

# Bloomberg Business

## Cold War-Era Lesson of Suez Crisis as Russia Burns Through Cash

By [Simon Kennedy](#)

December 19, 2014 — 9:29 AM CET

(Bloomberg) -- The invasion drew the ire of the U.S. as the aggressor burned through reserves to defend its currency before ultimately appealing to the International Monetary Fund.

It's not a blueprint for 21st century Russia, but the path followed by the U.K. in 1956. It's not about Ukraine but the Suez Canal.

The history shows why Vladimir Putin won't -- and can't -- for now pursue an obvious way out of Russia's financial straits: Then, as now, the U.S. wielded a veto over IMF loans.

"This is a situation calling out for IMF involvement," said Phillip Swagel, a former IMF and U.S. Treasury official who now teaches at the University of Maryland. "Russia needs the help, but it's hard to imagine Putin asking -- he would call it submitting. Then there is the possibility that the United States might use the Russian request as geopolitical leverage."

That's what then-President Dwight Eisenhower did almost six decades ago in a confrontation involving his closest ally.

The U.K., with France, followed Israel into Egypt in 1956 after President Gamal Abdel Nasser nationalized the global commercial

lifeline and kicked out the consortium that had been running the canal.

Britain was exposed when sterling came under speculative attack. Investors targeted its \$2.80 peg to the dollar, forcing the Bank of England to run down its reserves to defend it.

For the U.K., “Suez was also a financial crisis,” according to a 2001 study by IMF historian James M. Boughton.

As they struggled to maintain the \$2 billion minimum viewed as necessary to stave off devaluation, British officials began looking for assistance. Knowing the U.S. was unlikely to help directly, they turned to the then decade-old IMF.

## U.S. Veto

No dice. U.S. Treasury Secretary George M. Humphrey told the U.K. he would only back it at the IMF when it was “conforming to, rather than defying, the United Nations.”

On the verge of having to reveal its reserves had breached \$2 billion, the British government buckled and announced a troop withdrawal from Egypt. That freed up \$1.3 billion of international loans. Sterling was saved.

To Boughton “the United Kingdom’s need for financial assistance gave the Americans the perfect lever.”

Consider the parallels today.

Russia’s involvement in Ukraine has drawn international sanctions, which combined with a plunge in the oil price has sent the ruble plummeting. Its foreign-exchange reserves have dropped about \$100 billion from \$470 billion at the end of 2013.

**“There is an unusually stark dichotomy here between the economic case for IMF involvement and the political reality,” said Alessandro Leipold, a former IMF official who is now chief economist of the Lisbon Council, a research group in Brussels. “The economic case is that of a classic emerging-country crisis, almost of a textbook variety. The political reality of this occurring any time soon is however zero.”**

To contact the reporter on this story: Simon Kennedy in Paris  
[atskennedy4@bloomberg.net](mailto:atskennedy4@bloomberg.net)