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Collection Name EXECUTIVE SECRETARIAT, NSC: COUNTRY FILE

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File Folder SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION
UPDATES (7/9/82) (2)

FOIA

F03-002/5

Box Number 19

SKINNER

128

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
169157	CABLE	021907Z JUL 82	1	7/2/1982	B1
169158	REPORT	RE HUNGARY (PAGE 8 ONLY) PAR 10/11/2010 CREST 748-19-50-1-1	1	7/3/1982	B1
169159	CABLE		2	6/28/1982	B1
169160	CABLE	021354Z JUL 82 R 6/5/2013 CREST NLR-748-19-50-2-0	4	7/2/1982	B1
169161	CABLE	011035Z JUL 82 R 6/3/2013 CREST NLR-748-19-50-3-9	2	7/1/1982	B1
169162	CABLE	072053Z JUL 82	1	7/7/1982	B1
169163	CABLE		1	7/6/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

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169165 CABLE		3	7/6/1982	B1
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169168 CABLE		2	7/1/1982	B1
169169 CABLE		2	7/6/1982	B1
169170 CABLE	MADRID 7078	1	7/6/1982	B1
169171 CABLE	BANGKOK 6062	2	7/2/1982	B1

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169157	CABLE 021907Z JUL 82	1	7/2/1982	B1

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169158	REPORT RE HUNGARY (PAGE 8 ONLY)	1	7/3/1982	B1

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RUFF UMBRA

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169158

HUNGARY: Financial Pressure Eases

West German and French support could help Hungary out of its immediate hard currency bind, but Budapest's financial position will remain precarious at least for the remainder of the year. (C)

A West German [redacted] cabinet-level decision has been made to support additional credits for Hungary to avert a rescheduling in 1982. The cabinet fears a rescheduling would threaten Budapest's program of economic and political liberalization. (C)

French bankers anticipate that, as a result of President Mitterrand's visit to Budapest next week, Paris will instruct them to provide new credits to Hungary. French banks have been reluctant to give new loans to Hungary unless backed by a government guarantee. (C)

[redacted] Budapest needs at least \$300 million to remain afloat this quarter. Budapest is counting on arranging a \$250 million credit from Western banks that are concerned about Hungary's financial position. (C NE OC)

25

[redacted] also is worried about further deposit withdrawals. According to US Embassy officials, Budapest may therefore have to seek IMF credits this quarter. (C NE OC)

25

Comment: West German and French Government support would help Budapest in its efforts to raise \$250 million from Western commercial banks and \$300 million from the Bank for International Settlements. Access to more BIS funds depends, however, upon agreement with the IMF on credits tied to a stabilization program that probably will require Budapest to take tougher measures to curb imports. (C) -CIA, DIA, NSA-

BY CW NARA DATE 1/13/12
CFEST

~~Top Secret~~

3 July 1982

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169159	CABLE	2	6/28/1982	B1

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~~C O N F I D E N T I A L~~ SECTION 01 OF 02 BUDAPEST 3803

EXDIS
PARIS ALSO FOR OECD; LONDON ALSO FOR ASSISTANT SECRETARY-
DESIGNATE BURT; PARIS ALSO FOR AMB. MEISSNER
E. O. 12065: RDS-1 7/2/02 (BERGOLD, HARRY E.) OR-M
TAGS: EFIN, IMF, HU
SUBJECT: HUNGARY'S STRATEGY FOR AVOIDING RESCHEDULING--A
CONVERSATION WITH A NATIONAL BANK OFFICIAL
REF: A. BUDAPEST 3762; B. BUDAPEST 3561; C. BUDAPEST 3750
D. BUDAPEST 2942; E. BUDAPEST 2135

1. (C-ENTIRE TEXT.)
2. SUMMARY: TO REVIEW FINANCIAL DECELOPMENTS IN HUNGARY, ECON OFFICER AND VISITING U. S. OFFICIAL MET JULY 2 WITH EDE BAKO (STRICTLY PROTECT), THE NATIONAL BANK'S GENERAL MANAGER FOR ECONOMICS AND IMF RELATIONS. BAKO GAVE SOME INDICATION OF HUNGARY'S EXPECTATIONS REGARDING THE USE OF IMF CREDIT FACILITIES AND AGREE-
MENT ON A PROGRAM OF ADJUSTMENT. BAKO'S MOST OPTIMISTIC TIME-
TABLE WOULD HAVE CONSULTATIONS IN LATE OCTOBER AND POSSIBLE AGREE-
MENT ON A PROGRAM OF ADJUSTMENT BY DECEMBER 1982. HOWEVER, THE
NATIONAL BANK'S USE OF THE FUND'S COMPENSATORY FINANCING FACILITY
SEEMS POSSIBLE FOR 1982, HE SAID. BAKO SAID THAT THE POLITICAL
LEADERSHIP IS AGAIN CONSIDERING THE FEASIBILITY OF CUTS IN
DOMESTIC CONSUMPTION (AND DEFENSE EXPENDITURES) TO MAKE FOODSTUFFS
AVAILABLE FOR EXPORT. THESE MEASURES MAY STILL BE INADEQUATE TO
AVERT RESCHEDULING IN 1982, IF THERE IS A RESUMPTION IN SHORT-
TERM DEPOSIT WITHDRAWALS. END SUMMARY.
3. IMF PROGRAM OF ASJUSTMENT AND CREDITS: BAKO INDICATED
THAT SOME PRELIMINARY DISCUSSIONS REGARDING AN IMF PROGRAM
OF ADJUSTMENT TOOK PLACE EARLIER IN JUNE, DURING THE VISIT OF IMF
AND IBRD TEAMS. BUT, BEFORE ANY AGREEMENT ON SUCH A PROGRAM CAN
TAKE PLACE, THERE WOULD NEED TO BE ANOTHER ROUND OF CONSULTATIONS.
THE EARLIEST HE FORESAW THESE WOULD BE IN LATE OCTOBER OR
NOVEMBER. HIS MOST OPTIMISTIC TIMETABLE HAD AGREEMENT ON A PRO-

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GRAM, AND PERHAPS A DRAWING ON IMF FACILITIES, BY DECEMBER 1982. BAKO HOPED HUNGARY COULD DRAW ON ITS FULL QUOTA OF ABOUT 400 MILLION DOLLARS.

4. SECOND HALF 1982 CREDIT NEEDS: BAKO CLAIMED HUNGARY RAISED NEARLY 500 MILLION IN MEDIUM-TERM CREDITS DURING THE FIRST HALF OF 1982, INCLUDING CREDITS FROM SUPPLIERS. (THIS EXCLUDES AND BIS LENDING.) IN THE SECOND HALF, HUNGARY WOULD NEED ANOTHER 500 MILLION DOLLARS, ASSUMING CURRENT ACCOUNT EQUILIBRIUM FOR THE WHOLE OF 1982. HE FORECAST THE NATIONAL BANK SOURCES AS FOLLOWS:

	MILLIONS OF DOLLARS
BIS STANDBY (TO BE DRAWN UPON ONLY IN AN EMERGENCY)	300
IMF COMPENSATORY FINANCING FACILITY	150
MANUFACTURERS HANOVER CLUB LOAN	250
OTHER CREDITS (E.G. OFFICIAL)	100
TOTAL	800

BAKO SAID THE BIS STANDBY WOULD IMPROVE COMMERCIAL BANK CONFIDENCE IN HUNGARY.

5. TRADE PERFORMANCE IN 1982: DURING THE FIRST FIVE MONTHS OF 1982, HUNGARY ACHIEVED A HARD CURRENCY TRADE SURPLUS OF 200 MILLION DOLLARS (CONTRACT BASIS, I.E., EXCLUDING FREIGHT AND INSURANCE CHARGES). A 500 MILLION TRADE SURPLUS WOULD BE NEEDED IN THE LAST SEVEN MONTHS OF 1982 TO ACHIEVE CURRENT ACCOUNT EQUILIBRIUM. HE THOUGHT THIS GOAL COULD BE ACHIEVED IF HUNGARY'S POLITICAL LEADERS WOULD AGREE TO NEW MEASURES NOW UNDER CONSIDERATION TO EXPAND EXPORTS.

6. NEW MEASURES: BAKO SAID THAT HUNGARY WAS ATAIN CONSIDERING TOUGH MEASRURS FOR IMPROVING ITS TRADE SURPLUS BY A MARGIN LARGE ENOUGH TO ACHIEVE A CURRENT ACCOUNT SURPLUS IN 1983. NEW MEASURES BEING CONSIDERED ARE:

-- REDUCTION IN DOMESTIC CONSUMPTION VIA PRIVE INCREASES. BAKO SAID SUCH REDUCTION IN CONSUMPTION WOULD FREE UP BASIC FOOD

PRODUCTS AND OTHER GOODS WHICH COULD BE EXPORTED FOR HARD CURRENCY. HUNGARY WOULD ALSO CONSIDER REDUCTIONS OF SOME CONSUMER IMPORTS, INCLUDING COFFEE. MEAT PRICES WOULD BEINCREASED. HE WOULD HOPE TO SEE PRICES RISE BY 7.5 PERCENT AND WAGES BY ONLY 4.5 PERCENT, WITH PURCHASING POWER THUS FALLING BY 3 PERCENT.

-- DEVALUATION OF THE FORINT BY 5 TO 10 PERCENT.

-- REDUCED BUDGET OUTLAYS, INCLUDING DEFENSE EXPENDITURES.

THE DECISION ON THESE STEPS COULD BE MADE IN THE NEXT FEW WEEKS. BAKO BELIEVES THE REGIME WILL IMPLEMENT AN AUSTERITY PROGRAM, WITH ONLY THE MAGNITUDE YET TO BE DETERMINED.

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C O N F I D E N T I A L SECTION 02 OF 02 BUDAPEST 3803

EXDIS
PARIS ALSO FOR OECD; LONDON ALSO FOR ASSISTANT SECRETARY-
DESIGNATE BURT; PARIS ALSO FOR AMB. MEISSNER

7. PROSPECTS FOR 1983: BAKO HOPED THAT THE NEW MEASURES
WOULD RESULT IN A TRADE SURPLUS OF ONE BILLION DOLLARS NEXT
YEAR, LEADING TO A CURRENT ACCOUNT SURPLUS OF 400 OR 500 MILLION
DOLLARS.

8. POLITICAL IMPLICATIONS: WE ASKED BAKO WHY THESE MEASURES,
UNDER CONSIDERATION ALSO IN THE SPRING, WERE NOT ADOPTED AT THAT
TIME. HE SAID THE IMF TEAM HERE IN JUNE ALSO NOTED THAT THERE
WAS A LACK OF POLITICAL WILL IN THIS REGARD. BAKO FELT THAT A 3
OR 4 PERCENT REDUCTION IN REAL WAGES WAS POLITICALLY TOLERABLE AND
THAT DEPUTY PRIME MINISTER MARJAI AGREED WITH THIS VIEW. OPPOSING
SUCH REDUCTIONS IN PURCHASING POWER WAS THE NATIONAL PLANNING
OFFICE'S FALUVEGYI AND FINANCE MINISTER HETENYI. BAKO HOPED
A POLITICAL DECISION WOULD BE REACHED BEFORE AUGUST OR
SEPTEMBER. CONTINUING, BAKO SAID HUNGARY'S POLITICIANS
HAD A CLEAR CHOICE:
-- CONTINUE WITH SLOGANS OF PAST TWO YEARS REGARDING THE
INVIOABILITY OF MAINTAINING LIVING STANDARDS AND RUN THE RISK
OF RESCHEDULING; OR
-- REDUCE PURCHASING POWER AT HOME IN ORDER TO MAKE
AVAILABLE GOODS AND RESOURCES FOR EXPORT.
BAKO SAID THAT RESCHEDULING COULD LEND SUPPORT TO CONSER-
VATIVE ELEMENTS, NOW IN THE MINORITY, WHO ARGUE FOR GREATER
ECONOMIC TIES WITH CEMA. BAKO SAID THAT THE USSR WOULD POINT
TO A HUNGARIAN RESCHEDULING AS AN EXAMPLE OF THE FAILURE OF TRADE
WITH THE WEST. HE REFUSED TO SPECULATE ON WHICH HUNGARIANS
MIGHT BE BLAMED IN THE EVENT OF A RESCHEDULING.

9. COMMENT: TO TAKE INTO ACCOUNT THE PROBLEMS OF DRAWING
SOON ENOUGH ON IMF CREDIT FACILITIES, BAKO'S FIGURES FOR
THE SECOND HALF OF 1982 HAVE BEEN MODIFIED FROM WHAT HE

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PAGE 02 OF 02 BUDAPEST 3803

DTG: 021354Z JUL 82 PSN: 045496

PROVIDED EARLIER (SEE BUDAPEST 3763). GIVEN THE TIMETABLE BAKO GIVES US FOR IMF CONSULTATIONS, IT APPEARS UNLIKELY THAT HUNGARY WILL BE ABLE TO DRAW UPON ITS QUOTA FACILITY DURING 1982, ALTHOUGH BAKO DOES HOPE TO TAP COMPENSATORY FINANCING CREDITS. WITH A RESCHEDULING APPEARING MORE LIKELY, WE BELIEVE MARJAI MIGHT HAVE A BETTER CHANCE OF GETTING SOME SUPPORT FOR THESE MEASURES. BUT THERE IS A DANGER THAT THE POLITICAL LEADERSHIP WILL WATER DOWN CONSIDERABLY THE NATIONAL BANK'S PROPOSALS FOR CUTTING DOMESTIC CONSUMPTION.

10. WE BELIEVE THAT THE MEASURES UNDER CONSIDERATION COULD BE EFFECTIVE IN ACHIEVING A CURRENT ACCOUNT BALANCE DURING THIS YEAR. BUT THERE IS ONE OBVIOUS PITFALL WHICH BAKO HIMSELF RECOGNIZES. MOSTLY LIKELY CUSTOMERS FOR FOOD AND AGRICULTURAL EXPORTS ARE OTHER CEMA OR THIRD WORLD COUNTRIES NOW EXPERIENCING HARD CURRENCY SHORTAGES OF THEIR OWN. ANOTHER KEY PROBLEM IS DEBT STRUCTURE: I. E. THE NATIONAL BANK'S 1.7 BILLION DOLLARS IN SHORT-TERM CREDITS WHICH COULD STILL BE WITHDRAWN DURING THE COURSE OF 1982.

1. BAKO CLEARLY UNDERSTANDS THAT THE LEADERSHIP FACES THE DIFFICULT CHOICE OF CONTINUING PRESENT POLICIES WHICH ALMOST CERTAINLY WILL RESULT IN RESCHEDULING, OR OF IMPLEMENTING A TOUGH AUSTERITY PROGRAM TO REDUCE HUNGARY'S FINANCING REQUIREMENT AND RESTORE CREDITOR CONFIDENCE IN BUDAPEST'S ECONOMIC CONTROL. THE DECISION TO UNDERTAKE SUCH A PROGRAM, WHICH IMPLIES A 3 TO 4 PERCENT DECLINE IN LIVING STANDARDS NEXT YEAR, WILL BE A TOUGH TEST OF THE REGIMES CONFIDENCE IN ITS ABILITY TO JUSTIFY AUSTERITY TO THE POPULACE AND TO ELICIT ITS COOPERATION. END COMMENT.
BERGOLD
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E. O. 12065: RDS-1 7/1/02 (BERGOLD, HARRY E., JR.) OR-M
TAGS: EFIN, IMF, EEWT, HU
SUBJECT: NATIONAL BANK OFFICIAL ON HUNGARY'S THIRD QUARTER
PROSPECTS
REF: BUDAPEST 3566

1. ~~(ENTIRE TEXT.)~~

2. ECON OFFICER MET JUNE 25 WITH EDE BAKO (STRICTLY PROTECT), THE NATIONAL BANK'S GENERAL MANAGER FOR ECONOMICS AND RELATIONS WITH THE IMF/WORLD BANK. BAKO WAS IN A SOMBER MOOD. HE SAID HUNGARY FACED RESCHEDULING DURING THE THIRD QUARTER IF THE MANUFACTURERS HANOVER (MH) CLUB LOAN WAS UNSUCCESSFUL. HE NOTED MH HAD RECEIVED A MANDATE TO ORGANIZE THE LOAN BUT NOW SEEMS TO BE STALLING. BAKO SAID THAT MH HAD MADE THEIR EFFORT CONDITIONAL ON THE NATIONAL BANK PROVIDING FAR MORE DETAIL ABOUT HUNGARY'S EXTERNAL DEBT AND PAYMENTS POSITION THAN THE IMF RECEIVED. HE IMPLIED THAT THIS OPENNESS MAY HAVE BACKFIRED IN THAT IT REVEALED TO PROSPECTIVE PARTICIPANTS IN THE MH CLUB LOAN THE NATIONAL BANK'S VULNERABILITY TO FURTHER WESTERN BANK REDUCTIONS IN SHORT-TERM CREDITS, AS WELL AS HUNGARY'S DETERIORATING FINANCIAL POSITION. |X

3. IN RESPONSE TO ECON OFFICER'S REQUEST, BAKO REVIEWED THE NATIONAL BANK'S THIRD QUARTER PROSPECTS. HE ESTIMATED HUNGARY NEEDED TO BORROW VERY SHORTLY AT LEAST 300 MILLION DOLLARS TO AVERT RESCHEDULING. APPROXIMATELY 200 MILLION WAS NEEDED FOR REPAYMENT OF MEDIUM-TERM OBLIGATIONS AND ABOUT ANOTHER 100 MILLION TO COVER THE ANTICIPATED CURRENT ACCOUNT DEFICIT DURING THE THIRD QUARTER. BUT THAT LEFT NO MARGIN COVERING A FURTHER LOSS OF DEPOSITS AT THE NATIONAL BANK. |X

4. CONTINUING, BAKO REFERRED TO THE OBVIOUS DANGER POINT IN HUNGARY'S DEBT STRUCTURE: THE 1.7 BILLION DOLLARS OF SHORT-TERM LIABILITIES (AS OF THE END OF MARCH 1982). BAKO IMPLIED THAT THIS POSITION WOULD BE UNCHANGED AT THE END OF JUNE. BAKO SAID THAT BANKERS HAD GIVEN THE NATIONAL BANK ASSURANCES ON 1.5 BILLION DOLLARS OF HUNGARY'S SHORT-TERM LIABILITIES. THAT IS, HE EXPECTED 1.5 BILLION DOLLARS TO BE ROLLED OVER BY LENDING INSTITUTIONS AND CLAIMED THE NATIONAL BANK HAD "GENTLEMEN'S AGREEMENTS"

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TO THAT EFFECT. BUT BAKO FEARED THAT ABOUT 200 MILLION DOLLARS IN DEPOSITS AT THE NATIONAL BANK (MOSTLY FROM CEMA BANKS) COULD BE WITHDRAWN DURING THE THIRD QUARTER.

5. THUS, BAKO REASONED, EVEN WITH 300 MILLION IN NEW CREDITS FORTHCOMING IN THE THIRD QUARTER, HUNGARY FACED THE PROSPECT OF LOSING 200 MILLION IN DEPOSIT WITHDRAWALS. MOREOVER, HUNGARY'S RESERVES WOULD BE INADEQUATE TO HANDLE TO HANDLE SUCH A LOSS. ALTHOUGH RESERVES WERE NOW 300 TO 400 MILLION DOLLARS, ONLY 100 MILLION COULD BE READILY MOBILIZED DURING THE THIRD QUARTER.

6. DURING THE FOURTH QUARTER, BAKO FELT THAT THE NATIONAL BANK COULD DRAW UPON IMF FACILITIES. ALTHOUGH NOT SPECIFYING THE AMOUNTS, HE SEEMED CONFIDENT THAT HUNGARY WOULD MANAGE DURING THE REST OF 1982 ONCE IMF CREDITS BECAME AVAILABLE.

7. COMMENT: WE BELIEVE IT WOULD BE USEFUL TO TABULATE WHAT BAKO WAS CONVEYING:

PROJECTED CASH FLOW TABLE THIRD QUARTER 1982
(MILLIONS OF DOLLARS)

	SOURCES	USES
CURRENT ACCOUNT BALANCE		100
MEDIUM TERM REPAYMENTS		200
ANTICIPATED DEPOSIT		
WITHDRAWALS		200
MH CLUB LOAN	250	
BIS CREDIT	300	
ADDITION TO RESERVES		50
TOTAL	550	550

IN SHORT, FOR HUNGARY TO AVERT RESCHEDULING IN THE THIRD QUARTER, IT WILL NEED BOTH THE BIS AND THE MANUFACTURERS HANOVER CLUB LOAN. MOREOVER, THE NATIONAL BANK WILL NEED TO KEEP DEPOSIT WITHDRAWALS TO BELOW 300 MILLION DOLLARS (ASSUMING 100 MILLION IN RESERVES COULD BE MOBILIZED), AND THE HUNGARIAN ECONOMY WOULD NEED TO

SHOW AT LEAST A SMALL IMPROVEMENT IN ITS TRADE PERFORMANCE OVER THE FIRST QUARTER.

8. WE HAVE RECEIVED AN INDICATION THAT, GIVEN THE ABOVE SITUATION, HUNGARY MAY SEEK IMF ASSISTANCE IN THE THIRD QUARTER, NOT THE FOURTH QUARTER AS INDICATED EARLIER. UP TO NOW, WE HAVE ESTIMATED HUNGARY'S FOURTH QUARTER NEEDS TO AMOUNT TO 710 MILLION DOLLARS (510 MILLION FOR REPAYING THE BIS AND 200 MILLION DOLLARS FOR MEETING MEDIUM-TERM REPAYMENTS). THE NATIONAL BANK'S EXPECTATIONS ARE THAT THE IMF WILL LEND 500 MILLION DOLLARS DURING 1982.

9. BAKO EXPECTS TO BE IN WASHINGTON FOR DISCUSSIONS WITH THE IMF DURING THE WEEK OF JULY 5, PRESUMABLY TO DISCUSS THE CREDITS THE FUND IS PREPARED TO GRANT AND THE CONDITIONALITY ATTACHED TO ITS LENDING. BAKO WILL BE STAYING AT THE WATERGATE HOTEL. HE INDICATED HE WOULD BE PREPARED TO MEET AGAIN WITH DEPARTMENT OFFICERS. WE BELIEVE IT WOULD BE USEFUL FOR DEPARTMENT OFFICER TO DEBRIEF BAKO ON HUNGARY'S DISCUSSIONS WITH THE IMF. BERGOLD
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169162	CABLE 072053Z JUL 82	1	7/7/1982	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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169163	CABLE	1	7/6/1982	B1

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169165	CABLE	3	7/6/1982	B1

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169166	CABLE	3	7/6/1982	B1

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169167	CABLE	2	7/2/1982	B1

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169168	CABLE	2	7/1/1982	B1

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169169	CABLE	2	7/6/1982	B1

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169170	CABLE MADRID 7078	1	7/6/1982	B1

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169171	CABLE BANGKOK 6062	2	7/2/1982	B1

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DUE:

STATUS IX FILES

FOR ACTION

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