

SUBJECT: Egypt: Mubarak's Agenda [REDACTED]

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Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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Summary

President Mubarak is engaged in the most delicate balancing act of his political career: trying to revitalize Egypt's deteriorating economy without risking a political upheaval that could topple him. As he prepares to seek virtually certain reelection next fall, Mubarak will be preoccupied with securing enough external aid to resolve Egypt's cash crunch while resisting donor demands for far-reaching economic reforms.

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Egypt's near term economic outlook has brightened somewhat with incremental moves toward a more realistic exchange rate regime, higher oil prices, and financial aid from the Gulf Arab states, but the basic structural problems facing the economy remain unaddressed.

--Negotiations for an unusually lenient IMF standby agreement appear almost complete, according to Embassy sources. If ratified by the IMF, the agreement would provide some near term relief but is highly unlikely to cover all of Egypt's cash needs.

This memorandum was prepared by [REDACTED] of the Egypt-Sudan Branch, Arab-Israeli Division, Office of Near Eastern and South Asian Analysis, at the request of the Country Director for Egypt, International Security Affairs, Department of Defense. Information as of 9 April 1987 was used in its preparation. Questions and comments should be directed to Chief, Arab-Israeli Division, [REDACTED]

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--Although Mubarak has agreed to some economic reform measures--including gradual exchange rate unification--he believes he can go no further to accommodate IMF and donor demands, according to Embassy reporting, and he will probably reverse these reforms at the first sign of unrest. Having witnessed Sadat's assassination at close hand, he is acutely sensitive to policies that would focus discontent on his leadership and serve as a weapon against his regime in the hands of Islamic fundamentalists and other opposition elements.

Looking for Assistance Abroad

Mubarak's immediate foreign policy concerns are being driven by the need to protect aid flows. We believe special relations with the United States--Cairo's most generous aid donor--are almost certain to remain a cornerstone of Egyptian foreign policy. His expectations of the level of US support he will receive, however, appear unrealistically high.

--Cairo is likely to look first to the United States for additional aid to finance its expected shortfall after the IMF agreement takes effect.

--Mubarak also appears optimistic that Washington will find a favorable solution to Cairo's longstanding demand for FMS debt relief.

Recent Egyptian efforts to improve relations with the Arab states and the Soviet Union also have an economic rationale.

--Promises of aid from the Gulf states, which could amount to over \$1 billion by the end of this year, have fostered the impression among Egyptian policymakers that pressure on Egypt's financial situation has eased and that hard decisions on reforms can be put off.

--Cairo has successfully exploited Soviet eagerness for better relations by demanding and receiving what initial reports from the US Embassy in Cairo suggest is a generous settlement of its military debt with the USSR. We believe Mubarak will be reluctant to make major political concessions to the Soviets in return--such as reopening the Soviet Consulate General in Alexandria--for fear of undercutting his US ties,

but he may try to use the Soviet settlement as a lever to prompt more favorable treatment from the United States.

The Domestic Political Scene

Mubarak dominates Egypt's political landscape and faces no serious threat to his continuation in office. Nonetheless, he appears committed to incremental political liberalization and "safety-valve democracy" as the best guarantee of stability.

--The ruling National Democratic Party will retain its large majority in the new People's Assembly elected in April, according to Embassy analyses. Opposition representation will increase, but the secular opposition is too weak to challenge Mubarak's hold on power.

--Mubarak faces a more serious threat from Islamic fundamentalist elements. Egypt's security services are increasingly on guard against fundamentalist activity, particularly in the military. Increased fundamentalist representation in the new assembly would encourage the Muslim Brotherhood to seek recognition as a legal political party, but Mubarak is not likely to grant it.

Egypt's military--the real source of Mubarak's political power--remains loyal. Complaints over Mubarak's handling of the economy may be mounting among junior officers, but we believe the government will protect the military from austerity enough to contain dissatisfaction.