-term risks include increased financial market volatility and disruptive asset price shifts, while lower potential output growth remains an important medium-term risk. Similarly, lower commodity prices pose risks to the outlook in low-income developing economies after many years of strong growth.

As for inflation, the regression of oil prices has confronted oil-exporting countries with severe challenges, with aggregate monthly inflation rates reaching its lowest levels in advanced economies. According to the IMF, with the recent rebound in oil prices, fuel end-user prices have started rising. Monthly headline inflation has thus started to rise in many advanced economies, but the impact of disinflationary factors earlier in the year was stronger than expected, particularly in the United States. Hence, core inflation has remained generally stable well below inflation objectives. In many emerging market economies, especially those with weak domestic demand, headline inflation has declined.

Developments in the global monetary systems signal the retention of low long-term interest rates in advanced countries, particularly in the Euro area and Japan, excluding the United States, whereby the long-term interest rate is expected to continue rising after the declaration of the federal reserve to terminate the quantitative easing program, going back to traditional monetary policy practices with the enhancement of the US economic growth. Given the constraints on monetary policy in most advanced economies due to the zero lower bound on policy interest rates, the IMF expected a net positive for the global economy. Moreover, bond yields and risk premiums in emerging market economies have risen broadly in line with those on advanced economy instruments. However, capital flows to those economies are estimated to have decreased in 2015 compared to the second half of 2014, and many have witnessed further currency depreciation.

At the Arab level, a recent AMF report has estimated growth to be 2.8 percent in 2015, compared to 3.1 percent in 2014 and a projected 3.5 percent in 2016.

The report highlighted the negative effect of the regression of oil prices on oil-exporting countries, resulting in low expectations in economic growth that is estimated at 2.7 percent in 2015, compared to 3 percent in 2014 and a projection of 3.4 percent in 2016. As for Arab oil-importing countries, the report noted the relative stability achieved in some countries and their benefiting from the regression of international oil prices, with the continuation of implementing economic reforms and investment projects, whereby these countries achieved a growth of 3.4 percent in 2015. The growth rate expectations for 2016 project 3.4 percent for the Arab oil-exporting countries due to expectations of a 9 percent increase in oil prices; likewise, Arab oil-importing countries are expected to witness increase in growth rates due to the improvement in the global economic activity and the levels of external demand, despite the adverse effect on their financial resources caused by the anticipated increase in oil prices.

The problem of high Arab unemployment rates still constitutes one of the main challenges for the Arab region, marking the highest rate of youth unemployment world-wide at 28 percent. In addition, the contribution of the private sector in generating productivity and employment opportunities is still low, indicating the need for developing the Arab business environments and legislative/legal frameworks.

In the context of the strenuous Lebanese political and socio-economic outlook mentioned earlier, which is mitigated by stability of the Lebanese financial-monetary system, the implementation of monetary policy in Lebanon faces intensive internal and regional hardships and opportunities. This implementation is affected by the implications of global, regional, and internal economic and financial developments from several perspectives. First, from the perspective of global, regional, and local relative growth slowdown, accompanied by the decrease in external and internal demand, BDL has been keen to carry on with its nonconventional transmission mechanisms by providing stimulus packages and nurturing strategic national economic sectors, such as the knowledge economy and the financial sector, so as to enhance internal demand and accelerate economic growth. Second, given the persisting low long-term interest rates in most advanced economies, BDL has been optimizing its role in securing efficient sources of financing for the public sector. Furthermore, BDL has been capitalizing on the advantageous difference in interest rates between foreign currencies and the local currency to enhance local currency deposits and further curb dollarization. Third, the regression of oil prices has not affected adversely the flow of remittances from Lebanese Diaspora, which has reached an estimated \$8.9 billion in 2014, hence BDL has given significant importance to its contribution in the formulation of a national strategy for promoting the developmental role of Diaspora remittances.

V. Monetary Policy Implementation in Lebanon: Main Challenges, opportunities, and Reforms

The implementation of monetary policy in Lebanon is confronted with numerous challenges, linked with several opportunities, and bound to

necessary reforms. These challenges, opportunities, and reforms can be expressed as follows:

1. *Macro-Prudential Supervision*

Ensuring the resilience of individual financial institutions through more equity capital funding is the most important way to protect them and the whole system from inevitable shocks. However, another equally important challenge that BDL is committed to meet is ensuring the resilience of the system as a whole through macro-prudential supervision, which regulates the stability of the financial system as a whole through two mirror-image functions: to protect the financial system from the economy and the economy from the financial system. This implies protecting the financial system from destabilizing developments encouraged by price-stability practices of the monetary policy on one hand, and protecting the economy from the excesses of the financial system on the other.

2. *Synergy between Financial Regulation and Monetary Policy*

Since the financial crisis, a change of perception has occurred regarding the relationship between financial regulation and monetary policy. As the two policies were traditionally seen in isolation, each pursuing its own goals using separate sets of instruments, the new challenging focus adopted by BDL is to analyze them complementarily together. The reason for this change is the realization that the relationship between the roles of financial regulation and monetary policy is embodied in the interrelatedness between financial systemic risks and disruptive implications on output and price stability.

3. *Enhancing Financial Inclusion*

Reaching around 47 percent, financial inclusion in Lebanon scores double the average rate in the Arab region. BDL is continuing its efforts to broaden financial inclusion, so as to restrain shadow banking practices and instill compliance. Hence, BDL encourages bank penetration and promotes new electronic payment methods.

4. *Reinforcing Capital Markets*

As a Regulator, BDL aims at overcoming the challenge of financing growth and development through reinforcing capital markets as a source of financing, with its two channels: equity financing and debt financing, while assuring that capital markets enhance or, at least, do not threaten financial stability.

5. *Rallying a Broadly Based Financial Literacy Program*

BDL has been vitally involved in the challenge of heightening consumer empowerment through rallying a broadly based financial literacy program, developed to increase the financial literacy of the population. This program involves a range of organizations, including those of the government, state agencies, and non-government organizations.

6. The SoLoMo Synergy

The dynamic nature of mobile technologies, interlinked with the wide social media penetration and the innovative localization of services, created the so called SoLoMo (Social-Local-Mobile) framework, which posed risks and challenges along with opportunities for mobile financial services. The mitigation of those risks poses challenges that can be met through introducing innovative security high-tech measures that prevents illicit and fraud activities. Moreover, capitalizing on such a revolutionary opportunity requires synergy and integrative approaches between the telecommunication and banking industries.

7. Mitigating the Costs of Compliance

Having been created for stabilizing the financial sector in order to actualize mutual benefits among financial service providers and consumers, compliance requirements nonetheless have witnessed surging costs due to the increasing complexity of global finance. As a consequence, the challenge of mitigating the costs of compliance can be approached through finding ways to make the incentives for financial intermediaries consistent with the objectives of safeguarding the interests of the consumers and abiding with compliance requirements.

8. De-risking

On the economic security level, the phenomenon of de-risking has received considerable attention lately as an outcome of the global fight against money laundering and terrorist financing. Its negative dimension appears when applied generally and without scrutinizing individual cases in order to avoid the high cost of compliance. In order to mitigate this challenge, BDL tailored regulatory decisions related to AML as well as dealing with correspondent banks to spare the Lebanese banking sector from de-risking measures.

9. Simplifying and Automating Know Your Customer (KYC) Requirements

Just as KYC requirements are crucial for due diligence, so is the task of simplifying and automating KYC process, especially when medium sized corporations and SMEs are concerned. From this perspective, banks are faced with the challenge of developing the tendency to shift from pure identification in a traditional sense to examining customer transactions and automating exchange of information through a centralized system.

10. Monetary Practices Targeting Sustainable Growth and Development

BDL has considered sustainable growth and development to be a continuous challenge and a priority objective to its initiatives. Accordingly, several initiatives were launched by BDL to ensure that the incentives of financial intermediaries are in alignment with the objective of upholding the interests of the consumers and community as a whole. Moreover, another challenge is to direct fiscal practices towards optimal utilization of the surplus liquidity in the financial sector for the purpose of financing infrastructural projects and

sustainable-development investments; in addition, innovative and persistent efforts should be exerted to align between monetary and price stability on one hand, and sustainable growth and development on the other.

11. The Disruption of the Political System

The current political turmoil has been affecting the functionality and effectiveness of the Lebanese governmental and legislative institutions. However, BDL's commitment and perseverance in maintaining monetary and financial stability has been effective in insulating the financial and banking sector from the repercussions of this turbulence.

12. Strategic Opportunities

In addition to the sectors of banking and knowledge economy, another sector with potentially great positive impact on the economy is that of the yet untapped oil and gas. With new employment opportunities and added fiscal revenues, this sector will be able to bring down the public debt and boost growth and development fundamentally. Furthermore, the flow of remittances from the Diaspora towards Lebanon constitutes a strategic national asset. This asset requires the formulation of an effective comprehensive national strategy, involving the financial sector, for capitalizing on the potential developmental role of the Diaspora.

VI. Conclusion

As the strenuous circumstances that our neighbors and the region at large are trapped in are reflected on the Lebanese socio-economic and political scenes, Lebanon continues to maintain a stable monetary policy, a solid and highly liquid banking sector, confidence in the markets and in the Lebanese Lira, as well as steady flow of remittances from the Lebanese Diaspora have been the main components that enabled the economy to maintain its relative strength.

Being one of the pillars of optimism, the Lebanese monetary authority, represented by BDL, has built a robust financial system managed by a prudent monetary policy. This policy is based on two frameworks: the operational one, comprising its objectives, instruments, and conventional/nonconventional transmission mechanisms; and the regulatory framework of monetary policy, encompassing the elements of stability, governance, and compliance.

The implications of economic and financial developments on monetary policy implementation in Lebanon have global, regional, and local perspectives. Highlighting three areas of influence, i.e. growth, interest rates, and oil prices, these economic and financial developments are reflected in main challenges, opportunities, and reforms that ought to be encountered.

On the strategic brighter perspective, the three national strategic sectors that constitute promising potential prospects for the Lebanese economy are: the resilient Lebanese banking and financial sector that is playing a crucial role in

supporting socio-economic stability; knowledge economy, which is based on the advantageous Lebanese human capital and the potential it has to turn Lebanon into a regional hub for innovation; oil and gas, which promises great potential positive impact on the economy. Yet this optimism will not be realized unless it is coupled with the appropriate structural reforms. Hence, barring adverse political and security events, if the economy is to recover and move towards its full potential, fiscal discipline remains a priority.