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THE IMPACT OF RISING GOLD PRICES ON THE BALANCE SHEET OF THE LEBANESE CENTRAL BANK

A LEGAL AND ACCOUNTING ANALYSIS

This piece analyzes the practical legal and accounting implications of the fluctuation in gold prices on the Balance Sheet of the Banque du Liban (BDL). The Interim Balance Sheet as of 31 March 2025 shall be taken as a practical example. It focuses on the "Re-valuation Adjustment (Articles 75 & 115 of C.M.C.)" entry pursuant to Articles 114, 115, and 116 of the Code of Money and Credit (CMC), and evaluates how fluctuations in gold prices may be used to write off losses and deferred expenses without resorting to deposit haircut.l facilisis.

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The Impact of Rising Gold Prices on the Balance Sheet of the Lebanese Central Bank: A Legal and Accounting Analysis.

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[1] An extensive interpretation of those Articles is to be found in the legal consultation n.881/1985 rendered on 9/10/1985 by the Legislating and Consultations Body (LCB) at the Ministry of Justice; published in LCB's encyclopedia of consultations, SADER Legal edition, volume 11, page 11252.

مصرف لبنان
BANQUE DU LIBAN

Central Bank of Lebanon

Interim Balance Sheet

31/03/2025

(In thousands of Lebanese Pounds)

	31/03/2025	15/03/2025
Assets		
Gold *	2.536.494.194.054	2.471.155.562.860
Foreign Reserve Assets * *	960.089.447.185	961.764.694.974
Securities Portfolio * * *	554.699.433.838	554.624.956.330
Loans to Public Sector * * * *	1.487.025.878.327	1.487.010.168.962
Loans to Local Financial Sector	42.421.149.806	41.329.552.462
Re-Valuation Adjustment (Articles 75 & 115 of C.M.C.) * * * * *	2.623.809.125.553	2.689.552.226.406
Deferred Open-Market Operations * * * * * *	149.621.786.610	148.219.076.206
Other Assets	23.101.433.528	22.615.745.454
Fixed Assets	641.859.487	640.854.684
Total Assets	**8.377.904.308.388**	**8.376.912.838.338**
Liabilities		
Currency in Circulation Outside BDL	86.777.032.351	86.134.503.638
Financial Sector Deposits	7.612.593.595.537	7.614.986.536.509
Public Sector Deposits	581.952.311.809	580.731.579.419
Re-Valuation Adjustment (Articles 75 & 115 of C.M.C.)	0	0
Other Liabilities	34.362.604.285	32.841.454.366
Capital Accounts	62.218.764.406	62.218.764.406
Total Liabilities	**8.377.904.308.388**	**8.376.912.838.338**

Based on the Central Council's decision number 48/4/24 dated 15/02/2024, BDL relied on the the USD/LBP Electronic Platform rate as of 31/03/2025 equivalent to LBP 89,500.

* Gold is evaluated at the market price of the Ounce .

* * Foreign reserve assets represent non-resident and liquid foreign assets equivalent to **USD10.727** Billion (USD8. Billion as at 31/07/2023)

* * * Securities portfolio includes Lebanese Government Eurobonds (market value of **USD828.3** million).

* * * * Loans to public sector includes an overdraft of **USD16.518** Billion.

* * * * * Revaluation Adjustment includes the provisions of articles 75 and 115 of C.M.C. :

1- The balance of the "Revaluation Adjustment - Article 115" account up to 31/03/2025 equals **LBP2,459.49** Trilli

2- The balance of the "Exchange Stabilisation Fund - Article 75" as at 31/03/2025 equals **LBP164.32** Trillion.

I. Introduction

In the context of Lebanon's ongoing financial crisis, the structure and interpretation of the BDL's Balance Sheet is of paramount importance. A critical accounting entry—"Revaluation Adjustment (Articles 75 & 115 CMC[2])"—reflects unrealized gains or losses arising from price fluctuation in in BDL's gold and foreign currency holdings.

II. Relevant Balance Sheet Items

In accordance with the Balance Sheet released by BDL, the following key items are relevant:

Assets (in LBP thousands[3]):

- Gold: 2,536,494,194,054 (in green)
- Foreign Reserve Assets: 960,089,447,185 (in green)
- Securities Portfolio: 554,699,433,838 (in green)
- Revaluation Adjustment (Arts. 75 & 115 CMC): 2,623,809,125,553 (in blue)

Liabilities:

- Financial Sector Deposits: 7,612,593,595,537 (in green)[4]
- Revaluation Adjustment (Arts. 75 & 115 CMC): 0 (in blue)

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[2] "A special account shall be opened in the name of the Treasury for the following entries
a) The differences between the countervalue, at the legal parity rate, of the Bank's gold and currency holdings, and the actual purchasing or sale value of these holdings;
b) The profit or loss entailed by the Bank's gold and currency holdings from the alteration of the legal parity rate of the Lebanese Pound or of a foreign currency;
c) The sums referred to in articles 55 and 64".

[3] In application of Article 114 of CMC that reads "The Bank's gold and currency holdings shall be accounted according to their countervalue at the legal parity rate of the Lebanese Pound".

[4] A breakdown is needed to determine the percentage of deposits in foreign currency.

The interim balance sheet uses an official USD/LBP exchange rate of LBP 89,500 per USD which is equal to the market exchange rate, as per Decision No. 48/4/24 of BDL’s Central Council dated 15th of February 2024.

III. Method of Calculating the Revaluation Adjustment

From an accounting perspective, the Revaluation Adjustment is calculated based on the net foreign position of BDL which is : Gold+Foreign Reserve Assets+Securities Portfolio−Financial Sector Deposit s.

If the result is negative, the Revaluation Adjustment is recorded on the assets side, reflecting an unrealized loss. This is currently the case, with a Revaluation Adjustment asset of LBP 2 623 trillion. If the result is positive, the entry appears under liabilities, indicating an unrealized gain to be distributed pursuant to Article 116 CMC[5].

IV. The Effect of Increasing Gold Prices

Currently, the Balance Sheet, specifically on the liability, financial sector deposits substantially exceed the total of gold, foreign reserves, and securities portfolio, leading to a negative net foreign position explaining the

[5] “The debit balance of the special account referred to in the preceding article shall not be subject to payment nor interest-bearing, so long as it does not exceed the 25 % of the countervalue, at the legal parity rate, of the Bank's gold and currency holdings.
Sums in excess of the 25% limit shall be covered by the State, either in cash, or by interest-bearing Treasury Bonds, according to conditions to be laid down in agreement with the Bank.
If the special account shows a creditor balance, it shall be used for the advance redemption of the Treasury Bonds issued by virtue of Decree No. 581 of 8 December 1949, amended by Decree No. 3453 of 21 November 1950, and for the redemption of Treasury Bonds which will have been issued by virtue of the preceding sub-paragraph of the present article.
In case this special account shows a creditor balance following the amortizations referred to in the preceding subsection, it shall be necessary to retain, compulsorily, the equivalent of twenty per cent thereof in the bank as treasury deposit, the remaining eighty per cent to be switched to Treasury account”.

large unrealized loss on the asset side. As such, unless the government intervenes to reduce the deposits (implementing a haircut on the deposits at the commercial banks) the only viable path to reduce the revaluation gap is through a rise in the value of BDL's gold holdings.

Impact scheme:

Increased market price of gold →Higher LBP valuation of BDL's gold reserves →Improved asset position →Reduction of the Revaluation Adjustment (asset) →Transition toward a neutral or positive Revaluation Adjustment (liability).

Given the scale of the current imbalance, a doubling of the global gold price would likely be required to offset the existing gap and push the Revaluation Adjustment into a credit position.

V. Legal Implications of a Positive Revaluation Adjustment

Should the revaluation entry eventually move to the liabilities side, Article 116 mandates the following distribution:

- 20% retained as a mandatory Treasury deposit with BDL.
- 80% transferred to the Treasury's general account, for use in early redemption of existing sovereign debt, including Treasury bonds issued pursuant to Decrees No. 581 (1949) and 3453 (1950), and any subsequent debt instruments issued under Article 116.

VI. Conclusion

The Revaluation Adjustment entry, governed by Articles 114 to 116 CMC, reflects the existing tension between the Central Bank's liabilities and its real-asset backing. In the absence of governmental solutions and in order to avoid deposit haircuts, the only realistic rebalancing strategy lies in the continuous increase of asset values, particularly through a rise in the price of gold.

From a legal and financial perspective, gold thus appears not only as a hedge, but as an instrument of monetary re-equilibration, enabling BDL to restore solvency indicators and providing the State with room for maneuver in debt management.

Biography

Mohamad Fawaz is a judge and a published author in the field of Finance Law and International Law. He serves as a member at the Legislating and Consultations Body (LCB) at the Lebanese Ministry of Justice that provides the executive branch (Council of Ministers – Ministers) with legal consultations.

He is an International Consultant and an International Law fellow (United Nations), a lecturer of corporate finance law at the University of London LL.M Support Program at Beirut Bar Association, a Chevening scholar and a fellow at International Justice Sector Education and Training program.

Mohamad fawaz holds a Bachelor's degree in Lebanese law and a Master's degree in banking law and Capital Markets from *Université Saint Joseph (USJ)*, an LL.M in corporate finance law from the University of Glasgow, and an MBA from the Lebanese American University (LAU).