ABL: Losses in US Dollars Turned to Taxable Profits in Lebanese Pound!

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Contact Information

Jana Boumatar

jana.boumatar@blom.com.lb

In his October 2026 editorial, “Once Again, Financing the Deficit with Depositors’ Money,” published in the Association of Banks in Lebanon's (ABL) monthly report, Secretary-General Dr. Fadi Khalaf addresses the government's proposed taxation of banks' Eurobond transactions and its potential consequences for Lebanon's banking sector and depositors. Khalaf criticizes the possibility of imposing taxes on accounting gains resulting from the depreciation of the Lebanese pound, despite banks having incurred substantial losses following Lebanon's sovereign debt default. With banks already struggling to secure sufficient liquidity to repay depositors, he warns that additional tax obligations could further weaken their financial position and divert resources away from deposit recovery.

Lebanese banks are currently working to mobilize available liquidity to meet their obligations toward depositors, while the government continues to seek additional sources of revenue to finance its fiscal needs. Khalaf draws attention to the similarities between the current approach and the policies that preceded the financial crisis, when the government relied heavily on borrowing from Banque du Liban to cover its fiscal deficit, indirectly drawing on resources belonging to commercial banks and depositors. Today, the government is increasingly relying on taxes and fees to generate revenue, raising concerns that the burden of public financing could once again fall on the banking sector. This is particularly problematic given that banks are expected to preserve their remaining resources to support the repayment of deposits.

The issue is closely linked to Lebanon's decision to suspend Eurobond payments in March 2020, which resulted in significant losses for banks holding these securities. Despite the government's failure to honor its debt obligations, the Ministry of Finance is now considering taxing gains recorded when banks sell Eurobonds following the sharp depreciation of the Lebanese pound. A recent letter from the Large Taxpayers Department requested that banks complete or amend their tax declarations for the years 2020 through 2024, potentially exposing them to additional tax liabilities. These liabilities would not necessarily reflect actual profits, but rather accounting differences created by changes in the exchange rate.

According to Khalaf, banks are facing three financial burdens stemming from this situation. First, the government's suspension of Eurobond payments caused substantial losses, although the state remains indebted to banks for these securities. Second, banks established provisions for expected credit losses in line with accounting standards and regulatory requirements approved by the Banking Control Commission. However, they faced restrictions or refusals regarding the deduction of some of these provisions from taxable profits. Third, banks are now at risk of being taxed on nominal gains arising from the depreciation of the Lebanese pound. With the exchange rate moving from LBP 1,500 to LBP 89,500 per dollar, the difference between the historical purchase cost of Eurobonds and their current sale value in Lebanese pounds can generate substantial accounting gains, even when banks have lost more than 75% of their original investment in dollar terms. Khalaf argues that the state cannot disregard its debt obligations while treating the resulting losses as a basis for additional taxation.

The financial implications become clearer through the numerical example presented in the article. A bank purchases a Eurobond with a face value of $100 at an exchange rate of LBP 1,500 per dollar, bringing its original cost to LBP 150,000. Following the sovereign default, the bank sells the bond for $25, resulting in an actual loss of $75, or 75% of its initial investment. However, at the current exchange rate of LBP 89,500 per dollar, the $25 received from the sale is equivalent to LBP 2,237,500. Under the tax calculation discussed by Khalaf, the original purchase cost remains recorded at LBP 150,000, generating an apparent accounting profit of LBP 2,087,500. Consequently, a bank that has effectively lost 75% of its investment in dollar terms could be required to pay taxes on a substantial nominal profit in Lebanese pounds. This discrepancy results from using the historical exchange rate to calculate the purchase cost and

the current exchange rate to value the sale proceeds, rather than from any genuine economic gain.

Such taxation raises concerns over the distinction between actual profits and accounting gains caused by currency depreciation. Khalaf stresses that banks are not seeking exemptions from their lawful tax obligations, but rather a fair assessment of their financial results. The increase in the Lebanese pound value of a transaction does not necessarily indicate improved profitability, particularly when the underlying asset has lost most of its dollar value. Applying different exchange rates to the purchase and sale of the same security without considering the economic loss could therefore lead to an inaccurate assessment of taxable income. The author calls for these tax claims to be reviewed in accordance with the relevant accounting standards and legal provisions, while taking into consideration their impact on banks' already limited liquidity.

The proposed measures could also have broader consequences for Lebanon's efforts to resolve the deposit crisis. Banks are expected to contribute to the repayment of depositors while simultaneously absorbing losses from the sovereign default and complying with additional fiscal requirements. Imposing taxes on nominal profits would further reduce the funds available for deposit recovery and could hinder efforts to generate new liquidity. This creates a contradiction between the government's objective of restoring depositors' rights and its pursuit of additional tax revenues from the same financial resources. Khalaf warns that drawing on these funds to cover the Treasury's needs risks repeating the financial practices that contributed to the crisis, placing further pressure on both banks and depositors.

Ultimately, Khalaf's article highlights the risks of treating exchange rate related accounting gains as a source of government revenue while overlooking the substantial losses incurred by banks on their Eurobond holdings. The issue extends beyond the calculation of taxable profits, as additional financial burdens could directly affect the banking sector's ability to meet its obligations toward depositors. Without a consistent approach that distinguishes genuine economic profits from nominal gains, the proposed taxation risks transferring part of the government's fiscal burden onto resources needed for deposit repayment. Addressing this issue requires a tax framework that respects the state's legitimate revenue needs without further undermining Lebanon's financial recovery.

For your Queries:

BLOM BANK s.a.l.

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Jana Boumatar

jana.boumatar@blom.com.lb

Research Department

Tel: +961 1 991 784

research@blom.com.lb

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