

~~Top Secret~~ 219

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NATIONAL INTELLIGENCE DAILY CABLE

Saturday 17 December 1977 CG NIDC 77/292C

[Redacted box]

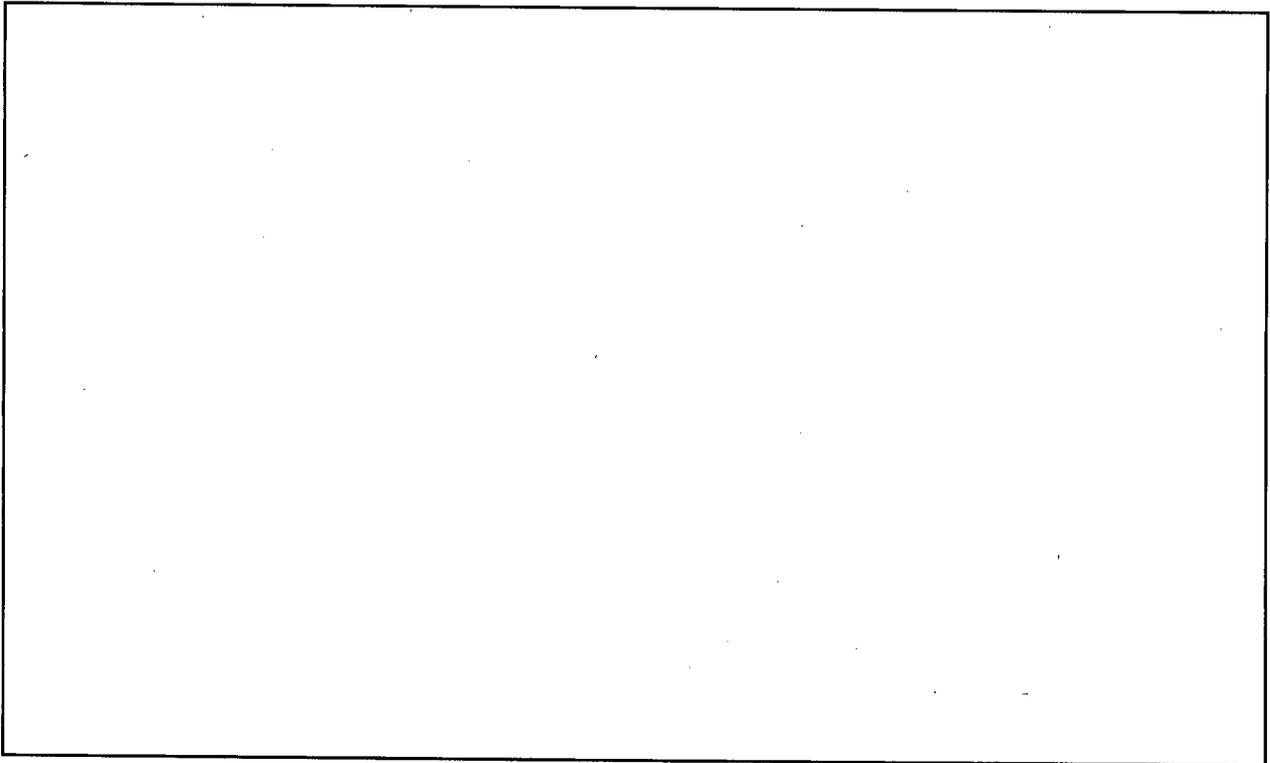
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EGYPT: Financial Implications

[redacted] //Egyptian President Sadat's diplomatic initiatives could create serious financial difficulties for Egypt, if Egypt's financial benefactors conclude that he is bent on a separate agreement with Israel. Egypt needs an additional \$500 million during the first half of 1978 to finance essential imports and debt service payments falling due. Egypt would be in for another financial squeeze if Arab support were not forthcoming.//

[redacted] //At least two-thirds of Egypt's cash aid this year has come through the facilities of the Gulf Organization for Development in Egypt, a multilateral Arab organization established under Saudi auspices. The organization's initial \$2 billion loan capital was severely depleted by this aid, which was authorized on an emergency basis following the consumer riots in Egypt last January. Arrangements for rebuilding the fund have not been completed.//

[redacted] //Egypt and its Arab benefactors were at odds over disbursement of the organization's remaining capital of \$750 million even before Sadat's diplomatic initiatives. Saudi Arabia, Kuwait, Abu Dhabi, and Qatar preferred to reserve these assets for project aid. The Egyptians wanted a cash disbursement of \$550 million to tide them over until 1978 aid arrangements are firm. These donors now may withhold support altogether pending further assurances that Egypt does not intend to make a separate peace with Israel.//

[redacted] //Arab donors suspended ad hoc aid in the second half of 1976 over the issue of economic reform. Egypt was able to cushion the impact at that time by drawing on inventories of imported goods and deferring debt repayment. Attempts to restock essential imported items this year may have been hampered by congestion in the port of Alexandria. A lengthy delay in aid receipts, therefore, could force the government into unpopular controls on consumption.//

[redacted] //Sadat could resort to massive short-term borrowing and defer debt payments. This, however, would jeopardize the standby agreement that was negotiated with the International Monetary Fund this year, the basis for most of Egypt's other outside assistance.//

[redacted]

[redacted] //Egypt also could launch a "peace bond" drive among expatriate Egyptians. Egyptians abroad are already financing imports of luxury goods worth at least \$400 million annually. A well-managed bond drive might conceivably siphon off some of this cash for essential imports.//

[redacted] //Egypt probably can count on Saudi Arabia to mount a financial rescue operation before economic conditions provoke serious domestic unrest if Sadat does not negotiate a separate agreement with Israel.

[redacted]