



**Director of  
Central  
Intelligence**

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*Tuesday  
3 May 1983*

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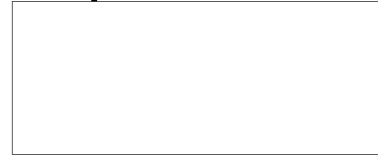
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**EL SALVADOR: Insurgent Actions**

*Guerrilla attacks in eastern La Union Department on Friday demonstrate again that large-scale government operations can only temporarily disrupt insurgent plans.* 

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An attack on a post at the Honduran border destroyed the customs house and damaged the Pan-American Highway bridge linking El Salvador and Honduras. The Honduran military detachment at the bridge also became involved in the action. 


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The other attack was on Santa Rosa de Lima, the second-largest town in La Union. 


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The Army has announced the conclusion of another sweep against guerrilla strongholds in the Guazapa volcano area north of San Salvador. The government claims to have killed nearly 60 guerrillas. 

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**Comment:** The attacks in La Union follow an Army sweep of the area. In the absence of a permanent government presence, much of northern La Union and neighboring Morazan Departments are now under de facto insurgent control. 

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**SPAIN-NICARAGUA: Financial Aid**

Spain agreed on 25 April to extend \$45 million in credits to Nicaragua over the next three years for the purchase of Spanish goods. Madrid gave Managua \$25 million in credits last year, and the total of \$70 million makes Spain one of Nicaragua's largest European lenders. A Spanish diplomat in Managua told US officials that he believes Madrid does not expect repayment. [redacted]

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**Comment:** The new credits underscore the Gonzalez government's willingness to use public funds to increase Spain's share of international trade with Latin America. Because they are earmarked for the purchase of Spanish goods, the credits will help stimulate Spain's lagging export industries. Prime Minister Gonzalez probably hopes the credits will have a moderating effect on the Sandinistas as well as loosen Nicaragua's economic ties to Eastern Europe. The Sandinistas, meanwhile, will portray the credits as a sign of international acceptance. [redacted]

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**EAST GERMANY-USSR: Honecker's Visit**

East German leader Honecker, who arrives in Moscow today for the first visit to the USSR by an East German party or government leader since Brezhnev's death, is likely to seek assurances of Soviet esteem and more favorable economic terms. Honecker has met only a few times with General Secretary Andropov, and [redacted] the US Embassy in East Berlin report that some party officials are uneasy about Soviet intentions. [redacted]

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**Comment:** Honecker probably will interpret his invitation to be the first East European leader to hold formal consultations with Andropov as a sign that the USSR regards East Germany as the most important of its allies. A meeting with Andropov may allay somewhat Honecker's concern that the USSR is taking East Germany for granted in political matters. He will have difficulty, however, securing any economic concessions. Although East Germany is the USSR's largest trading partner, it has had little success in dissuading the Soviets from cutting deliveries of oil at subsidized prices and taking other damaging action. [redacted]

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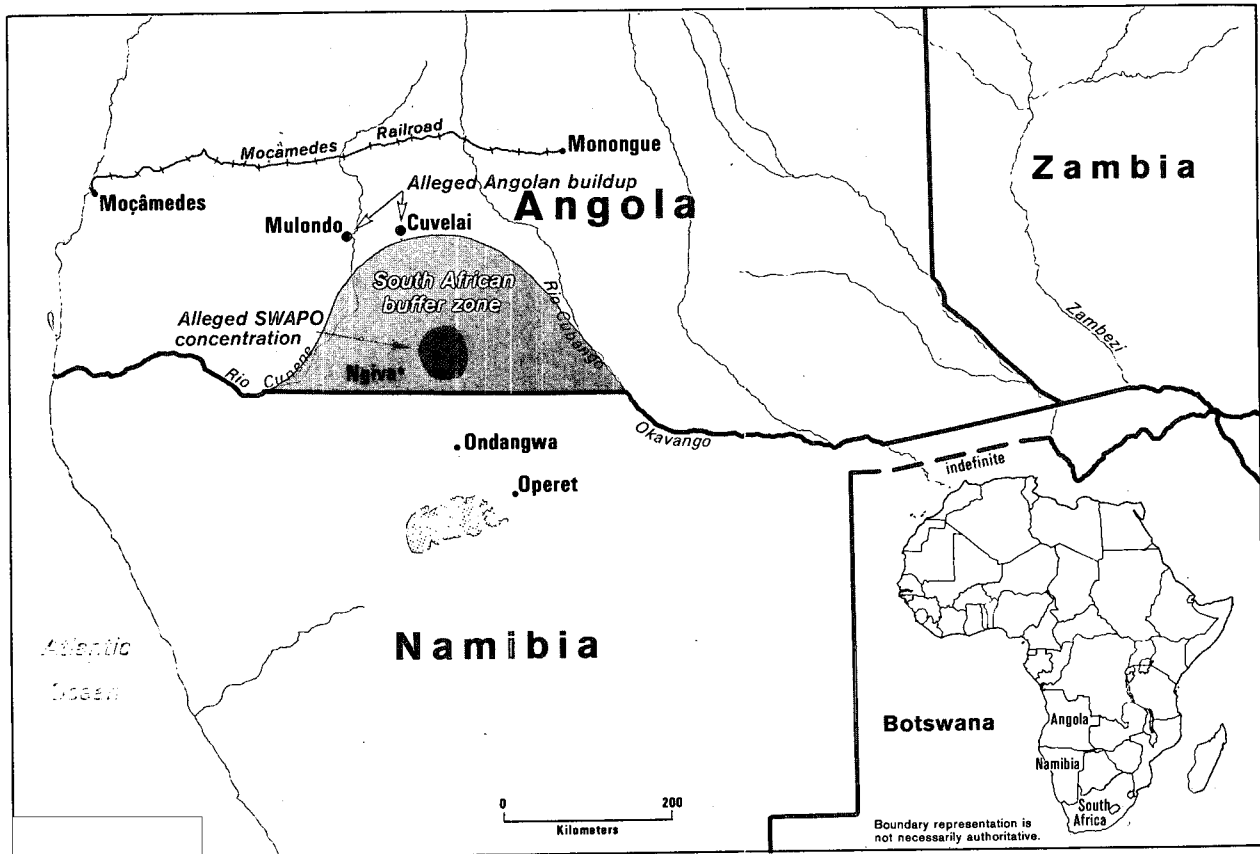
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**SOUTH AFRICA-ANGOLA: Military Movements**

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South African officials told the US defense attache yesterday that a new Angolan and SWAPO buildup is under way in southern Angola.

[Redacted]

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**Comment:** The South Africans apparently are augmenting their force of between 1,700 and 2,500 troops already believed to be operating in southern Angola. Their recent allegations of a buildup of Cuban, Angolan, and SWAPO forces have not been substantiated.

[Redacted] Pretoria is increasing its activity in the buffer zone and may launch larger attacks. [Redacted]

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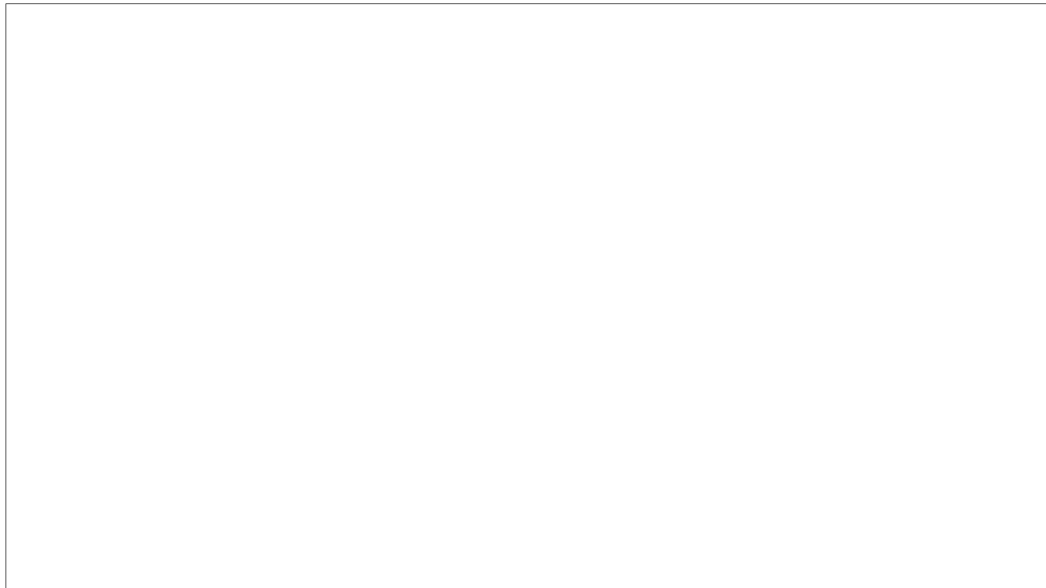
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**SOUTH KOREA-NORTH KOREA: Decision on Meeting Site**

The Council of the Inter-Parliamentary Union, which met in Helsinki on Friday, agreed overwhelmingly to keep Seoul as the site for the Union's annual conference in October. Following the rejection of the motion inspired by P'yongyang to change the site, the North Korean delegates say they will not attend the meeting in Seoul. The South Korean National Assembly announced yesterday it will invite all IPU members to Seoul, including 350 delegates from Communist countries. [Redacted]

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**Comment:** The North Koreans presumably will urge the Soviets and others to boycott the meeting. The USSR, however, already has attended several international meetings in South Korea, keeping open the possibility of participating in the Olympic games in Seoul in 1988.

[Redacted]

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South Korean officials will remain concerned that the North Koreans may resort to terrorism to show that Seoul is not safe for international gatherings. [Redacted]

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### USSR: Party Post Filled

Soviet media indicate that Yegor Ligachev, formerly a regional Communist Party chief, has been appointed head of the party's Organizational Work Department in Moscow. This office administers party personnel appointments throughout the USSR. It had been supervised by Ivan Kapitonov, who remains a member of the party Secretariat. [Redacted]

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**Comment:** General Secretary Andropov has overall authority for filling key posts. He has to control this position to establish his supremacy in the party. There is no known connection between Ligachev and Andropov. Party secretary Chernenko has been out of public view for over a month, however, and the announcement at this time suggests Andropov is responsible for the appointment. [Redacted]

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### USSR: Long-Term Energy Program

A Soviet economist recently told the US Embassy in Moscow that the USSR will soon announce a 20-year energy program calling for some changes in energy policy involving goals beyond the current Five-Year Plan, which expires in 1985. Some investment is to shift from current oil production to exploration for new deposits, and investment in coal production is to rise. Future hard currency revenues will be obtained by raising gas exports and sustaining oil exports. To do this, the economist said gas would increasingly be substituted for oil in domestic use and domestic allocations of oil might be cut before oil exports, even though this would slow economic growth. [Redacted]

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**Comment:** The energy program is one of several new long-term efforts the Soviets are making to focus resources on major problem areas. It appears to be more practical than previous ones. The program will be difficult to carry out, however, because of growing competition for investment resources. In addition, planners are unlikely to make large cuts in domestic oil allocations without a reduction in exports. [Redacted]

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**Special Analysis****VENEZUELA: Gloomy Economic Outlook**

*Financial mismanagement and declining oil revenues are the two main causes of the continuing economic contraction and debt repayment problems in Venezuela—the largest South American trading partner of the US and the largest regional contributor of aid to Caribbean countries. President Herrera is reluctant to make tough economic adjustments because of the political costs. He probably will adopt stronger policies soon, however, to gain the support of bankers for prolonging the payments on \$13 billion in debts maturing this year. If Herrera fails to develop a coherent adjustment strategy, severe economic disruptions are likely, and these will be even worse if oil prices decline further. Whatever course the government takes, US exports to Venezuela almost certainly will decline, and Caracas will look to Washington for more financial help.*

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Venezuela is now paying the price for poor economic management that has undermined the confidence of foreign lenders. In January international bankers stopped refinancing debts that were coming due because Caracas was falling behind in its payments on more and more debts and because the government had no coherent plan to cope with declining oil earnings.

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Since March of last year, low confidence and persistent rumors of an impending devaluation have led Venezuelans to transfer funds abroad at rates exceeding \$500 million per month. Venezuela's reserves dropped by more than 50 percent, to approximately \$10 billion in only a year.

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Squabbling between the President's two main economic advisers, Finance Minister Sosa and Central Bank President Diaz Bruzual, has thwarted efforts to carry out difficult decisions. The government's poor handling of a three-tiered exchange rate system introduced in late February has caused import shortages, disrupting production without halting the capital flight the system was intended to stop.

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Last month Venezuela formally suspended payments of principal on most public debts until 1 July, postponing immediate financial problems while it negotiates with a team of international lenders to

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reschedule payment of debts falling due this year. To cultivate the good will of bankers, Sosa has indicated that additional austerity measures will be forthcoming, including more cuts in spending and imports, although he has not announced a timetable. [ ]

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**Oil Revenues Down**

Declining oil prices are creating further difficulties. To ease the financial impact of oil price cuts, Caracas had been maintaining oil earnings at the level of 1982 by producing until last month nearly 2 million barrels of oil per day, some 17 percent above OPEC production agreements. It also has been drawing down inventories for export. [ ]

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Revenues from petroleum exports account for 95 percent of the country's foreign exchange earnings. Even without another price cut, oil receipts probably will decline 20 percent this year, to about \$13 billion, undermining the country's capacity to pay for imports and to service its debts. [ ]

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**Tough Adjustments Needed**

Bankers, having lost confidence in Herrera's ability to manage the economy, are demanding a formal IMF agreement before they will refinance Venezuela's debt. With the President's Social Christian Party trailing far behind in the presidential campaign that is now under way, however, Herrera is resisting any adjustments that would raise unemployment and inflation in the short term. He probably will want to delay entering into any IMF program until after the election in December. [ ]

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Even if Herrera continues to avoid agreeing to the IMF's stringent requirements, Caracas will need some type of austerity program soon to cope with declining oil revenues. Such a program would be likely to cause GNP to decline at least a few percentage points and unemployment to rise to over 10 percent this year. Inflation could more than double, to 20 percent or so, because of a rise in import prices and the removal of some domestic price controls. [ ]

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The government probably will make sufficient adjustments to limit the current account deficit to \$2 billion, an amount that could be covered with existing reserves. In addition, Venezuela is likely to secure the grudging support of bankers for a reorganization of its debt to avoid more serious financial problems. If so, Caracas probably will lift the suspension on payments by the end of the year. [ ]

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If Caracas fails to develop an adjustment strategy, or if oil revenues plunge again, the shortage of foreign exchange and the difficulties in obtaining trade credits will force a 40-percent drop in imports. This would cause serious shortages of food and consumer goods, stimulating inflation and impeding industrial production. Venezuela's GNP could decline by about 10 percent and inflation could surge to 30 percent. [Redacted]

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Whether or not the government develops a tough adjustment strategy, worsening economic conditions probably will provoke more frequent demonstrations and strikes by labor. Domestic frustrations are focused mainly on Herrera's handling of the economy, however, rather than on the political system itself. As a result, military intervention is unlikely. [Redacted]

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Rising protectionism and a slowdown of capital investment will reduce Venezuela's opportunities for exports to the US. The Venezuelans are likely to seek US help—such as new trade credits or an emergency loan—in coping with their financial dilemma. Caracas probably will urge Washington to persuade US banks to refinance Venezuela's debts. [Redacted]

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