

RELEASE IN PART B5

From: Sullivan, Jacob J <SullivanJJ@state.gov>
Sent: Thursday, January 17, 2013 7:03 PM
To: H
Subject: FW: Egypt

FYI

-----Original Message-----

From: Hormats, Robert D
Sent: Thursday, January 17, 2013 6:41 PM
To: Sullivan, Jacob J
Subject: RE: Egypt

Hi Jake,

Since I am told S will be making some Hill calls tomorrow, I thought this brief background note might be helpful for her.

This past Sunday I held meetings in Cairo with the Prime Minister and other Egyptian officials to discuss Egypt's critical economic situation along with prospects for an IMF deal and U.S. assistance. Anne Patterson, Bill Taylor and Mara Rudman participated in several of these, as did members of our Embassy team.

The PM and the Finance Minister plus President Morsi's foreign policy advisor emphasized that they are committed to a bold reform plan and an IMF agreement. They realize they need to present revised reform plans to the Fund quickly in light of the worsening financial and currency situation facing the country. Prime Minister Kandil and other officials noted that the government has a two-month window for action before attention turns to parliamentary elections.

When pressed on specifics, financial officials were tentative on the nature and extent of the reforms and the timing. The government has already reduced subsidies for industrial-use fuel, but they don't expect to make changes on gasoline until after the parliamentary elections and not on diesel until the next fiscal year. Similarly, they plan to delay a sales tax (a Goods and Services Tax), until at least July. The government has begun public outreach to gain support for the reform plans, but conceded that they had failed to get very much traction.

The President's office was focused on getting a deal done, and asked the United States to press the IMF to complete a deal in the near future. I explained that we have never gotten involved in the details of IMF negotiations. And that in any case the objective was not a deal that would just barely meet the minimum IMF conditions but rather reforms that would solve Egypt's serious financial problems and generate confidence among investors (which was critical for job creation) and halt the slide in the pound. But I did say that I would call the Fund and describe my assessment of how urgent the situation was.

I believe the Egyptians are trying very hard to make reforms and gain public support for them. Nonetheless, they are facing serious technical issues and fear public opposition to much of what is being discussed with the Fund. I spoke with the Fund after my meetings to describe the situation; Masood Ahmed, the Head of the Middle East Region at the Fund shares the sense of urgency as well. They are waiting for the reform package the Egyptians are at work preparing and will send a team out to Cairo when it arrives -- which they estimate to be in about two weeks. Then the real negotiations begin.

[Redacted]

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