

Should Lebanon bring back its gold from U.S.?

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BEIRUT: Should Lebanon bring back part of its gold reserves from the United States? Is there a possibility that a portion might be seized by the U.S. authorities if Lebanon defaults on the payment of its maturing Eurobonds to foreign investors? These questions were echoed by some economists, even as they argued it was in Lebanon's interest to store all its gold reserves in America in the Federal Reserve's coffers.

They claimed there was no guarantee this gold might not be impounded by the U.S. authorities at the request of an American court.

But a source at Banque du Liban downplayed these fears as "exaggerated," insisting Lebanon had never defaulted on payments of its dues even during the darkest days in the country's history.

Lebanon, as in the case of most countries around the world, beefed up its gold reserves to use them as a buffer or a psychological cushion to weather any unforeseen financial crisis that could rock any country.

Lebanon ranks among the top 20 countries in the world with the largest gold holdings.

It has about 286.6 tons, or 10,116,572 ounces, worth \$13 billion (according to the market price of gold ounces). That corresponds to: 38.8 percent of the government debt in foreign currencies at the end of 2018, amounting to about \$33.5 billion (including government debt excluding BDL foreign currency debt, but not including interest on these debts); and about 36 percent of BDL's foreign currency assets at the end of June 2019 (about \$36.4 billion - about \$29.8 billion in foreign currencies and \$ 6.6 billion in debt securities).

"Although currencies [including the Lebanese pound] are no longer pegged to gold since the early '70s, gold still holds a balanced stake in central bank portfolios and is part of the wealth of countries, given its higher and more stable value than banknotes," one economist said.

"Exposed to the risk of exchange rate fluctuations, gold is a safe haven for individuals and countries who own it, especially during crises," they added.

These considerations prompted the Lebanese Parliament to issue Law No. 42 in 1986, "prohibiting the disposal of gold assets with or on behalf of the Banque du Liban, and under any circumstances."

The Central Bank has always highlighted the importance of the gold reserves it holds on behalf of the Lebanese state. In the mid '70s and early '80s, BDL moved a large chunk of its gold reserves to Fort Knox for security concerns at that time.

It is not clear how much gold the U.S. authorities hold, but some estimate that at least 60 percent of this gold is kept in America.

Charbel Nahas, a former minister and economist, has spearheaded a campaign to bring back all of Lebanon's gold that is kept in the United States.

Nahas argues that the prospects of a default in the payment of the maturing Eurobonds has grown significantly after yields on the bonds reached over 14 and 15 percent.

"The situation is very serious now. What if the state defaulted on the payment of its maturing bonds held by foreign investors? What if some of these investors filed a lawsuit against the state in international courts?" Nahas asked.

He added that the Lebanese state has had previous experiences with the seizure of its foreign assets.

"After the BOT [build-operate-transfer] contracts with Libancell and Cellis were terminated in 2001, the first resorted to international courts, which issued a decision to book a plane in Turkey belonging to MEA [Middle East Airlines], owned by the Banque du Liban. This may also apply to gold," Nahas said.

He added that in the face of these realities, the options for Lebanon had become very limited.

But a source at BDL insisted that the gold held by the Central Bank was considered a "sovereign immunity" and this meant the U.S. authorities had no right to seize it, even if an American court issued a verdict to do so, until the Lebanese government fully paid all its dues to the holders of the Eurobonds.

"We have a law that stipulates that no party or country has the right to sell or liquidate our gold. No one has the right to seize this gold even if an international court orders the U.S. authorities to impound this metal," the source told The Daily Star. The source added that only Central Bank Gov. Riad Salameh could order the transfer of the gold to Lebanon.

But the source declined to say why Lebanon couldn't retrieve the gold from the U.S.

"The assets of BDL are totally different than the assets of the state. The state issues the Eurobonds and not BDL," the source explained.

Economist Ghazi Wazni said there was no reason to make a big issue out of Lebanon's gold reserves.

"Moody's recent report admitted that Lebanon has never defaulted on the payment of its debts. We are talking theory that in case Lebanon defaulted then the U.S. would seize. But even this scenario is not likely to happen because the court proceedings last many years," Wazni said.

He added that 53 percent of the sovereign Eurobonds were held by Lebanese commercial banks and 10 percent by BDL.

“Do you think the Lebanese banks will file a lawsuit against the government in case of a default? The answer is no,” Wazni said.

He added that Argentina defaulted on the payments of its debt in 2013 and despite this the U.S. court did not reach a decision to freeze the country’s assets in the U.S.