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The Director of Central Intelligence  
Washington, D.C. 20505

National Intelligence Council

NIC 03037-86  
25 June 1986

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

VIA: National Intelligence Officer for Warning

FROM: Robert D. Vickers  
National Intelligence Officer for Latin America

SUBJECT: Latin America Warning and Forecast Meeting  
June 1986

1. The following items were discussed at the Intelligence Community's Warning and Forecast Meeting held on 18 June 1986.

Mexico

2. If Mexico fails to obtain an IMF agreement by the end of June, President de la Madrid may well suspend payment on his country's foreign debt. This could happen as soon as 1 July when large debt payments (\$1.8 to \$2 billion) fall due. The 17 June replacement of Finance Minister Silva Herzog was probably intended to reduce differences on Mexico's economic team, possibly in preparation for taking stronger action.

- De la Madrid does not believe he can sell the tougher IMF demands to his constituents.
- He wants an agreement that would give him and Mexico some "breathing room."
- It is doubtful that Mexico would repudiate its debt obligation totally. A more likely scenario is one of delay in payment.
- A restraint on Mexico is the fear of hurting its international credit rating.
- Other Latin American debtor countries--especially Brazil and Argentina--will be watching the US reaction in hopes that they too might get some relief if Mexico succeeds.

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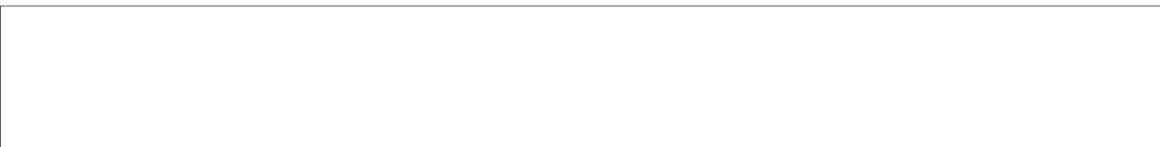
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- Regional US banks are unlikely to lend Mexico any more and would probably write off their loans rather than risk additional funding.
- Because of their large exposure, the major US banks are not yet at that point and would probably be willing to lengthen payments and even grant new funds.

WARNING ISSUE: Mexico may declare a debt moratorium if the IMF and international lenders continue to hold it to what it considers to be excessive demands in terms of reforms and austerity measures. Other debtors will watch the US reaction closely.

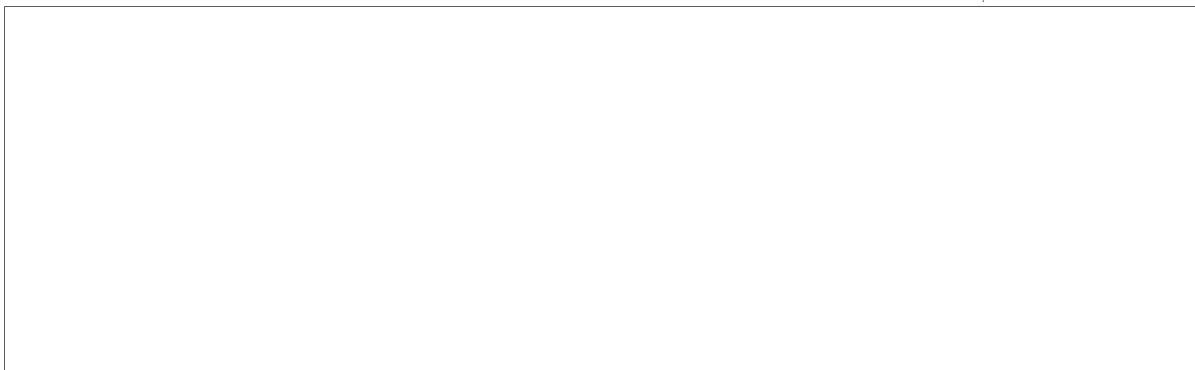


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### Haiti

3. President Namphy's public addresses on 4 and 7 June have had a calming effect on the Haitian populace. His announced timetable for elections was particularly well received. Minister of Interior and Defense, Colonel Regala also is reported to have improved his image with his recent public appearance; although pressure for his removal and that of Finance Minister Delatour has not totally dissipated and could easily flare up again. Meanwhile, the economy continues its downward trend adding to popular frustration and impatience.

- The Church hierarchy recently issued a statement of support for the government; this has been helpful.
- The military is relieved that the demonstrations have ended since they were preparing to react more forcefully against the crowds.



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- Two government-run companies that had been losing money are to close on 30 June. The resultant employment could lead to a resumption of demonstrations.
- Before they stopped, the demonstrations had begun to take on anti-US overtones.

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WARNING ISSUE: Although pressure on the Haitian government has eased as a result of the election timetable, violence could flare up again, and Namphy has few additional cards to play.



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### Nicaragua

4. There have been no major changes in the balance of forces since [redacted] (March 1986). However, there has been a modification in Sandinista troop disposition in recent weeks that is noteworthy. The bulk of Sandinista forces have dropped back from the Honduran border and have now formed a defensive line north of Lake Apanas. While this may lessen the likelihood of another large incursion into Honduras, that possibility should not be discounted.

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- The Sandinistas have fallen back tactically but have not permanently given up the territory. This may be only a rainy season strategy.
- The recent arrival of 10-11 helicopters will improve Sandinista reaction capability. Thus far, they have not successfully used helicopters against the insurgents.
- There are believed to be enough Nicaraguan pilots for the new helicopters, consequently there will probably be no increase in the number of Cuban pilots present in the country.
- The Sandinistas realize that they will not eliminate the Contras any time soon.
- By the same token, they are not afraid of being overthrown by the Contras.

Meanwhile on the insurgent side:

- Morale is high, and they have enough arms for a while.
- They are searching for other sources of support--beside the US--and have been somewhat successful. They now have enough funding to keep them going at a reduced level.

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- They are operating more like guerrillas, hitting unguarded or poorly-guarded targets.
- Weaknesses include lack of strategic planning, no political infrastructure inside Nicaragua, leadership problems and logistics shortfalls.

WARNING ISSUE: The threat of a Sandinista attack into Honduras has receded with the advent of the rainy season, but their longer-term strategy is unclear.



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Participating in the NIO/Latin America Warning Meeting of 18 June 1986 were representatives of the following agencies:

- DIA: DIO/DIA
- DIAC/DB3C3
- DIA/DB3C2
- DIA/DC4A
- JSI-4B
- DIA/AT-5

Department of the Navy

National Security Agency

National Security Council

CIA Participants:

- ALA
- OGI
- OIA
- CRES
- LDA
- OIR
- OSWR
- DO/LA
- NIO/W
- ICS/HC
- NPIC
- FBIS
- JPRS

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