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Maintain or liquidate

Self-imposed restraint brings book value of Lebanon's gold reserves up by $627 billion

The price of gold and precious metals has increased in the wake of tension in the Gulf and a looming war in Iraq. This has constituted gains for some countries like Lebanon that keep gold reserves as cover against the currency. This commentary will address the size of Lebanon's reserves, legislation governing its use and the present debate on alternative policy approaches.

Central Bank gold reserves

In 1963, the Central Bank of Lebanon was established based on Decree No. 13513 dated August 1, 1963. Responsibilities included the issuance of local currency whose value was anchored to gold reserves, which have presently reached 286 metric tons or 9.1 million ounces. This monetary policy created the sense of security and psychological confidence in the Lebanese pound that remained throughout the civil war.

In a report issued by the Central Bank on January 15, 2003, gold reserves stood in the region of LL 4,895 billion compared to LL 3,949 for the same period last year. This represents a 24% increase in book value (as law forbids the sale of reserves). But as of March 20, 2003 some of these gains dissipated, with the book value falling to LL 4,500 billion. Gold reserves are subject to the fluctuating market price of gold as well as exchange rates, and have developed according to the figures in Table 1. As shown, the value of reserves has been appreciating largely due to the stabilized US dollar exchange rate since 1998 and the recent rise in gold prices.

Legislation

In 1986, when the Lebanese pound depreciated against the US dollar and all other currencies, some public officials began calling for the liquidation of some of the Central bank's gold reserves in order to support the currency on the foreign exchange market. This resulted in Law No. 42/86 that was passed by the House of Representatives on September 24, 1986 declaring the following: "Exceptionally and contravening any previous statements, dealing with gold reserves or the account of the reserves at the Central Bank is forbidden irrespective of the nature of the action whether directly or indirectly, except through legislation issued by parliament." While this action was necessary at the time, it did not prevent the further collapse in the currency, yet it resulted in the preservation of gold reserves.

Reserve liquidation?

The changing price of gold is reflected in the book value of profits/losses at the Central Bank, even though no transactions taking place. Yet some critics have begun to question the present policy, suggesting that the sale of gold reserves when market prices are up will allow the government to invest the proceeds, which would yield approximately $100 - $150 million annually. Others argue that the psychological value of maintaining the reserves is critical and with the country's record of mismanagement, the sale of reserves may result in misuse. n

VALUE OF GOLD RESERVES (1998-2003)

Table 1 (LL billion)

Year	Value
1998	3,997
1999	4,037
2000	3,805
2001	3,860
2002	4,848
2003	4,500

Source: Compiled by Ii from the Central Bank