

2 June 1961

MEMORANDUM FOR THE DIRECTOR

SUBJECT: Iran's Financial Crisis

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1. Iran's current financial problems were anticipated in NIE 34-61 of 28 February 1961 which pointed out that the country was even then in the midst of a financial crisis (Para. 22). The estimate also said that balance of payments deficits would keep Iran heavily dependent on hand-to-mouth borrowing for the next year or two (Para. 27).^{*} The political disturbances of early May and the dislocations accompanying the change of government have intensified financial problems. Until recent days at least, Amini has been too busy with urgent political problems to concentrate on financial ones.

^{*} SNIE 34-2-61, 23 May 1961, which supplemented NIE 34-61, focused on the implications of recent political developments, and did not discuss Iran's economic problems.

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2. Prime Minister Amini now insists he needs \$40 million from the US to weather the current crisis.* We cannot vouch for the figures Amini uses to justify this sum and we are generally suspicious of Iranian calculations of this kind. However, there is no doubt that the situation, whatever its exact dimensions, is critical. Amini is under a wide variety of popular pressures to produce the reforms he claims he favors. At the same time, a flight of capital is already taking place as conservatives' fears grow regarding Iran's future course. Price rises are continuing and there remains a serious problem of unemployment. If Amini has to default on foreign debt obligations and is unable to pay for Development Plan projects, and perhaps even government salaries, the resulting wave of popular discontent would considerably reduce his chances for staying in office -- which are at best none too good.

3. Iran's long term economic outlook is fairly promising, as indicated in NIE 34-61. As is also indicated, however,

* Iran presently has about \$65 million in foreign exchange resources, but nearly \$50 million of this is committed, much of it for repayment of foreign debts in the near future. Iran's \$136 million gold reserve is used chiefly for currency backing.

if significant progress is to be made, a great deal of hard work and financial self-discipline will be necessary. Amini claims that within ten days he will take the first essential step through a revised stabilization program (measures to restrict credit, reduce imports, and curb non-essential government spending). We doubt that he will be able to move this fast, although he appears to be making vigorous efforts to surmount the crisis. Nevertheless, for some time at least, measures for long term improvement will be subordinated to the need to concentrate on the current crisis.

4. Just how much financial support is needed to weather the current crisis is difficult to say. The \$40 million which Amini is requesting would almost certainly be enough for the moment, although, if financial conditions continue unsettled, a substantial increment might be needed in another few months. On the other hand, the present proposal by the State Department of roughly \$20 million, if coupled with prompt and vigorous stabilization measures in Iran -- which might induce the International Monetary Fund to provide additional aid -- may also be sufficient. The main point, on which we can all agree, is that Amini has serious financial problems and that

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a financial collapse creating further discontent would make his political position even more difficult than it has been from the start.

5. Attached is a copy of NIE 34-61, of which paragraphs 22 to 31 deal in detail with Iran's economic and financial problems and outlook.

FOR THE BOARD OF NATIONAL ESTIMATES:



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SHERMAN KENT
Chairman

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