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FM CAIRO

TO DESKBY 290900Z FCO

TELNO 531

OF 281305Z AUGUST 86

INFO ROUTINE DTI, ODA, ECGD, BANK OF ENGLAND, UKDEL IMF/IBRD

INFO ROUTINE UKREP BRUSSELS, WASHINGTON

INFO SAVING HMC G ALEXANDRIA - ACTIONED

MY TELNO 527: EGYPTIAN ECONOMY;  
NEGOTIATIONS WITH THE IMF

## SUMMARY

1. EC REPRESENTATIVES BRIEFED ON EGYPT'S ECONOMIC STABILISATION AND STRUCTURAL REFORM PROGRAMME. EGYPTIAN HOPE FOR EC SUPPORT IN NEGOTIATIONS WITH IMF AND WORLD BANK REITERATED.

## DETAIL

2. EC REPRESENTATIVES WERE SUMMONED TO THE MFA ON 28 AUGUST TO BE BRIEFED ON THE GOVERNMENT'S 'ECONOMIC STABILISATION AND STRUCTURAL REFORM PROGRAMME'. WE WERE TOLD THAT THE BRIEFING WAS TO BE GIVEN BY THE MINISTERS OF FOREIGN AFFAIRS, FINANCE AND CABINET AFFAIRS. IN THE EVENT, THE THREE MINISTERS HAD AT THE LAST MOMENT TO GO TO ALEXANDRIA TO SEE THE PRESIDENT AND THE BRIEFING WAS THEREFORE GIVEN BY ASSISTANT FOREIGN MINISTER MAKHLOUF.

3. READING FROM A PREPARED TEXT (COPY TO NENAD BY TODAY'S BAG), MAKHLOUF RECOUNTED THE ORIGINS OF EGYPT'S ECONOMIC PROBLEMS IN FAMILIAR TERMS (FALL IN OIL PRICES, MIDDLE EAST TERRORISM AND DROP IN REMITTANCES) AND THE MEASURES TAKEN SO FAR TO DEAL WITH THEM. HE THEN WENT ON TO DESCRIBE IN VERY GENERAL TERMS THE FURTHER MEASURES TO BE TAKEN. THE AIM WOULD BE THE COMPLETE LIBERALISATION OF THE ECONOMY AND THE DIVERSIFICATION OF ITS EXPORT BASE WITHIN 6-10 YEARS. OVER THE NEXT DECADE, AGRICULTURAL AND INDUSTRIAL PRODUCER PRICES WOULD BE FULLY LIBERALISED AND ALL PRODUCTION SUBSIDIES ELIMINATED. BEFORE THE END OF THE CURRENT FINANCIAL YEAR, SUBSIDIES WOULD BE MOVED TO THE DISTRIBUTION LEVEL, TO ELIMINATE THEIR DISTORTIONARY IMPACT ON DOMESTIC PRODUCTION. ENERGY PRICES WERE EXPECTED TO REACH INTERNATIONAL LEVELS WITHIN 7 YEARS AND IT WAS AIMED TO HALVE THE RATE OF INCREASE OF DOMESTIC ENERGY CONSUMPTION OVER THE SAME PERIOD. A NUMBER OF PUBLIC SECTOR ACTIVITIES WERE TO BE PRIVATISED, TAX REVENUES INCREASED AND PUBLIC EXPENDITURE CUT IN ORDER TO ACHIEVE A REDUCTION OF THE PUBLIC SECTOR DEFICIT BY 2.5% OF GDP PA FOR THE NEXT 4 YEARS. MEASURES WERE ALSO PLANNED TO REDUCE THE EXTERNAL FINANCING GAP AND THE INTEREST RATE STRUCTURE WAS TO BE REFORMED. SUBSTANTIAL PROGRESS WAS PLANNED IN DEALING WITH POPULATION GROWTH AND PUBLIC EMPLOYMENT, WHICH REMAINED EGYPT'S 2 BASIC PROBLEMS.

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4. MAKHLOUF SAID THAT THE EGYPTIAN GOVERNMENT BELIEVED THAT THEY HAD TAKEN A NUMBER OF COURAGEOUS STEPS, WHICH WENT A LONG WAY TO ACHIEVING THE NECESSARY ECONOMIC REFORMS WHILE SAFEGUARDING THE STABILITY OF EGYPTIAN SOCIETY. EGYPT RELIED ON THE SUPPORT OF EC COUNTRIES AND GREATLY HOPED THAT WE WOULD ASSIST THEM IN THEIR NEGOTIATIONS WITH THE IMF AND THE WORLD BANK. SPEAKING ON BEHALF OF MY COLLEAGUES, I ASSURED MAHLOUF THAT WE WOULD REPORT FULLY WHAT HE HAD SAID: I WAS CONFIDENT THAT EGYPT'S DIFFICULTIES WOULD BE LOOKED AT SYMPATHETICALLY BY ALL OUR GOVERNMENTS.

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