

# GOVERNMENTAL AND FINANCIAL SUPPORT PROGRAMS

## FINANCING AND GUARANTEES

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Support Programs for Economic & Banking Sectors in Crisis-Affected Countries –  
Experiences of Arab States and Advanced Banking Systems

Union of Arab Banks - Lebanon

Sept. 18-19, 2025

## 1 THEORETICAL FRAMEWORK

- Government Roles
- Economic Missions of the Government
- Equilibrium Exchange Rate

## 2 THE LEBANESE LANDSCAPE

## 3 GOVERNMENTAL AND FINANCIAL SUPPORT PROGRAMS

- Mechanisms for Financing the Banking Sector
- State Participation in Bank Recapitalization
- Role of Fiscal Policies in Risk Mitigation
- Types of Guarantees
- Benefits of Governmental Support
- Challenges and Considerations

## 4 CONCLUSION

# GOVERNMENT ROLES

## TRADITIONALLY

- **Adam Smith** [1]: the GOV has a residual role:
  - **maintaining order** → defense, army, justice and education
  - **producing specific economic goods**, such as infrastructure
- **Neoclassical** [2] thought reduces the role of GOV to a minimum and simplifies the economic foundations of GOV intervention.
- **Keynesian** [3] economists justify government intervention through public policies that aim to achieve full employment and price stability.
- **Karl Marx** [4]: the role of GOV should be to facilitate the transition from **capitalism** to **socialism** and ultimately to **communism** → Involvement in everything!
- Financing public goods... Many opinions
  - No nation ever grew more prosperous by taxing its citizens beyond their capacity to pay – Margaret Thatcher*

# ECONOMIC MISSIONS OF THE GOVERNMENT

## THREE MAIN ECONOMIC MISSIONS

Three main economic missions for any government [5]:

- 1 Internal Balance: Full employment and price stability
- 2 External Balance: Current account not in big deficit and not in big surplus
- 3 Adequate Exchange Rate: Monetary and Exchange Rate inter-dependency between countries

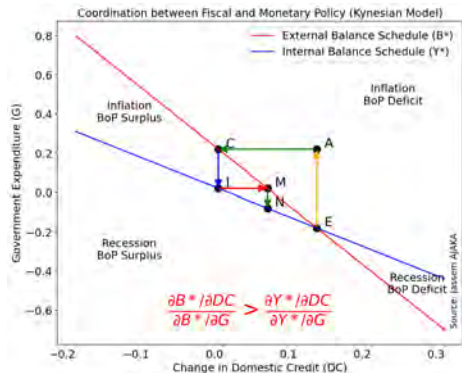
# EQUILIBRIUM EXCHANGE RATE

## COMPLICATED PROCESS

### Internal-External Balance at a Given Exchange Rate [6]

- 1 B\* line is the foreign-balance schedule
- 2 Y\* line is the internal-balance schedule
- 3 Intersection → Optimal ExR

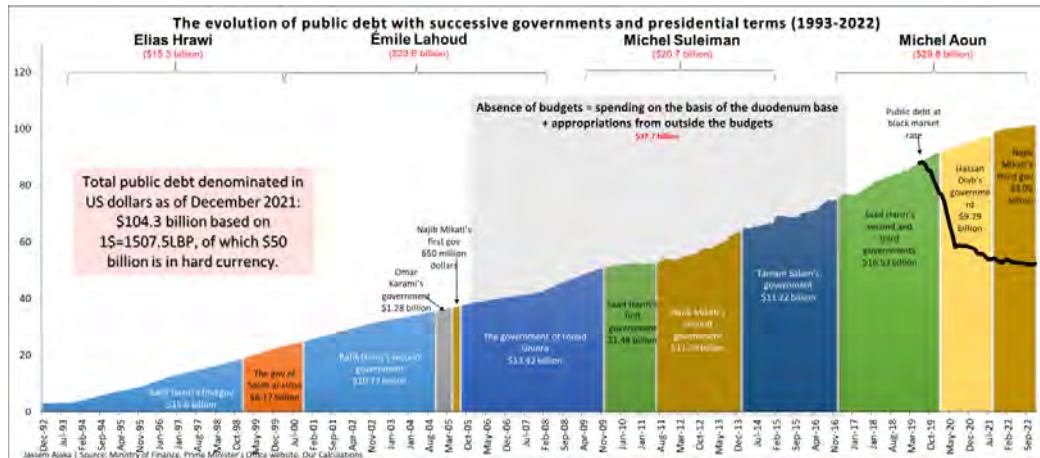
The difference in the absolute values of the slopes of the B\* and Y\* schedules, or  $\frac{\partial B^* / \partial DC}{\partial B^* / \partial G} > \frac{\partial Y^* / \partial DC}{\partial Y^* / \partial G}$  reflects the comparative advantage of DC over G in influencing the balance of payments, or the comparative advantage of G over DC in affecting income.



# THE LEBANESE LANDSCAPE

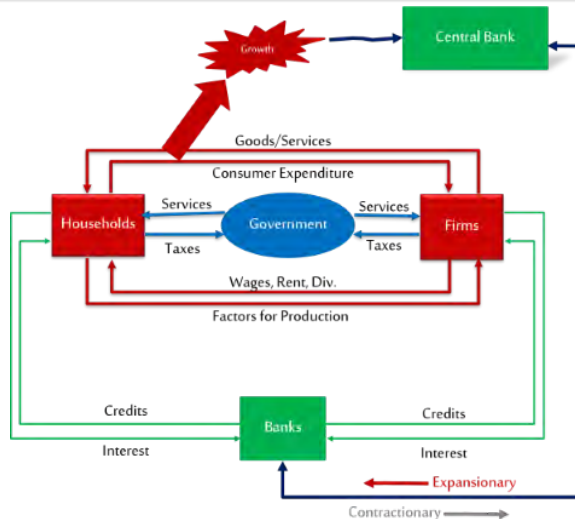
## LACK OF DUTIES

Public spending + Debt service = Taxes + New debt issues



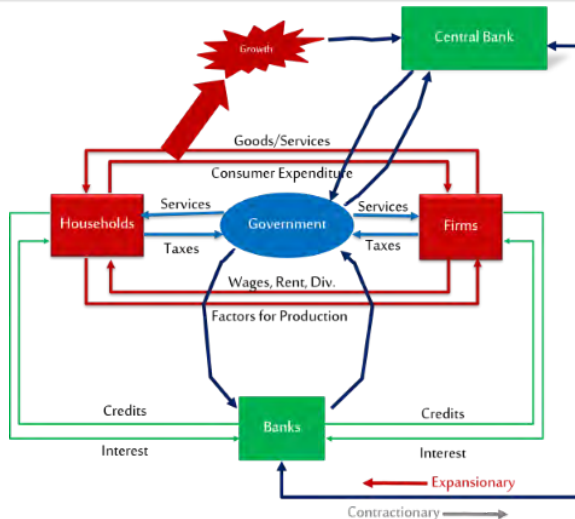
# THE LEBANESE LANDSCAPE

## VIOLATION OF MARKET RULES



# THE LEBANESE LANDSCAPE

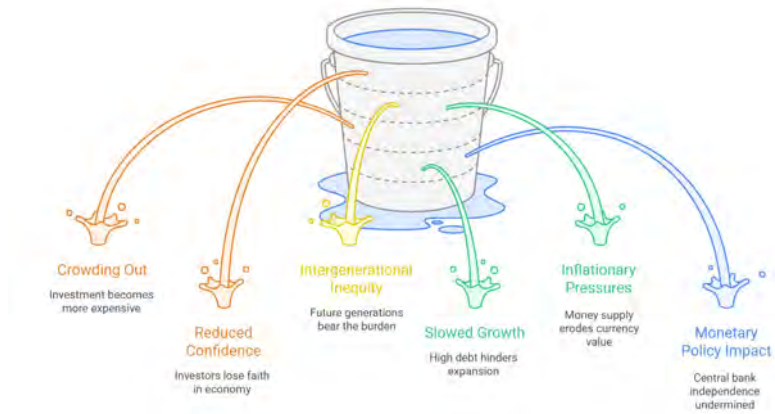
## VIOLATION OF MARKET RULES





# FISCAL DEFICITS

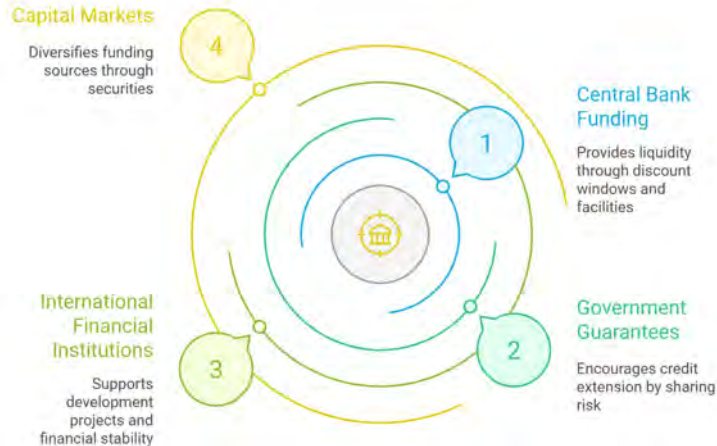
## THE TIP OF ECONOMIC INSTABILITY



*Napkin.ai Powers the Informative Graphics and Illustrations*

# MECHANISMS FOR FINANCING THE BANKING SECTOR

## KEY MECHANISMS



# STATE PARTICIPATION IN BANK RECAPITALIZATION

## AN INDISPENSABLE TOOL DURING TURBULENT TIMES



### RBS Case



#### UK GOV investment

Total UK GOV investment in RBS was £45.8 billion, with public ownership peaking at 84%.

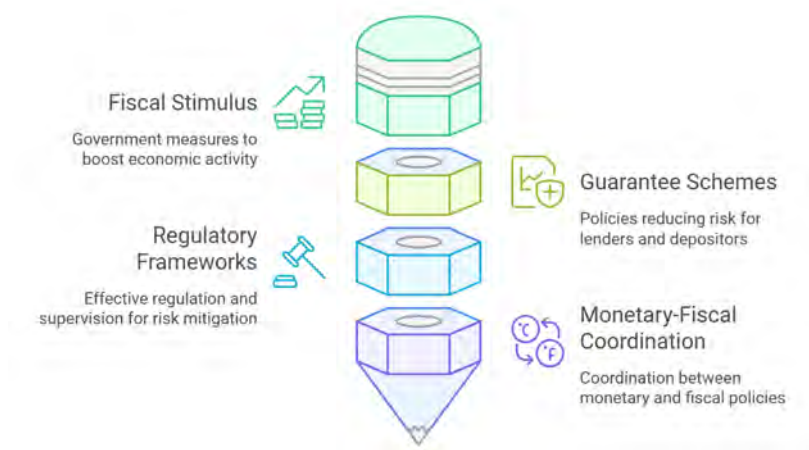


#### Bank pays dividend

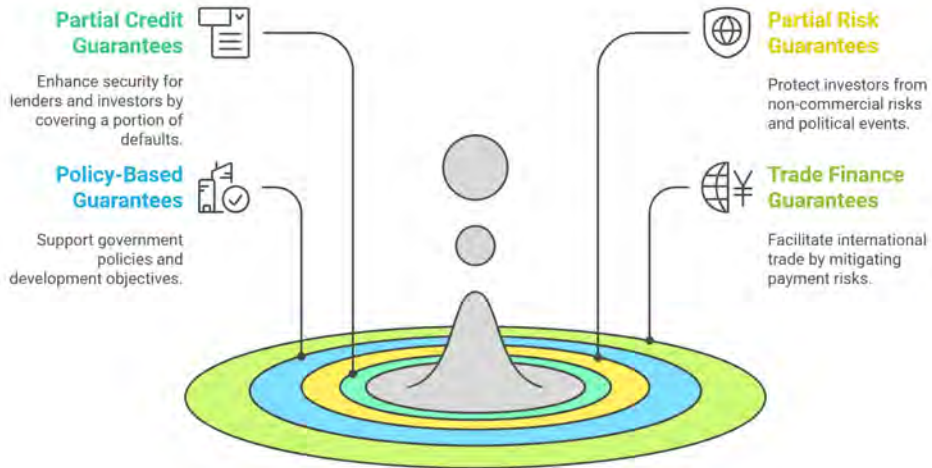
2018: The bank started to pay dividend.

# ROLE OF FISCAL POLICIES IN RISK MITIGATION

## FOUR TOOLS






# TYPES OF GUARANTEES



# INTERNATIONAL EXAMPLES

## WORLD BANK AND THE ADB

Characteristic	World Bank Guarantees	ADB Guarantees	European Union Funding - Greek Piraeus Bank (2015)
 <b>Purpose</b>	Development projects support	Infrastructure development support	Bank capital shortfall coverage
 <b>Function</b>	Credit enhancement and risk mitigation	Enhances project creditworthiness	Capital injection via private and public funds
 <b>Focus</b>	Infrastructure and financial sector stability	Private sector participation and finance efficiency	Initial private raise and HFSF injection

# BENEFITS OF GOVERNMENTAL SUPPORT

## ALIGNMENT OF STRATEGIES



### Enhanced Creditworthiness

Improves access to financing and attracts private capital



### Risk Reduction

Mitigates risks for lenders and investors



### Economic Stability

Supports key industries and prevents failures

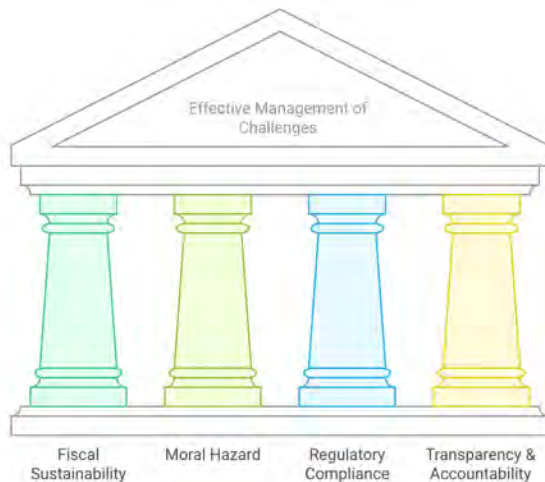


### Development Impact

Facilitates essential projects and promotes growth

# CHALLENGES AND CONSIDERATIONS

## FISCAL DISCIPLINE





# BALANCED APPROACH

FINANCIAL SUPPORT PROGRAMS ARE INDISPENSABLE



# REFERENCES



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*Oxford University Press, 2008.*



## 2- T. Veblen (1900)

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## 3- Robert Skidelsky (2010)

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## 4- Karl Marx (1996)

Das Kapital (F. Engels, Ed.)  
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## 5- Paul Krugman (1990)

Equilibrium Exchange Rates,” in International Policy Co-ordination and Exchange Rate Fluctuations, ed. by William H. Branson, Jacob A. Frenkel, and Morris Goldstein  
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# REFERENCES



6- Chorng-Huey Wong, Mohsin S. Khan, and Saleh M. Nsouli (2002)

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*International Monetary Fund*, DOI: <https://doi.org/10.5089/9781589060944.071>



7- Thomas Hammarberg (2007)

Judges must be independent and protected from both political and economic pressure

*Council of Europe*, <https://www.coe.int/ro/web/commissioner/-/judges-must-be-independent-and-protected-from-both-political-and-economic-pressure>



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Royal Bank of Scotland fined £28m for price fixing with Barclays

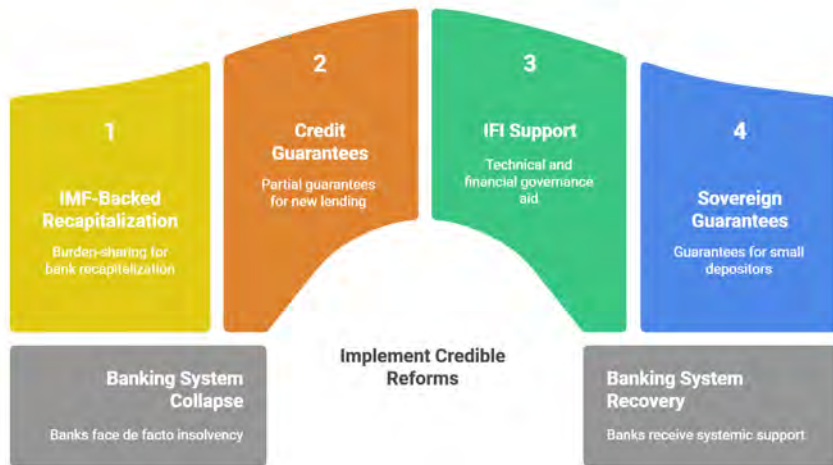
*Banking Times*,

<http://www.bankingtimes.co.uk/2011/01/20/rbs-fined-28m-for-price-fixing-with-barclays/>

The End

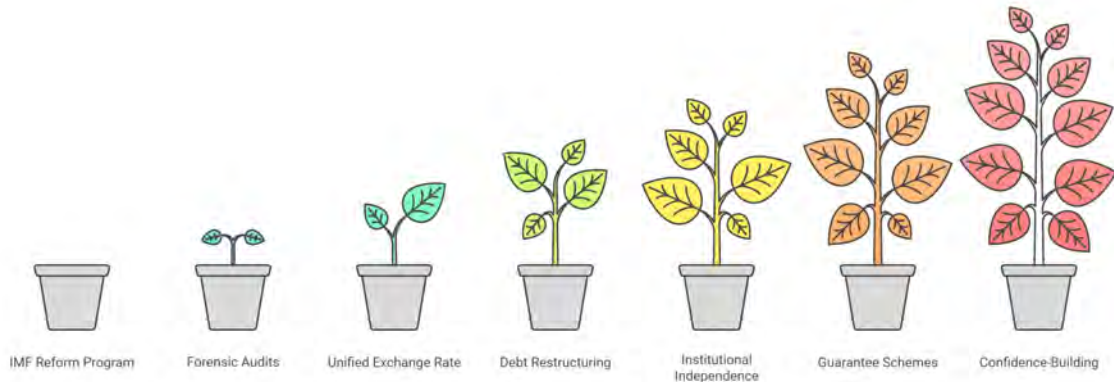
# FINANCIAL SUPPORT MECHANISMS FOR LEBANESE BANKS

## RESTORING LEBANESE BANKING STABILITY



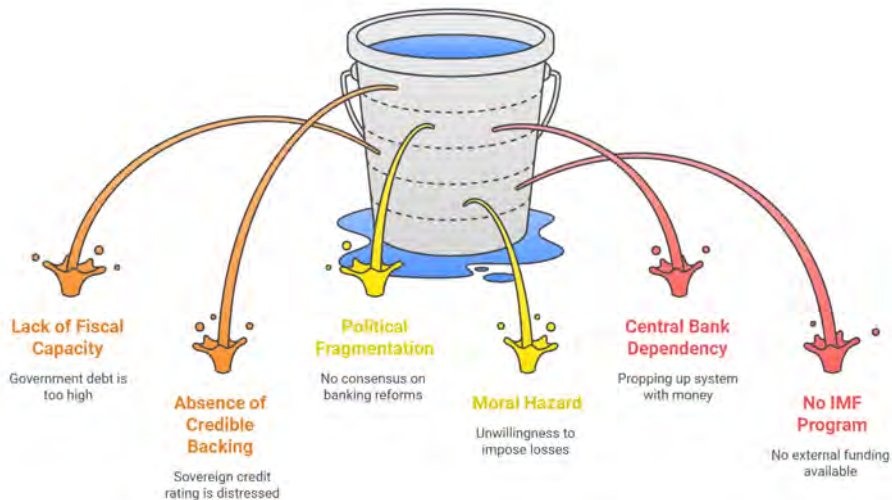
# REDUCING LEBANON'S SOVEREIGN RISK PREMIUM

## CUTTING LEBANON'S RISK PREMIUM: NO MAGIC, JUST REFORM



# LEBANON GOVERNMENT RECAPITALIZATION PROGRAM?

SIMPLY IMPOSSIBLE!



# MONETARY-FISCAL COORDINATION

## FULL SYNCHRONIZATION

