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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

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[Redacted]

29 April 1975

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MEMORANDUM FOR: Malcolm Butler
National Security Council
Old Executive Office Building

SUBJECT : Analysis of Egypt's Current
Liquidity Crisis

[Redacted]

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1. In response to request for an appraisal of
Egypt's current financial problems [Redacted]
[Redacted] has prepared the attached
materials.

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2. If further clarification is needed [Redacted]
[Redacted] can be reached at [Redacted]

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[Redacted]

Attachment:
As stated above

Distribution: (S-Project 08324)

- Orig. & 1 - Addressee
- 1 - Gardiner Brown, State Dept.
- 1 - James Roberts, AID
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- 1 - [Redacted] NIO
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- 2 - [Redacted] S)
- 2 - [Redacted]

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(29 April 1975)

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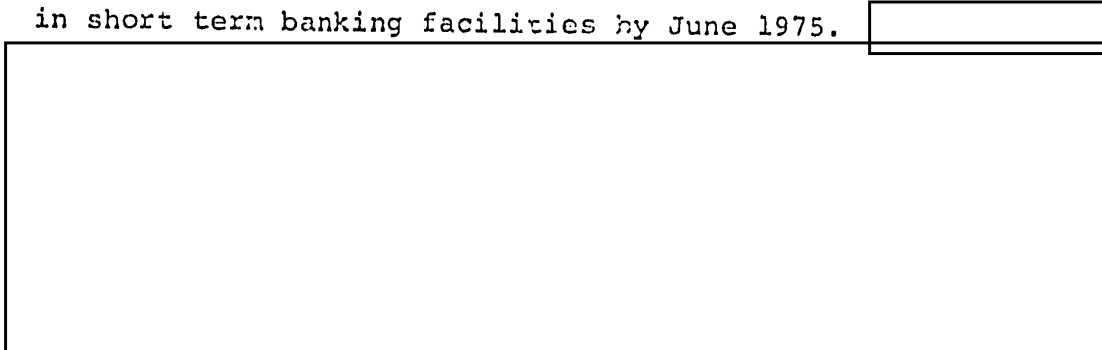
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Analysis of Egypt's Current Liquidity Crisis

As has been widely rumored since early this year, the Egyptian government is obligated to repay or rollover at least \$1 billion and possibly as much as \$1.6 billion in short term banking facilities by June 1975.

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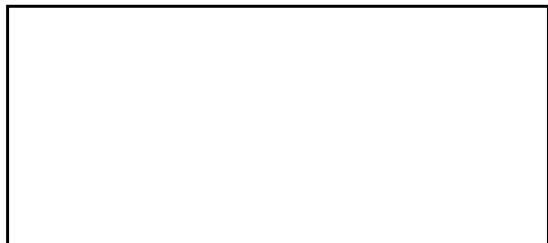
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As in the past, the level of such short term borrowing represents government estimates of cash receipts over the next 3-6 months. "Banking" anticipated cash receipts many months in advance has been an Egyptian practice for many years. During the past year increased Arab backing has made short term credit particularly easy for Cairo to obtain. The Egyptians may have badly overestimated 1975 receipts, however, borrowing well in excess of their ability to pay.

Export earnings have been the most serious source of miscalculation. When the 1974/75 cotton season

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opened last Fall the Egyptian Cotton Board predicted \$540 million in export receipts. Due primarily to recession in Western Europe the crop is moving very slowly and total receipts may equal no more than \$400 million. With depressed conditions in Western Europe also affecting other exports, total receipts may have been more than \$200 million below expectations during the last two quarters (see Table 1).

Cairo may also have been overly optimistic about the amount of cash aid that would be forthcoming from other Arabs around the end of 1974. At the Arab Summit in the Fall of 1974 \$1 billion was originally allocated for Egypt. Lack of Libyan and Algerian participation, however, reduced final disbursement to \$580 million. Thus far only \$100 million of the shortfall is known to have been made up by other donors.

The banking community almost certainly will agree to rollover whatever Egypt cannot repay. Because Egypt has always honored the bulk of its short term obligations, rollovers were readily offered even during the lean inter-war years when economic prospects were extremely bleak, cash reserves were extremely limited, and long term credit was almost impossible to obtain. Now with

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more than \$500 million on hand as reserves and longer term prospects vastly improved, rollovers should be even easier to arrange.

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Probably much of the recent publicity on the liquidity crisis in Cairo has been timed to influence both congressional aid considerations and the forthcoming Arab Summit.

If US or Arab aid is too little or comes too late, Egypt will have little choice but to accept rollovers on banking community terms. In the past Egypt regularly reneged on long term credit obligations to other governments in order to maintain its credit rating with the international

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banking community. In the West this option has been foreclosed by inter-war rollover agreements that, in the main, tie the level of new credit to the level of repayments. In the East the USSR is becoming impatient with the "last paid" status that has characterized its financial relations with Egypt for many years. Undoubtedly deliveries of the Soviet arms on which the Egyptian military still mainly depends would be seriously affected if Egypt lowered already minimal repayments on its debt to the USSR.

If the present crunch is resolved with stop gap measures, Egypt is apt to end 1975 in another short term credit bind. Unless consumption and investment are slashed back to pre-war levels, the current account deficit for the year will exceed \$1.5 billion of which at least \$800 million remains to be financed with aid or private investment (see Table 2). The gap will be substantially larger if cash transfers received earlier this year are committed to retirement of short-term debt carried over from the fourth quarter of 1974. Unless ample levels of longer term credit or substantial relief from long term debt repayment is available for the balance of the year, Egypt may seek to avoid politically

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hazardous cuts in imports by resorting once again to high cost, short term borrowing.

If the Sadat government can survive its current predicament without alienating consumers, prospective investors or the international banking community, the financial situation should begin to improve next year as grain prices level off or drop, petroleum output rises, traffic in the Suez Canal picks up, and demand in Western Europe recovers. Unless another serious deterioration in terms of trade occurs, a rising inflow of private investment, revenues from the fully reopened Suez Canal, completion of several new tourist hotels, inauguration of the SUMED pipeline, and burgeoning oil output in the Gulf of Suez could substantially close Egypt's balance of payments gap by 1978.

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Table 1

Comparison of Egyptian Expectations
and Actual Receipts (Cash or Equivalent)
October 1, 1974 - 31 March 1975

Million US \$

	<u>Maximum Expectation</u>	<u>Estimated Maximum Actual Receipts</u>
Cotton	540	400
Arab cash aid	1,000	680
Other exports	<u>350</u>	<u>300</u>
Total	1,890	1,380

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Table 2

Egyptian Balance of Payments
1975 Estimate

	Million US \$		
Current receipts	1,850		
Goods	1,000		
Cotton	400		
Oil (net)	negl		
Other	600		
Services	850		
Worker remittances	250		
Tourism	400		
Canal	175		
Other	25		
		A	B
Current payments		-2,440	-3,522
Services	-500		
Demurrage	-100		
Other	-400		
Goods		-1,940	-3,022
Current balance		-590	-1,672
Unrequited transfers		700	700
Public debt service		-335	-335
Balance to be financed with aid or private investment		-225	-807

A - 1972 levels of aggregate consumption, manufacturing production and investment at 1974 import prices.

B - 1974 levels of aggregate consumption, manufacturing production and investment at 1974 import prices.

C - 1964 levels of per capita consumption with aggregate investment at 1974 levels (assumes manufacturing output at full capacity). 1974 import prices.

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