

This year's foreign exchange budget now apparently being operated on one shot basis with next fiscal year problems to be met when they arise. While it may be possible to get through June 30 even though German cash payment unattainable or delayed, by rolling back some maturities into next fiscal year, by pledging future income against current borrowings and by incurring additional short term debt, this only means trouble for period after July 1. It provides little assurance, moreover, that Israel Government can yet desist from rebuilding short term debt after a refunding operation and indicated that any refunding operation after July 1 may get involved in emergency financial assistance.

Uncertainty over German reparations agreement has admittedly dislocated Israel Government foreign exchange budgeting this past year. Embassy-TCA feel however, that, even though it may be difficult in this fluid situation, it is essential (a) for Israel Government to start establishing some attainable balance of payment goals and projections going beyond just one year (b) that these goals and projections should give expression to broad economic policy reforms such as outlined in CRANE D-30² and (c) any refunding operation should be related to these two steps rather than to emergency financial assistance.

It is also felt that focus United States influence might now be shifted from that of introducing foreign exchange budget and orderly financial procedures to that of attaining broader policy objectives. Former focus was of overriding importance at time Mikeseil report and essential prerequisite to broader economic reforms needed here. Time has now come for United States to use its aid to exert influence toward attaining type of economic reforms envisaged in CRANE D-30.

DAVIS

² Not printed.

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*The Secretary of State to the British Ambassador (Makins)*¹

SECRET

The Secretary of State presents his compliments to His Excellency the British Ambassador and has the honor to acknowledge the

¹ A similar note, not printed, was sent to the French Embassy on Mar. 11.