

No. 627

744A.3 MSP/6-1853

*Memorandum by the Deputy Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Jernegan) to the Secretary of State*¹

TOP SECRET

[WASHINGTON,] June 18, 1953.

Subject: Israel's Short-Term Debt

Discussion:

The Israelis are pressing DMS on this subject. Mr. Eban has written Mr. Stassen asking (a) for assistance in meeting a threatening financial crisis by making available to the Israel Government, to pay debts, \$7 million remaining from unused 1953 appropriations already voted for Israel; and (b) for his intercession in securing a \$75 million loan from the Eximbank to enable Israel to consolidate a portion of its present indebtedness. This amounts to \$386 million, of which \$111 million matures in the twelve months April 1953-March 1954. It is necessary to determine the Department's position: to enable DMS to avail of necessary policy guidance; and to enable an appropriate reply to be made to the Israelis if, as is likely, they also approach the Department.

The debt of \$386 million has gradually accumulated during the past four years, and without a substantial increase in private gifts to Israel there is no immediate prospect of reduction in its total. Debts are owing to the Eximbank, American and foreign private interests, and for liabilities arising out of current import transactions.

We are also informed that Israel's current requests for military equipment to be purchased for cash from the U.S., Canada, the U.K., and France, total \$40,000,000. A specific inquiry has been reported from London for 40 Centurion tanks.

The Israeli case is as follows:

1. Provision of \$7 million forthwith will tide them over a present crisis, prevent default between now and July 31st.

2. Provision of a loan or grant of \$75,000,000 would enable Israel to consolidate its debt and distribute future maturities on a manageable schedule, maintain its credit position with resultant economies in carrying charges, and prevent further impairment to Israel's relations with the Arabs, who count on economic collapse in Israel and therefore are reluctant to talk peace. It would avert an internal crisis which might follow external default.

¹ Sent through the Executive Secretariat.