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At present, Zurich, February 9th 1939.

Personal and Confidential.

When I arrived in Budapest for the negotiation regarding the Mutual Credit, I found the unrest and - I can safely say - excitement about the international political situation which exists all through Europe greater than anywhere else.

With the annexation of Austria the close-in on Hungary by Germany began. The limitation of her freedom in every respect became still greater after the occupation of the Sudeten District by Germany.

Before the Czecho-Slovakian crisis, when Admiral Horthy, the Governor of Hungary and the Prime Minister Mr. Imredy were in Germany, Hitler intimated to Imredy that he expected no objection if Germany wanted her troops march through Hungary. Imredy's refusal to such plan was considered by Hitler as an unfriendly attitude and resulted in Germany making Hungary's life unpleasant in all kind of ways. This proved Hungary very clearly that it had to cope with the new neighbour; the pressure of Germany forced the Hungarian Foreign Minister Kanya to resign and Imredy to make all sorts of concessions to Germany, beyond what the majority of Hungarians considers as necessary, in order to create a bearable atmosphere.

Germany "kindly" agreed to purchase the Hungarian wheat harvest, some people say at 50, others at 100 % above world market prices. Of course this price is not paid in cash, but is forced upon the Hungarians as finished products, at prices which are also 50 to 100 % above the actual selling price of these goods. The result is that the farmer gets more money for his harvest from Germany than from any other buyer, while the Hungarian consumer has to pay so much more for the German products. In addition hereto, most of these goods which the Hungarians have to take in order to prevent their Mark-Balance from becoming too big, are of a kind which they do not need in large quantities.

This clearing which now takes place between Hungary and Germany reduces of course Hungary's receipts of foreign exchange considerably, probably to almost nothing. I was told that the Hungarians have no other choice for the sale of their farm products, because firstly Germany considers it as an unfriendly act if they sell to somebody else and are very ingenious in creating all kind of difficulties to Hungary, small and big ones, if Hungary begins to investigate possibilities of an other outlet for their products. Secondly, Germany makes the freight rates for the transit of Hungarian farm products through Germany so unfavourable

that they cannot export to their former customers and thirdly the farmer of course is anxious to receive the high price which Germany and nobody else is prepared to pay.

The action against the Jews in Hungary is according to the general feeling also only a concession to Germany. There was never an antisemitic issue in Hungary. Besides practically all Hungarian families among them the very best count among them Jewish members. The Hungarians themselves are either big land owners or small farmers. The entire trade has for centuries been in the hands of the Jews. The present action against them therefore puts the whole economic structure of Hungary in disorder. It was said that Germany takes the stand that Hungary is a farming country, who does not need any industries and can buy all finished goods they require from Germany.

Mr. Tibor von Eckhardt, one of the leaders of the opposition told me that Admiral Horthy declared him definitely that he would not sign the law concerning the Jews, as suggested by Mr. Imredy. Imredy on the other hand told me that he is confident, he can pull through irrespective of the enormous difficulties which he clearly sees. It seems interesting to note that among the leading Hungarians who with the whole Nation always considered the restoration of their former boundaries as their unchangeable goal, many regretted the necessity to accept the territory which Germany gave them after the dismemberment of Czecho-Slovakia and which Imredy accepted. They claim that they received only cities without any territory economically necessary for them and are now compelled to support these cities who have no means to support themselves any more, as they did as part of Czecho-Slovakia. Hungarians themselves admit, that Czecho-Slovakia was better organized and better managed than any of the States who now received slices cut out of Czecho-Slovakia. The prices for farm products are much higher than they are in Hungary and consumer goods were much cheaper. The worst off seem to be the parts of Czecho-Slovakia which got now under Polish control.

The Jews are thinking only of liquidating their property and leaving the country. Therefore the whole sale and detail trade banking etc. in one word everything, pertaining to commerce, begins to be disorganized. I have been offered participation in and the entire stock of first class industrial enterprises at the most ridiculous prices. This tendency is strengthened by German emissaries who visit leading shop keepers in Budapest and elsewhere and ask them at what price they are willing to sell out, adding, they should do so rather now, as in two months Germany will be in entire control of Hungary. Friends of mine in the

Finance Ministry and the National Bank hinted that all the Pengös smuggled to Switzerland and Holland are bought up by Germany to be used for such schemes. While I was in Hungary the Pengö which a short while ago rated about sfrs 86 (- \$ 19.25) for 100 Pengös could be bought in Switzerland at about sfrs 32 (- \$ 7.25) for 100 Pengös in notes on certain days.- In one word I got the most deplorable picture of the present situation in Hungary and the further outlook.

The general tension got somewhat less acute after the meeting of Ribbentrop and Beck at Warsaw, which took place while I was in Budapest. I was told by leading Hungarian politicians that Beck had not agreed to permit the building - or Ribbentrop had conceded not to build - a German owned high-way through the Polish Corridor as Germany is building one now through Czecho-Slovakia, with high fences or barbed wire on both side all along so that Czecho-Slovakia then will be divided in two parts by this road, having bridges from time to time to cross from one part of their territory to the other. Further more Ribbentrop has promised that Germany would not attack Russia for the next four months and no steps be taken towards the formation of the Ukrainian State which would mean a dismemberment of Poland, Russia and partly also of what has been left of Czecho-Slovakia. This was the first indication that Germany had given up pushing towards the South East which they had propagated for the last couple of months.

The Hungarians realize that although there may therefore perhaps be no imminent danger of a military venture of Germany towards the East, the economic and political pressure by Germany continues apart from the fact that this change must be considered only as a breathing spell.

This is about the picture I saw in Hungary.