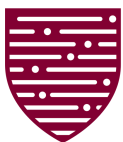




# **Managing Lebanon's Gold: *Governance, Growth, and Financial Recovery***

**Saade Chami**



**ISSAM FARES INSTITUTE FOR PUBLIC  
POLICY & INTERNATIONAL AFFAIRS**

معهد عصام فارس للسياسات العامة والشؤون الدولية

AMERICAN UNIVERSITY OF BEIRUT

**Research Report**

# **Managing Lebanon's Gold: Governance, Growth, and Financial Recovery**

## **Research Report**

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## **ABOUT THE AUTHOR**

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**Dr. Saade Chami** is an economist and public servant with over 35 years of experience in international and national institutions. He served as Lebanon's Deputy Prime Minister from September 2021 to February 2025, where he led the government's economic reform efforts and negotiations with the International Monetary Fund (IMF). He also chaired several committees focused on economic and structural reforms. Dr. Chami spent two decades at the IMF, working across a wide range of countries in the Middle East, Europe, Africa, and Asia. His latest role included Director of the IMF's Middle East Technical Assistance Center. He later served as Secretary General of Lebanon's Capital Markets Authority and as Group Chief Economist at the National Bank of Kuwait. Dr. Chami advised the Lebanese government on economic reforms underpinning the 2007 Paris III donor conference, as well as the Central Bank of Lebanon and other public institutions and consulting firms. Earlier in his career, he taught economics and finance at the American University of Beirut from 1987 to 1993, including one year as Director of the Graduate School of Business.

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## EXECUTIVE SUMMARY

Lebanon's prolonged financial crisis and the continued delay in implementing a comprehensive financial restructuring have revived calls to use the country's gold reserves to deal with the financial sector losses. While these proposals reflect the depth of the crisis, they risk shifting these losses onto the public balance sheet while exhausting one of the country's last remaining national assets without addressing the underlying causes of the crisis.

While every effort should be made to recover deposits, this paper argues that the use of Lebanon's gold is not the ideal way of doing it. Using gold to absorb financial sector losses would raise serious concerns of equity and legitimacy and could weaken incentives for the structural reforms needed to restore financial stability.

Instead, the debate should shift from whether gold should be spent to how it should be governed and used strategically. Under a strong legal and institutional framework, a carefully defined and limited portion of Lebanon's gold reserves could be mobilized in a way that preserves the asset's long-term value while allowing it to generate income over time.

Such income could help finance productive investment in critical growth-enhancing sectors such as electricity and road infrastructure. A well-targeted five-year program in these areas could raise GDP by about 5–7% above baseline by year five, generating roughly \$3–5 billion in cumulative additional output. These investments would support economic recovery, strengthen public finances and the banking system, and help create the conditions for a gradual and sustainable recovery of deposits.

The central policy challenge is to put in place a good governance framework within which such a national asset is managed. Preserving the integrity of the gold reserves while using them responsibly to support long-term economic recovery can help rebuild trust, strengthen institutions, and contribute to Lebanon's sustainable development.

## INTRODUCTION

Lebanon's protracted financial crisis—and the persistent failure to adopt a credible plan to protect depositors and restore financial stability—has reignited debate over the possible use of the country's gold reserves. Proposals to deploy gold for deposit recovery reflect both the depth of the crisis and the influence of interest groups seeking to shift financial losses onto the public balance sheet. However, these calls raise fundamental questions of equity, legitimacy, and economic effectiveness that extend well beyond the immediate objective of compensating depositors. More fundamentally, deposit recovery cannot be achieved by relying on the consumption of national assets; it ultimately requires restoring the economy's capacity to generate sustainable growth.

Lebanon's gold should not be used to absorb financial sector losses; it should instead be preserved and governed in a way that supports long-term economic recovery and sustainable growth. Decisions regarding its use must therefore prioritize collective welfare, intergenerational equity, and durable macroeconomic stability rather than short-term relief at the expense of institutional credibility.

As other policy options have stalled or proven politically infeasible, attention has increasingly turned to gold as a perceived “last resort.” This shift risks conflating urgency with sound policy. The central question is therefore not whether gold can be used, but how—and under what institutional conditions—its use could contribute to recovery without undermining confidence, fairness, or long-term economic stability.

### ***Purpose and Scope of this Paper***

This paper does not argue for the full liquidation of Lebanon's gold reserves, nor does it propose gold as a substitute for comprehensive financial-sector reform. Instead, it seeks to reframe the debate by distinguishing between the use of gold

as a short-term financing instrument and its role as a long-term institutional asset.

The paper advances three core propositions. First, using gold to absorb private financial losses—particularly to protect large depositors or bank capital—would undermine legitimacy and fail to address the structural roots of the crisis. Second, international experience shows that when gold is treated as a stopgap financing tool, it often weakens confidence rather than restoring it. Third, under strict legal, governance, and institutional safeguards, a limited and explicitly authorized mobilization of part of the gold can play a constructive role in recovery by supporting growth-enhancing investment and generating sustainable public income, without eroding the value of the asset.

The paper therefore argues for a stewardship-based use of gold: preserving a substantial strategic stock in physical form while allowing a portion of the gold, subject to strict safeguards, to be transferred into a professionally managed investment structure. The analysis that follows is therefore not a blueprint for indiscriminate asset liquidation, but a policy framework for aligning the treatment of gold with principles of sound governance and macroeconomic stability while indirectly supporting deposit recovery.

## **THE DEBATE OVER LEBANON'S GOLD**

### ***A Brief History of Lebanon's Gold Holdings***

Before delving into the ongoing discussion on the use of gold, it is useful to provide a brief history of Lebanon's gold accumulation. Lebanon began amassing gold reserves five years after independence. The first recorded acquisition, approximately 1.5 tonnes of gold, took place in 1948, shortly after Lebanon joined the International Monetary Fund in 1947 and established the Lebanese pound as an independent national currency. At that time, gold played a central role in anchoring credibility and supporting exchange-rate stability.

The bulk of Lebanon's gold reserves was accumulated between the late 1960s and early 1970s under the leadership of Elias Sarkis, first as Governor of Banque du Liban and later as President of the Republic. By 1971, Lebanon's holdings had reached approximately 9.21 million troy ounces, or about 287 tonnes. That year also marked a turning point in the global monetary system, with the collapse of the Bretton Woods framework following the suspension of dollar-gold convertibility.<sup>1</sup>

In the years that followed, Lebanon ceased gold purchases but preserved its existing holdings intact. Today, Lebanon's gold reserves rank among the largest globally relative to the size of the economy and are the second largest in value in the Arab world after Saudi Arabia. Roughly two-thirds of the gold is stored domestically at Banque du Liban, with the remainder held abroad for safekeeping at the Federal Reserve Bank of New York. Recent official valuation and verification exercises largely confirmed the quantity of the holdings. Many have used these indicators to argue for the mobilization of gold, but simple cross-country comparisons can be misleading given the exceptional condition of the Lebanese economy and financial sector.

The legal framework governing gold was established by the Monetary and Credit Code of 1963 and reinforced by Law No. 42 of 1986, enacted during the civil war. This law prohibits the sale, lease, or disposal of gold without explicit parliamentary approval, reflecting the intent to shield it from short-term discretion and preserve it as a national asset held in trust.

### ***The Current Debate***

Several proposals have been made over the past six years to deal with the financial sector and the protection of depositors. Most of the serious proposals aimed to protect small depositors first, for the simple reason that these are the

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<sup>1</sup> The note does not concern itself directly with issues of equity and justice. It is limited to measuring the financial implications of the draft Gap Law, as presented to Parliament in January 2025.

most vulnerable segment of the population and their protection is a priority. The latest proposal adopted by the current government aims to return all deposits up to USD 100,000, which account for roughly 84% of accounts in the banking sector, over a relatively short period—namely, four years. As for accounts that exceed this amount—large and very large deposits—recovery would take place over much longer periods, typically 10, 15, and 20 years, with substantial implicit losses.

Given Lebanon's political structure and the intertwined relations between politicians and vested interest groups, the group holding the largest segment of deposits bears significant economic and political influence. Together with banks and major business interests, it has exerted sustained pressure to mobilize state assets over the past few years to protect bank capital and large deposits.

For much of the crisis, the dominant narrative promoted by the Association of Banks and parts of the political class has been that the state bears primary responsibility for the collapse and should therefore bail out banks and depositors. While the legitimacy of deposits accumulated through lawful and hard work is not in question, a generalized state bailout would amount to a socialization of private losses.

Such an approach would shift the burden onto the broader population through higher taxes, reduced public services, or further erosion of already strained social spending. Lebanon's repeated failures to enact even modest corrective taxes illustrate the political and social limits of this path. Moreover, the state's capacity to compensate depositors is fundamentally constrained, as public resources are insufficient to return all deposits within any reasonable timeframe.

Increasing the state's fiscal capacity sufficiently to contribute meaningfully to deposit recovery would be extremely difficult under current political and economic conditions. A recent episode illustrates this constraint. The government's decision to raise fuel prices by about LBP 300,000 per 20 liters and increase the value-added tax by one percent triggered strong public backlash and was widely criticized by politicians and affected interest groups.

The scale of the issue becomes clearer when compared with the reaction it provoked. These measures were expected to generate roughly half a billion U.S. dollars in additional revenue—primarily to finance adjustments to public sector salaries—an amount negligible relative to the estimated \$50–60 billion financial gap in the system, assuming that the exclusion of what is called 'irregular accounts' is feasible. Yet many of those who opposed these modest revenue measures have simultaneously argued that the state should assume responsibility for covering the bulk of the financial losses.

In practice, this dynamic reflects a broader unwillingness to confront the scale of the crisis and the difficult trade-offs required to resolve it. A credible deposit-recovery strategy cannot rest on the illusion that the state can absorb losses of this magnitude without major reforms and renewed growth.

As the mobilization of state assets has proven impossible over the past few years, attention has increasingly shifted toward Lebanon's gold reserves, often portrayed as tangible, liquid, and easy to monetize. This narrative, however, is misleading. Using gold directly to compensate large depositors would neither repair the banking system nor provide a durable solution to the crisis. The rise in gold prices in recent years has further reinforced the perception that gold offers a readily available solution. Yet this perception confuses market valuation with economic sustainability and equates liquidity with sound policy.

## **Gold Ownership**

The debate over Lebanon's gold reserves is often framed as a narrow legal question: does the gold belong to the central bank or to the government? While both interpretations contain some elements of truth, the issue cannot be viewed formal legal classification alone—particularly in the context of a financial collapse that has left depositors unable to access their savings. The question must instead be examined through the broader lens of the public interest.

Technically, the gold is recorded on the balance sheet of Banque du Liban. But accounting location does not determine its ultimate economic ownership. A central bank is not a private corporation; it is an arm of the sovereign. Its balance

sheet must therefore be assessed, especially in times of crisis, within a consolidated public-sector framework. Central bank independence concerns operational autonomy in monetary policy—not ownership of national reserve assets.

The gold was accumulated over decades using foreign-exchange resources generated by the Lebanese economy—through trade earnings, remittances, taxation, and national savings. These resources could have been deployed for alternative public spending. In that sense, the opportunity cost of accumulating gold was borne by Lebanese citizens. The gold is therefore better understood as part of the nation's patrimony, held by the central bank as custodian on behalf of the state (that is the Lebanese population), rather than as the discretionary property of a stand-alone institution.

At the same time, recognizing gold as a national asset does not mean it can be treated as collateral for specific private claims. Deposit losses resulted from prolonged policy failures, weak governance, and delayed corrective action—not from an external shock that would justify liquidating strategic reserve assets. Using gold for depositor compensation would amount to transferring private-sector losses onto the public balance sheet, thereby shifting the burden to the broader population.

This asymmetry is important. If society is asked to absorb the consequences of central-bank losses—through inflation, fiscal adjustment, or restructuring—it is inconsistent to treat central-bank assets as institutionally insulated from the public domain. Yet acknowledging the public character of the gold does not imply its indiscriminate use. The relevant question is not ownership in a corporate sense, but how a sovereign asset should be managed within a coherent recovery framework.

Gold also occupies a distinct legal category. Under Law No. 42 of 1986, any sale, lease, or encumbrance requires prior parliamentary approval. This heightened legal protection reflects its status as a strategic national reserve, separate from foreign-exchange reserves used in routine liquidity management. Its treatment cannot therefore be reduced to a simple balance-sheet exercise or day-to-day reserve operations.

It is also important to recognize a functional reality: central bank reserves—particularly foreign exchange reserves—are routinely used to meet certain sovereign obligations, including external debt service and payments to international financial institutions. Such use reflects the role of reserves in supporting the sovereign's external position and preserving macro-financial stability, even where operational decisions are taken independently by the central bank. Gold, however, has historically been treated with a higher threshold of political and legal protection.

From a macroeconomic perspective, liquidating gold would not resolve the structural roots of the crisis. Sustainable recovery requires comprehensive bank restructuring, proper loss recognition, strengthened supervision, and credible fiscal and monetary frameworks. Without these reforms, confidence in the financial system cannot be restored and financial intermediation cannot resume. The use of reserve assets, in isolation, cannot substitute for the institutional and governance reforms necessary to rebuild the system.

In any case, whether the gold is formally attributed to the state or to the central bank does not determine how it should be used. The central issue is how to maximize its benefit for the whole population within a disciplined, equitable, and forward-looking recovery strategy.

## **INTERNATIONAL EXPERIENCE ON THE USE OF GOLD**

International experience with the use of gold in times of crisis offers a useful guide and a clear lesson. Where countries have treated gold as a convenient financing tool—selling or pledging it to plug fiscal holes or absorb broader financial stress—the consequences have often been damaging. In Argentina, during 2014–2015, gold swap operations were used to obtain short-term foreign-currency liquidity amid falling reserves. In Venezuela, between 2014 and 2019, large-scale gold sales and opaque gold-backed transactions became a routine source of financing as oil revenues collapsed. In both cases, gold ceased to function as a confidence anchor and instead became a fiscal or liquidity

stopgap. Markets interpreted these operations as signs of reserve exhaustion rather than strength, contributing to higher risk premia and weakening monetary credibility.

By contrast, other experiences highlight the stabilizing role of institutional restraint. In Italy, political pressure to monetize gold surfaced repeatedly—during the inflationary crises of the 1970s and early 1980s and again during the euro-area crisis of 2011–2012. On each occasion, there was resistance to such pressures. These experiences point to a clear distinction: when gold is used to postpone adjustment, it undermines trust; when it is protected by strong institutions, it can reinforce it.<sup>2</sup>

The lesson is therefore not that gold must remain permanently inert, but that its use must be embedded in a credible institutional framework. The issue is not gold per se, but whether a national asset is being consumed to postpone reform or used in a way that serves the broader public interest.

## **A STEWARDSHIP FRAMEWORK FOR LEBANON'S GOLD**

### ***From Asset Consumption to Asset Investment***

Lessons drawn from international experience and the debate over gold ownership do not imply that gold must remain economically inactive. The choice is not between reckless monetization and permanent immobilization. The challenge is to use gold more effectively while preserving its role as a confidence anchor and its value as a strategic reserve.

This paper therefore proposes a framework under which an important share of Lebanon's gold would remain in physical form as an unencumbered strategic reserve, while a portion—subject to explicit parliamentary approval—would be transferred into a National Gold Trust Fund (NGTF). The objective would not be to finance current spending, absorb legacy losses directly, or replace financial restructuring. Rather, it would be to transform part of a dormant national asset into a source of sustainable income that can support growth-enhancing investment.

The NGTF would be legally ring-fenced, independently governed, and explicitly prohibited from financing recurrent budget deficits or serving as a vehicle for generalized compensation of private financial losses. Its mandate would be to preserve capital in real terms, generate sustainable income, and support carefully selected economy-wide priorities with high social and economic returns.

### ***The National Gold Trust Fund: Structure, Returns, and Governance***

One may ask why the entire value of gold should not be mobilized. There are two main reasons. First, diversification considerations argue for maintaining a significant share of the reserves in physical gold as an unencumbered strategic buffer. Gold typically behaves as a safe-haven asset and often exhibits a negative correlation with financial markets during periods of uncertainty or at times of economic, political, security, or financial stress. Preserving part of the reserves in physical gold therefore helps protect the country's balance sheet against future shocks.

Second, retaining a substantial portion of the gold in reserve would help mitigate political resistance. In Lebanon, gold is widely viewed as the country's asset of last resort, and there has long been strong opposition to any proposal that involves fully mobilizing or selling it. Keeping part of the gold untouched would therefore help preserve public confidence while still allowing a portion of the asset to be used productively in support of economic recovery.

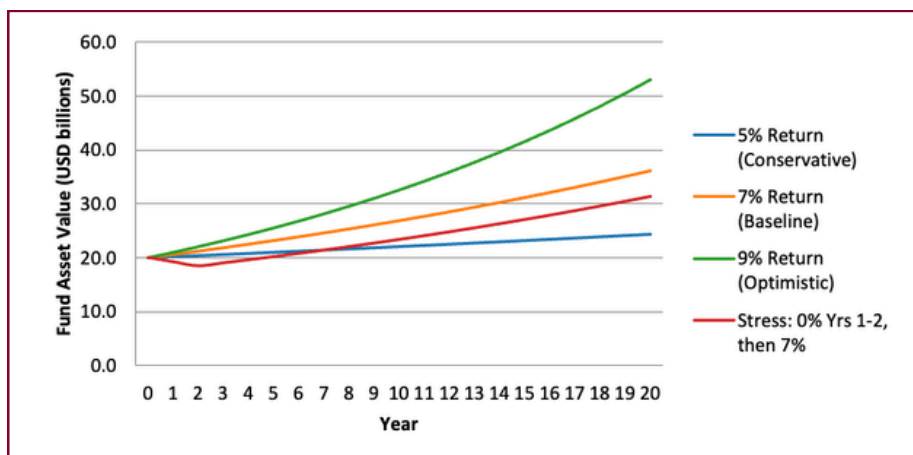
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<sup>2</sup> Argentina's gold swap operations during reserve stress are documented in IMF (2015) and Financial Times (2014, 2015). Venezuela's gold sales and swaps between 2014 and 2019 are covered extensively by news outlets, Reuters (2016, 2018), Financial Times (2017, 2019), and World Gold Council data. Italy's repeated resistance to monetizing gold—during the 1970s–80s and the euro-area crisis—is documented in Banca d'Italia Annual Reports and ECB (2013) as well as in Financial Times (2011, 2012).

The Fund would operate under strict legal safeguards. Its capital would be fully protected, with any further sale or encumbrance prohibited absent explicit parliamentary authorization. The Fund would be managed by independent professional managers overseeing a globally diversified portfolio designed to generate income while managing risk. International participation in governance could be considered to anchor credibility and insulate the Fund from political interference. This foreign participation could take the form of direct management of the Fund or through the establishment of an international advisory board to provide counsel and advice to Fund managers. Only investment income—not the capital base itself—would be available for distribution, and the payout rule would need to preserve the real value of the Fund over time.

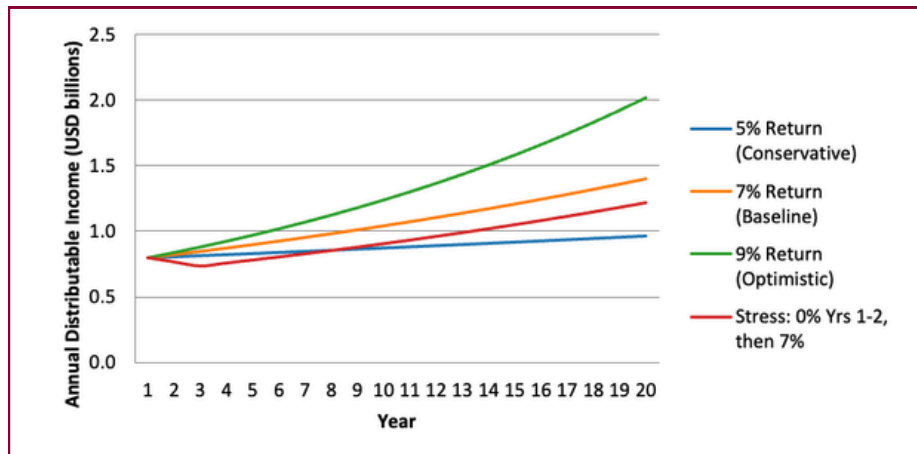
Three nominal net return scenarios are considered: a conservative scenario of 5%, a baseline scenario of 7% (which is approximately in line with market's historical performance), and an optimistic scenario of 9%. To preserve capital and manage volatility, annual distributions would be capped at 4% of opening-year assets, but the exact payout rule could be adjusted over time to protect the Fund's real value in light of inflation and realized returns. A stress scenario assumes zero returns in the first two years, followed by a reversion to baseline performance.

**Figure 1 – Projected Fund Asset Value Over 20 Years (4% Distribution Rule)**



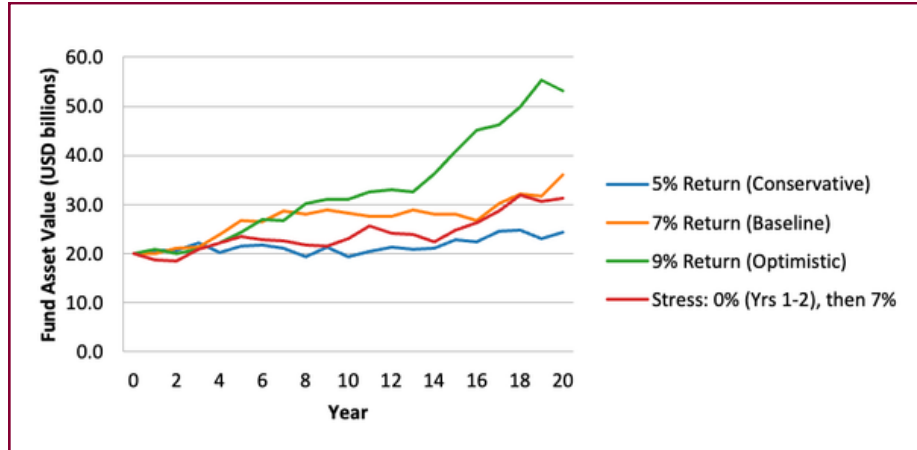
**Figure 1** shows the evolution of Fund assets net of distributions under the four scenarios. Under the conservative scenario, assets rise modestly to about US\$24.4 billion by year 20. Under the baseline scenario, assets increase to approximately US\$36.1 billion. Under the optimistic scenario, assets grow to about US\$53.1 billion, reflecting strong compounding effects. Under the stress scenario, assets recover after the initial shock, reaching about US\$31.4 billion by year 20. In all cases, the simulation is designed to preserve the Fund's real value over time while allowing a sustainable income stream to be distributed.

**Figure 2 – Annual Distributable Income Over 20 Years (4% Opening Assets)**



**Figure 2** presents annual distributable income under the same assumptions. Income starts at roughly US\$1 billion in year one and rises to about US\$1.2 billion under the baseline scenario and about US\$1.4 billion under the optimistic scenario by year 20. Under the stress scenario, distributable income recovers after the initial shock, reaching approximately US\$1.2 billion by year 20.

**Figure 3 – Projected Fund Asset Value Over 20 Years – Volatile Paths (±10% Annual) | Same Terminal Values as Figure 1**



**Figure 3** illustrates the effect of market volatility on Fund performance, assuming market values fluctuate by ±10% around the baseline path. The results show that, under prudent payout rules, the Fund remains capable of generating meaningful distributable income over time while preserving capital.

Specifically, Figure 3 traces the Fund's value path under the same long-term return assumptions, incorporating this volatility. The analysis underscores that the NGTF's investment and distribution strategy should be anchored in long-term expected returns rather than year-to-year fluctuations.

The management of the NGTF could follow either a sovereign wealth fund model or resemble an endowment-style fund. Both provide useful benchmarks for assessing realistic return expectations and for evaluating whether the assumptions used in this paper fall within a reasonable range.

Among large sovereign investors, Norway's Government Pension Fund Global (GPF)G—one of the most transparent sovereign wealth funds in the world—has generated an annualized return of about 6.6% since its inception in 1998. This performance reflects disciplined global diversification across equities, fixed income, and real assets. By contrast, several major sovereign wealth funds in the Gulf region—including those of Kuwait and the United Arab Emirates—do not publish standardized long-horizon annualized return data. While their mandates, governance structures, and performance are discussed in industry analyses, the absence of consistent public disclosure limits precise comparisons. Available assessments nonetheless generally place their long-term returns in the mid-single-digit to low-double-digit range, depending on asset allocation and risk tolerance.

A separate but informative benchmark comes from large university endowment funds, which pursue long-horizon investment strategies under intergenerational mandates similar in spirit—though not in purpose—to sovereign wealth funds. Leading U.S. endowments such as Princeton and Yale have reported 10- and 20-year annualized returns in the high single digits, often around 9% or higher, reflecting heavier allocations to private equity, venture capital, and other alternative assets. These higher returns, however, have come with greater volatility, higher fees, and more complex governance requirements.

Taken together, the experience of sovereign wealth funds and large endowments suggests that mid- to high-single-digit annualized returns over long horizons are achievable under disciplined governance, while more aggressive strategies may produce higher returns at the cost of increased risk. Against this backdrop, the illustrative return assumptions used for the NGTF—5%, 7%, and 9%—fall within the range observed across comparable long-term institutional investors.

### ***Typical Asset Allocation of the NGTF***

For a country such as Lebanon, the investment strategy of a National Gold Trust Fund would need to strike a careful balance between capital preservation, stable long-term returns, and strong transparency. Because the gold reserves represent a sensitive national asset and a potential pillar of financial recovery, the portfolio should avoid both excessive conservatism—which would generate insufficient returns—and overly complex and risky strategies that require institutional capacities that may be difficult to sustain. International experience suggests that a well-diversified portfolio with moderate risk exposure would provide the most appropriate framework.

A substantial share of the portfolio would therefore remain in liquid global public markets, similar to the approach followed by several large sovereign wealth funds. In practice, global equities could represent roughly 40–45% of the portfolio, serving as the main engine of long-term returns, while 20–25% could be invested in high-quality global bonds. The bond allocation would help stabilize the portfolio and provide liquidity during periods of market volatility. Together, these public market investments—accounting for roughly 60–70% of the portfolio—would anchor the Fund in transparent and easily benchmarked assets.

Beyond public markets, a meaningful but more limited allocation to real assets could provide additional diversification and protection against inflation. Investments in global infrastructure and real estate might account for approximately 15–20% of the portfolio. These asset classes typically generate relatively stable income streams over long horizons and are widely used by sovereign wealth funds and endowment funds seeking to balance growth and stability.

A smaller allocation to alternative investments could also enhance long-term returns. For example, private equity might represent around 10–15% of the portfolio. While these investments can deliver higher expected returns over long horizons, they also involve greater complexity, higher fees, and lower liquidity, which argues for maintaining a moderate rather than dominant exposure.

The Fund should maintain a liquidity buffer of roughly 8–10% in short-term government securities or cash equivalents. This would allow the NGTF to meet short-term obligations or funding needs without having to sell long-term assets during unfavorable market conditions. Taken together, a diversified portfolio structured along these lines

could reasonably generate long-term annualized returns in the mid- to high-single-digit range, broadly consistent with the return assumptions used in the NGTF framework and with the experience of comparable long-horizon institutional investors operating under disciplined governance structures.

### **Illustrative NGTF Strategic Allocation**

<b>Asset class</b>	<b>Target allocation</b>	<b>Expected long-term return</b>
<b>Global equities</b>	40–45%	7–8%
<b>Global bonds</b>	20–25%	4–5%
<b>Infrastructure &amp; Real Estate</b>	10–20%	6–8%
<b>Private equity</b>	10–12%	8–12%
<b>Liquidity buffer</b>	6–10%	3–4%

The ranges reflect strategic allocation bands rather than fixed portfolio weights. Actual allocations would vary within these ranges depending on market conditions and portfolio management considerations, while remaining broadly consistent with the Fund's long-term return and risk objectives.

Estimated portfolio return: roughly 6–8%, broadly aligned with the baseline 7% assumption used in the NGTF simulations.

## **USE OF RETURNS AND POLICY IMPLICATIONS**

Returns generated by the Fund would be directed primarily toward economy-wide priorities. The income would mainly finance public investments that generate broad benefits for the population—including depositors—through stronger growth and improved financial conditions.

### **Electricity as a Binding Constraint on Growth**

One of the most immediate and impactful uses of the Fund's returns would be to address Lebanon's electricity sector, which has long been one of the country's most severe structural bottlenecks. Chronic power shortages have constrained growth, weakened competitiveness, and strained public finances. Although the fiscal burden was partially reduced after electricity tariffs were raised by the previous government, current prices remain very high by international standards. Expanding reliable supply while lowering the cost of electricity should therefore remain a central economic priority.

Reliable electricity would generate immediate and economy-wide benefits. For years, households and firms have been forced to rely on private diesel generators, creating a parallel energy system characterized by high costs, low efficiency, and significant environmental and public-health externalities.

The economic costs of unreliable electricity are substantial. Firms face higher production costs and greater uncertainty, reducing competitiveness and discouraging investment. Households devote a large share of their income to electricity

expenditures, crowding out other consumption. Meanwhile, the private generator economy—estimated to cost several billion U.S. dollars annually—represents a major deadweight loss, reflecting high fuel costs, duplicated infrastructure, and inefficient scale. Addressing this bottleneck would therefore yield large economy-wide gains.

Beyond economic costs, the health and environmental consequences are also substantial. Diesel generators emit fine and ultrafine particulate matter strongly linked to respiratory and cardiovascular diseases, particularly in densely populated urban areas. Prolonged exposure to diesel exhaust and air pollution has also been associated with elevated cancer risks. These health effects impose long-term costs on households and the public health system and reduce labor productivity. Lower reliance on diesel generators would therefore generate an additional health dividend through lower morbidity, lower healthcare costs, and improved labor productivity—benefits that are especially important for lower-income households, which tend to be more exposed and less able to mitigate these effects.

A straightforward policy option would be to liquidate a portion of the gold reserves—about USD 2 billion—to finance the construction of new power plants. According to recent public statements by the Ministry of Energy, Lebanon would require two power plants, each with a capacity of roughly 825 megawatts, at an estimated total cost of about USD 2 billion, sufficient to meet national electricity demand under normal conditions.

However, rather than liquidating this amount immediately, the same resources could remain invested through the Fund structure while the expected income stream is used to support the project. Since any reputable company undertaking such projects would require credible financial guarantees, the projected income generated by the Fund could serve as part of the guarantee structure supporting the investment, while the main project financing itself would ideally come from foreign concessional or project-based financing.

Under cautious assumptions, this investment would displace private generator use, yielding net annual savings of approximately USD 0.9–1.2 billion once the system becomes fully operational. These savings would reflect reduced spending on diesel fuel, generator maintenance, and other inefficiencies, after accounting for the operating costs of the public electricity system.

In addition to these direct cost savings, improved electricity reliability would raise productivity and stimulate investment. A conservative assumption is that reliable electricity supply could increase nominal GDP growth by around 1 percentage point annually during the first five years, followed by a sustained uplift of about 0.3–0.5 percentage points per year thereafter. Starting from Lebanon's depressed GDP base, this growth differential would compound over time, generating sizable increases in national income.

Fiscal spillovers would also be significant. Even with modest revenue mobilization, higher output would translate into increased tax receipts, while improved electricity provision would reduce quasi-fiscal losses and arrears in the energy sector. Over a twenty-year horizon, the combined direct and indirect benefits of the electricity investment would likely exceed the initial capital cost by a substantial margin, even when discounted at relatively high rates.

This example illustrates how the Fund could preserve the value of Lebanon's gold as a strategic national asset while using its income to unlock high-return public investments with large economy-wide benefits.

### ***Fixing Road Infrastructure***

Physical infrastructure in Lebanon—particularly the road network—has deteriorated significantly after years of underinvestment and insufficient maintenance. For decades, spending on road upkeep and expansion lagged behind the steady increase in population, economic activity, and vehicle ownership. As a result, much of the country's road infrastructure was never adequately upgraded to accommodate the growing demand for mobility. Congestion has worsened in major urban centers, while secondary roads in many regions have suffered severe deterioration, raising transportation costs and increasing travel times for both households and businesses.

This deterioration has been exacerbated by the sharp reduction in public spending on infrastructure in recent years. Even before the financial crisis, fiscal constraints limited the government's ability to allocate sufficient resources for maintenance and new construction. Since the onset of the economic crisis, however, the collapse in public revenues and the near absence of capital spending have further weakened the country's ability to maintain basic infrastructure. Routine maintenance programs were curtailed, many planned road projects were postponed indefinitely, and the quality of existing roads continued to decline.

The economic consequences are significant. Poor road conditions increase vehicle operating costs through higher fuel consumption, more frequent repairs, and longer travel times. For firms, particularly in sectors such as agriculture, manufacturing, tourism, and trade, unreliable transport networks raise logistics costs and reduce competitiveness. For households, deteriorating roads translate into longer commutes, reduced access to employment opportunities, and higher transportation expenses. Poor road conditions also contribute to higher accident rates, imposing further social and economic costs.

Addressing this infrastructure deficit would therefore yield broad economic benefits. Investments in road rehabilitation and strategic expansion could improve connectivity between regions, reduce transportation costs, and facilitate the movement of goods and people across the country. Over time, a more efficient road network would support productivity growth, enhance regional integration, improve firm profitability, and strengthen the quality of bank assets by supporting the performance of businesses that depend on transport-intensive activity. In this sense, restoring Lebanon's road infrastructure is not only a matter of public maintenance but also a key component of rebuilding the country's economic capacity.

### ***The Impact of Public Investment on Output***

The relationship between public infrastructure investment and economic growth has been widely studied. While estimates vary across countries and methodologies, the literature consistently finds that infrastructure investment increases output both in the short run—through demand stimulus—and in the long run by expanding the economy's productive capacity (IMF, 2014; World Bank, 2020). Although the relationship partly reflects reverse causality, as wealthier economies tend to invest more in infrastructure, empirical studies controlling for this effect still find a statistically robust and economically significant growth impact across countries and time periods.

Empirical benchmarks suggest that an increase in public infrastructure investment equivalent to 1% of GDP raises output by about 1.5% after four years in advanced economies and by roughly 2.0–3.5% in emerging and developing economies over longer horizons. These larger effects in developing economies reflect the fact that infrastructure shortages often constitute binding constraints on economic activity.

Infrastructure investment affects economic activity through several complementary channels. In the short run, public investment stimulates demand through construction activity, employment, and the procurement of intermediate goods. Over the longer term, improved infrastructure raises productivity by reducing production costs, facilitating trade and mobility, and enabling new private investment.

Investment in electricity infrastructure tends to have particularly strong effects in developing economies where energy shortages constrain production. Reliable electricity supply lowers operating costs for firms, improves the efficiency of industrial production, and supports the expansion of service and digital sectors.

Similarly, improvements in road infrastructure can generate significant productivity gains by reducing transportation costs, shortening travel times, and strengthening market integration. Empirical studies find that transport infrastructure can raise economic output by improving the mobility of labor and goods and by expanding access to domestic and regional markets.

The magnitude of infrastructure multipliers depends critically on macroeconomic conditions and institutional quality.

Empirical studies suggest that infrastructure multipliers typically range between 0.6 and 0.9 in the first year, rising to around 1.0–1.5 over a two- to five-year horizon when projects are well selected and efficiently implemented.

Multipliers tend to be larger when economies operate below potential and when financing mechanisms do not crowd out private investment. Conversely, weak governance, delays in project implementation, and inefficient procurement processes can significantly reduce the economic impact of public investment. These conditions are particularly relevant when assessing the potential impact of infrastructure investment in countries facing large infrastructure gaps, such as Lebanon.

The impact of public investment on output can be summarized along the following time horizons and transmission channels:

**Table 1. How Public Investment Affects Growth: Short- and Long-Term Impact**

Time Horizon	Main Channel	What Happens in Practice	Impact on GDP
Short Term (1–2 years)	Demand stimulus	Construction activity, job creation, and procurement of materials increase economic activity	GDP rises as spending circulates through the economy (multipliers typically around 0.6–1.0 in the first year)
Medium Term (3–5 years)	Efficiency gains	Improved electricity supply and better roads reduce costs for firms and households	Higher productivity and investment raise GDP more sustainably (multipliers rise toward ~1.0–1.5)
Long Term (5+ years)	Expansion of productive capacity	Reliable infrastructure supports business expansion, new sectors, and private investment	Permanent increase in GDP level; growth is higher than baseline
Cross-cutting effect	Crowding-in of private investment	Improved infrastructure attracts domestic and diaspora investment	Amplifies total impact beyond initial public spending

These dynamics are particularly relevant for Lebanon, where large infrastructure gaps imply that well-targeted public investment can generate sizable and sustained gains in output, with direct implications for fiscal capacity and, ultimately, deposit recovery.

**Sectoral Evidence: Electricity and Roads**

Sectoral evidence confirms these broad findings. Investment in electricity infrastructure has particularly strong growth effects in developing economies, where energy shortages often represent a binding constraint on production. Cross-country studies estimate long-run GDP elasticities of roughly 0.09–0.10 with respect to infrastructure capital—including electricity generation capacity—implying that a 1% increase in infrastructure stock raises output by

about 0.1%. Reliable electricity supply is therefore a critical enabler of industrial production, services, and digital activity.

Evidence on road infrastructure also indicates substantial long-term growth effects. Surveys of the empirical literature estimate GDP elasticities for transport infrastructure in developing countries in the range of 0.05 to 0.20, with central estimates around 0.10–0.12. Roads often have the largest impact within the transport sector because they improve market integration, reduce logistics costs, and expand access to labor and product markets.

## **THE CASE OF LEBANON AND THE CRITICAL ROLE OF REFORM**

Building on the international evidence reviewed above, this section presents a framework for estimating the macroeconomic impact of infrastructure investment in Lebanon. The framework focuses on two key infrastructure pillars—electricity and transport, particularly roads—and evaluates their potential effects under three scenarios: conservative, baseline, and optimistic. It incorporates both demand-side channels, through fiscal multipliers, and supply-side effects through productivity improvements.

These considerations are particularly % for Lebanon, where infrastructure deficiencies—especially in electricity and transport—have become major obstacles to economic activity. Chronic electricity shortages impose heavy costs on businesses and households, forcing widespread reliance on expensive private generators and reducing productivity across sectors. At the same time, weaknesses in road infrastructure raise transportation costs, lengthen travel times, and limit the integration of domestic markets as well as connections with regional trade routes. In this context, well-targeted infrastructure investment can generate large economic returns by removing binding constraints on growth.

For Lebanon, however, the decisive variable is not the scale of spending alone, but the quality of reform accompanying it. As discussed earlier, the magnitude of infrastructure multipliers depends critically on economic slack, investment efficiency, and financing conditions. High-quality project selection and effective implementation significantly amplify economic returns, while poor governance, delays, and leakages sharply reduce them.

When an economy operates far below potential due to chronic power shortages and deteriorating transport networks, alleviating these constraints can yield disproportionately large gains relative to countries where infrastructure is already well developed. At the same time, Lebanon's high import dependence means that a significant share of investment spending leaks abroad rather than stimulating domestic production. Public debt remains elevated, and governance weaknesses, project delays, and limited implementation capacity may reduce the efficiency of public spending.

The electricity sector illustrates this point clearly. Investment in generation capacity and grid modernization can raise productivity and reduce costs economy-wide. However, without credible tariff reform, improved bill collection, strengthened governance of Électricité du Liban, and reductions in technical and non-technical losses, infrastructure spending risks becoming recurrent budgetary expenditure rather than productive capital. When reform and investment are aligned, infrastructure becomes a growth-enhancing asset; without reform, its multiplier effect is sharply reduced.

The same logic applies more broadly. Public investment financed by external resources and anchored in a credible reform program tends to have a larger impact because it reduces private sector crowding out and strengthens policy credibility. By contrast, domestically financed spending undertaken in a weak institutional environment is likely to generate limited output gains. Given Lebanon's fiscal position and the state of its banking sector, the bulk of large-scale infrastructure financing would need to come from foreign sources—including multilateral and development institutions—while the NGTF income would ideally support project preparation, guarantees, co-financing, and targeted catalytic uses rather than bearing the full financing burden alone.

It is important to emphasize that the proposed use of gold is not a substitute for essential reforms, including bank resolution, fiscal adjustment, and institutional strengthening. Rather, it is complementary. The credibility of the NGTF

and the effectiveness of growth-enhancing investments depend on parallel progress in governance, transparency, and macroeconomic policy. Sequencing matters: establishing the legal and governance framework for the Fund should precede any use of income.

### ***Infrastructure Investment and Economic Recovery***

Lebanon's economy is currently operating far below potential, with GDP estimated at around \$30 billion—well below its pre-crisis level. Two of the most binding constraints on economic activity going forward are electricity shortages and deteriorating road infrastructure. Chronic power outages force firms and households to rely on costly private diesel generators, while poorly maintained roads raise transportation costs, slow the movement of goods and people, and weaken the integration of domestic markets. Addressing these infrastructure gaps could therefore generate substantial economic gains by lowering production costs, improving productivity, and encouraging new private investment.

Investment in electricity generation alone—estimated at roughly \$2 billion to restore reliable power supply—could raise annual GDP growth by about 1 percentage point during the first five years, with smaller but persistent gains thereafter as productivity improves. At the current GDP level, this would translate into roughly \$300 million in additional annual output during the peak impact period.

If electricity investment were complemented by rehabilitation and upgrading of the road network, requiring an additional \$1.5–2.5 billion, the impact would be significantly larger. Combined investment in electricity and roads could raise Lebanon's GDP growth rate by roughly 1.5–2 percentage points annually during the peak years, equivalent to about \$450–600 million in additional output per year, or roughly 1.5–2% of GDP.

In practice, however, these investments would likely be implemented gradually over several years rather than all at once. If the total program of roughly \$3.5–4.5 billion were spread over five years, annual spending would average about \$700–900 million, equivalent to roughly 2–3% of GDP per year. Under such a phased implementation, the growth impact in any given year would likely be smaller than in a front-loaded scenario.

At the same time, Lebanon's economy exhibits substantial economic slack following the sharp contraction in output since 2019 and the underutilization of labor and capital. In such conditions, fiscal multipliers tend to be larger because additional spending is less likely to crowd out private activity. Infrastructure improvements can also stimulate complementary private investment, as lower production costs and improved reliability restore confidence and encourage new business activity. These factors suggest that the earlier estimates remain broadly plausible even if the investment program is implemented gradually.

Taking these considerations together, a reasonable illustrative estimate is that a five-year electricity-and-roads investment program could raise the level of Lebanon's GDP by about 5–7% above the no-investment baseline by the end of the fifth year, with a central estimate of roughly 6%. Starting from a GDP base of about \$30 billion, this implies that output could be about \$1.5–2.1 billion higher by year five than it otherwise would have been. This corresponds to an average additional growth impulse of roughly 1.0–1.3 percentage points per year during the implementation period, with the impact strengthening as projects come online.

Another way to view the effect is through cumulative additional output over the five-year horizon. On this basis, the same infrastructure program could plausibly generate roughly \$3–5 billion in extra GDP over five years, depending on implementation speed, project quality, and the strength of the private-sector response. Even when phased over several years, targeted investment in electricity and roads could therefore play a central role in rebuilding Lebanon's productive capacity and restoring sustained economic growth. Stronger growth would in turn improve fiscal capacity, strengthen bank balance sheets, and help create the economic conditions under which deposit recovery becomes progressively feasible.

## IMPACT ON DEPOSIT RECOVERY

Beyond its direct macroeconomic effects, stronger growth would also play an important role in facilitating the recovery of bank deposits. Deposit recovery ultimately depends on the economy's ability to generate income, rebuild fiscal capacity, restore confidence in the financial system, and improve the quality of bank assets. Infrastructure-led growth supports these channels but remains an enabling condition—not a substitute—for loss recognition and banking-sector restructuring.

First, stronger economic activity would improve the fiscal position of the state, increasing its ability to contribute to deposit recovery mechanisms. As output expands, tax revenues rise even without changes in tax policy. For example, if GDP increases by \$1.5–2 billion over five years as a result of infrastructure investment, and assuming a tax-to-GDP ratio of 12–15%, this could generate roughly \$180–300 million in additional annual fiscal revenues once the growth effects are fully realized. Over time, these additional resources could help support the state's contribution to deposit recovery frameworks.

Second, stronger growth combined with credible banking-sector reforms would help restore confidence in the financial system, reducing the incentive for depositors to withdraw funds immediately once restrictions are eased. In a more stable economic environment—supported by bank restructuring, stronger supervision, and improved governance—deposit recovery can proceed in a more gradual and orderly manner.

Third, stronger economic activity would improve banks' balance sheets over time. Infrastructure investment in sectors such as electricity and transport stimulates activity across multiple industries, including construction, tourism, manufacturing, and services. As firms regain profitability and demand for credit gradually recovers, banks can resume prudent lending. New performing loans would progressively replace part of the legacy distressed assets, helping to narrow the financial gap.

Fourth, a further channel arises from the design of the infrastructure financing framework itself. While much of the investment program would rely on foreign financing from multilateral institutions, development banks, or international partners, such financing could be structured to include a complementary role for domestic bank credit. For example, foreign financing could be made conditional on a modest share of project funding being provided by Lebanese banks. This approach would allow banks to gradually rebuild their asset portfolios through exposure to high-quality infrastructure projects supported by credible international partners, helping to revive financial intermediation.

These mechanisms are mutually reinforcing. Higher growth strengthens fiscal capacity; improved fiscal capacity supports deposit recovery frameworks; restored confidence reduces the risk of renewed bank runs; and healthier bank balance sheets allow the gradual resumption of lending. Together, these dynamics create the conditions under which deposits can be repaid more quickly—and under which depositors with greater immediate liquidity needs can be accommodated more easily in the absence of renewed panic.

However, economic growth alone cannot fully resolve the financial losses accumulated in Lebanon's banking system. International experience shows that banking crises are typically resolved through a combination of economic recovery and decisive financial restructuring. In Sweden's banking crisis of the early 1990s, the government combined bank recapitalization and loss recognition with policies that supported economic recovery<sup>3</sup>. Similarly, in South Korea after the 1997 Asian financial crisis, rapid economic growth helped banks rebuild their balance sheets following comprehensive restructuring (IMF, 2000)<sup>4</sup>. Iceland's recovery after the 2008 financial crisis also illustrates how economic growth and financial restructuring can reinforce each other in restoring financial stability (Benediktssdóttir, Danielsson, and Zoega, 2011)<sup>5</sup>.

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<sup>3</sup> Jonung, L. (2009). The Swedish Model for Resolving the Banking Crisis of 1991–93. *European Economy*.

<sup>4</sup> International Monetary Fund (2000). *Korea: Selected Issues*.

<sup>5</sup> Benediktssdóttir, S., J. Danielsson, and G. Zoega (2011). *Lessons from a Collapse of a Financial System*. *Economic Policy*.

In Lebanon's case, resolving the crisis will likewise require a comprehensive restructuring of the banking system, including bank recapitalization, and a transparent allocation of losses among shareholders, the state, and large depositors. However, stronger growth can play a critical enabling role. By improving fiscal capacity, strengthening bank balance sheets, restoring depositor confidence, and stimulating new investment, infrastructure-led recovery can help create the economic conditions under which deposit recovery becomes financially feasible and politically sustainable.

## **CONCLUSION**

Lebanon's gold occupies a unique place. It is not merely a balance-sheet item but a symbol of national wealth and sovereignty. This does not mean it must remain permanently untouched. Any legitimate use, however, must meet strict conditions: a clearly defined national purpose with broad-based benefits, integration into a comprehensive reform program, and safeguards that preserve reserve adequacy, institutional credibility, and fairness across society.

The debate over gold is therefore not simply technical or legal; it is ultimately a test of governance. Using gold to compensate specific creditor groups would risk undermining legitimacy while leaving the structural roots of the crisis largely unaddressed. A responsible management framework for Lebanon's gold offers a more durable path. Under such an approach, a substantial portion of the reserves would remain preserved as a strategic national asset, while a limited portion could be mobilized under strict legal and institutional safeguards through a professionally managed investment framework.

International evidence shows that infrastructure investment can be a powerful driver of economic expansion, particularly where capital gaps are large. Lebanon's severe infrastructure deficiencies—especially in electricity and transport—suggest that well-targeted investment could generate meaningful economic returns by lowering production costs, improving productivity, and encouraging private investment. At the same time, experience across countries demonstrates that infrastructure spending produces sustained growth only when financing arrangements are credible, institutions are capable, and sector reforms accompany capital investment.

In this sense, the management of Lebanon's gold and the revival of infrastructure investment are closely linked to the broader challenge of economic reform. When embedded within a credible reform strategy—one that restores confidence, strengthens institutions, and restructures the financial system—such an approach can transform part of a dormant national asset into a source of sustainable income, ease critical growth constraints, and support a gradual recovery of economic activity.

Crucially, deposit recovery cannot be achieved simply by redistributing existing assets. Deposit recovery cannot be financed by consuming national assets; it must be built on restoring the economy's capacity to generate new wealth. This requires rebuilding the economy's capacity to generate income, restore fiscal capacity, and revive financial intermediation.

Lebanon's gold reserves represent one of the last remaining national assets held in trust for the Lebanese people. Decisions regarding their use must therefore be guided not by short-term financial pressures or political expediency, but by principles of sound governance, intergenerational equity, and long-term economic recovery. Preserving and managing this asset wisely may not provide immediate relief from the financial crisis, but it can help lay the foundations for rebuilding trust, restoring stability, and supporting sustainable growth.



Issam Fares Institute for Public Policy & International  
Affairs American University of Beirut P.O. Box 11-0236  
Riad El-Solh / Beirut 1107 2020 Lebanon



961 - 1 - 350000 ext. 4150



+961 - 1 - 737627



[ifi.comms@aub.edu.lb](mailto:ifi.comms@aub.edu.lb)



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