



Eighth UNCTAD Debt Management Conference

Geneva, 14 - 16 November 2011

Principles for Promoting Responsible Sovereign Lending and Borrowing

by

H.E. Ms. Raya Haffar El Hassan,

Minister of Finance from 2009 to 2011 and

Economic Specialist, the Lebanese Republic

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD



Sustainable Debt The Lebanon Experience

**Raya Haffar el Hassan
November 2011**

Public Debt becoming a Global Problem

Banking crisis 2008 + European crisis 2010

Surge in Public Deficits/Debt buildups

**Private debt
transferred to public
debt**

**Sovereign debt
problem threatening
the global economy
with a new recession
(double dip)**

Debt market Failure

- ▶ Debt crisis has demonstrated the system's inherent vulnerabilities
- ▶ Safeguarding mechanisms failed to provide adequate protection
- ▶ Investors perception of “too-big-to-fail” implicit guarantees distorted the system

Avoiding a Repeat

- ▶ Restore confidence in the financial system as a first step
- ▶ Formulate a roadmap for future corrective measures
- ▶ Steer away from over-regulation
- ▶ Institute internationally recognized equitable standards for responsible borrowing and lending

Social implications of the crisis

- ▶ Inequality at the root of the crisis?
- ▶ Who will pay the highest price?
- ▶ Social responsibility
- ▶ Sustainable debt hinges on sustainable growth and social cohesion

The Lebanon Experience

Overview

- ▶ Small open economy
- ▶ Debt stock in 1992 US\$ 3 billion
- ▶ Reconstruction needs US\$25 billion
- ▶ No tax revenue led to need to tap domestic borrowing
- ▶ Coupled with fixed exchange rate regime led to IR increase
- ▶ 1995 inaugural debt issue

The Lebanon Experience

Resilient debt management

- ▶ Elaboration of a medium term debt management framework
- ▶ Extension of debt maturity profile
- ▶ Maintaining operational flexibility (MTN, private placements, exchanges...)
- ▶ Institutional buildup and regulatory reform
- ▶ Maintaining liquidity buffer (pre-funding)
- ▶ Enhancing transparency through debt reports

The Lebanon Experience

Resilient debt management

- ▶ Strict banking regulations: immunity to 2008 financial crisis
- ▶ Adequate F/X reserve buildup
- ▶ F/X reserve mix
- ▶ Coordination between monetary and fiscal authorities
- ▶ Active monetary policy in support of liquidity management

The Lebanon Experience

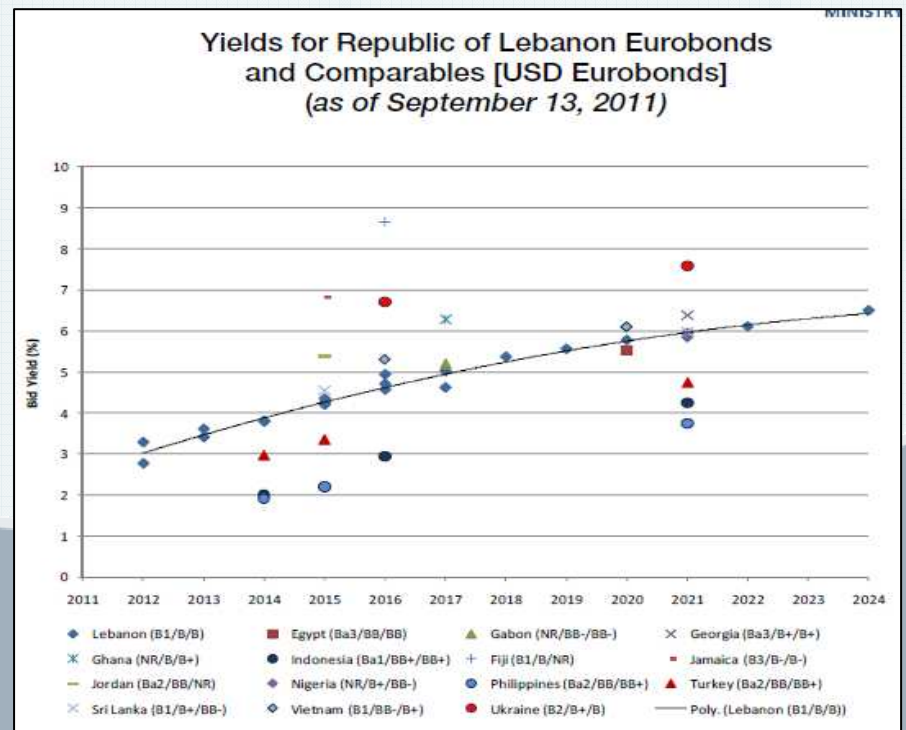
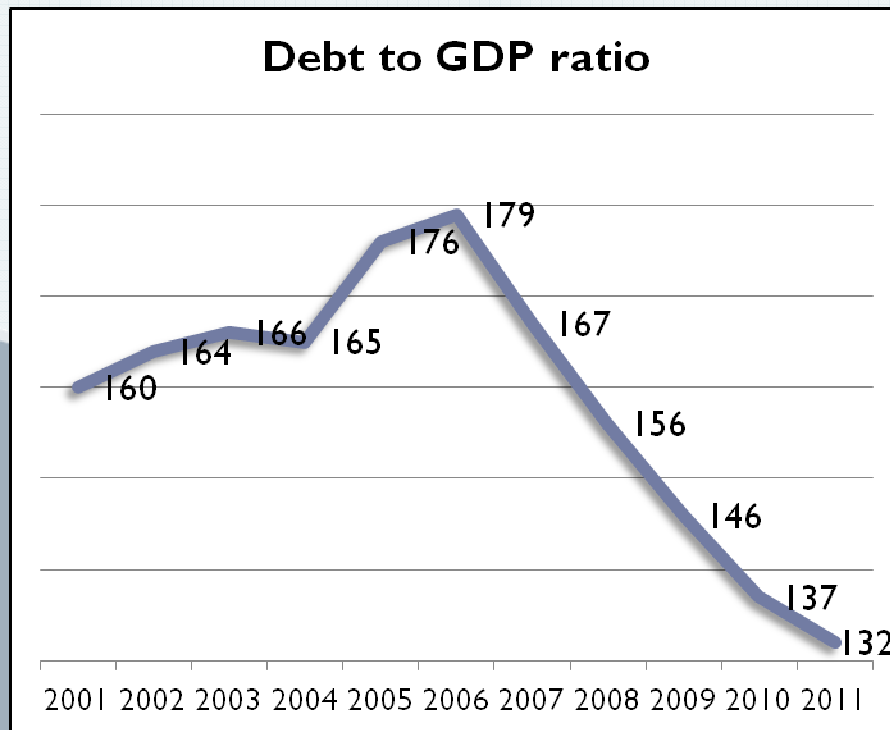
Enabling Environment

- ▶ Lebanese Diaspora: sustained capital inflows (M2 growth)
- ▶ International donor support (more than US\$10 billion raised in grants and concessional loans)
- ▶ Small domestic Capital Markets
- ▶ Strict oversight and regulation of banking sector

The Lebanon Experience

Positive Ramifications

- ▶ Low borrowing cost relative to B+ rating
- ▶ No default or rescheduling history
- ▶ Positive primary surpluses → reversal of debt dynamics
- ▶ Strong appetite for Lebanon Eurobonds



The Lebanon Experience

The Way Forward – Sustainable Debt Management

- ▶ Structural reforms
- ▶ Enhancing productivity and competitiveness
- ▶ Growth agenda
- ▶ Reducing the stock of debt
- ▶ Building stronger social dynamics

Conclusion-Awaiting Recovery

- ▶ Crisis served as a wake up call
- ▶ Debt for current expenditures: last resort
- ▶ Social cost of irresponsible borrowing very high
- ▶ Strong macro fundamentals no longer guarantees immunity from shocks
- ▶ Economic robustness is not only dependent on macro but on social stability