December 29, 1989
National Intelligence Daily for Friday, 29 December 1989

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Summary:

Although the same document was released by the CIA on June 3, 1999, considerable more information was withheld in this version released on December 11, 2013.

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- Scan of Original Document

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Director of Central Intelligence

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NATIONAL INTELLIGENCE DAILY

Friday, 29 December 1989

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ROMANIA: **New Government Organizing**

The leadership of Romania's National Salvation Front (FSN) is settling in but is sending mixed signals about its commitment to a multiparty system. [redacted]

In the new government's first official press conference yesterday, a spokesman said its priorities will be ending the violence, getting the state apparatus functioning, reviving the economy, and organizing free elections. The FSN also said that most officials who had served under Nicolae Ceausescu will not lose their jobs and that the death penalty will not apply to Securitate rebels who surrendered by yesterday afternoon's deadline. On Wednesday the government published an "antiterrorist" decree giving itself arrest powers tantamount to martial law. [redacted]

[redacted] President Iliescu stressed the FSN's commitment to democracy and political pluralism, but he stopped short of advocating a multiparty system. Iliescu also left in doubt whether the FSN will support the promised April schedule for free elections and indicated the drafting of a new constitution will follow the elections. He played down the issue of student dissatisfaction with Communist domination of the new government. The press has reported no new demonstration since Tuesday. [redacted]

Comment: Prodemocracy groups apparently are concerned that many top military, security, and political leaders associated with Ceausescu at one time or another are now calling the shots for the FSN. They probably will need time to organize themselves, and they may be willing to give the government a breathing period to restore order. But the issue of broader participation in the government is not likely to go away—especially if Iliescu begins to drag his feet on scheduling the elections. [redacted]

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USSR: **Military Presses Gorbachev on Baltics**

Senior Soviet military officers are increasingly critical about developments in the independent-minded Baltic republics, including the creation of an independent Lithuanian Communist Party. [redacted]

In a recent *Red Star* article, the Baltic Military District's chief political officer described how Soviet military personnel and their families have been subjected to an escalating series of indignities, including the denial of housing and ration cards as well as antimilitarism and anti-Russian hatred. He and other senior military officers serving in the Baltics reportedly shared their "alarm" at the two Central Committee plenary meetings this month. [redacted]

Comment: The military apparently is getting bolder in taking its case to the top levels of the party hierarchy. It is already worried about the implications for Soviet interests of the breakdown of Communist rule in Eastern Europe and may be concerned that the Lithuanian party's declaration of independence from the CPSU is a first step toward secession. not only of Lithuania, but probably the rest of the Baltic states and perhaps other non-Russian republics, such as Moldavia or Georgia. The high command may feel that Moscow must hold the line now in Lithuania or face the unpalatable alternative of using the army to suppress rebellion in several republics in the future. [redacted]

Gorbachev undoubtedly is feeling the sting of military pressure, but he may also regard the airing of the military's discontent at this time as bolstering his leverage on the Balts, especially the Lithuanian Communists, whom he hopes to persuade to reconsider their break with the CPSU. [redacted]

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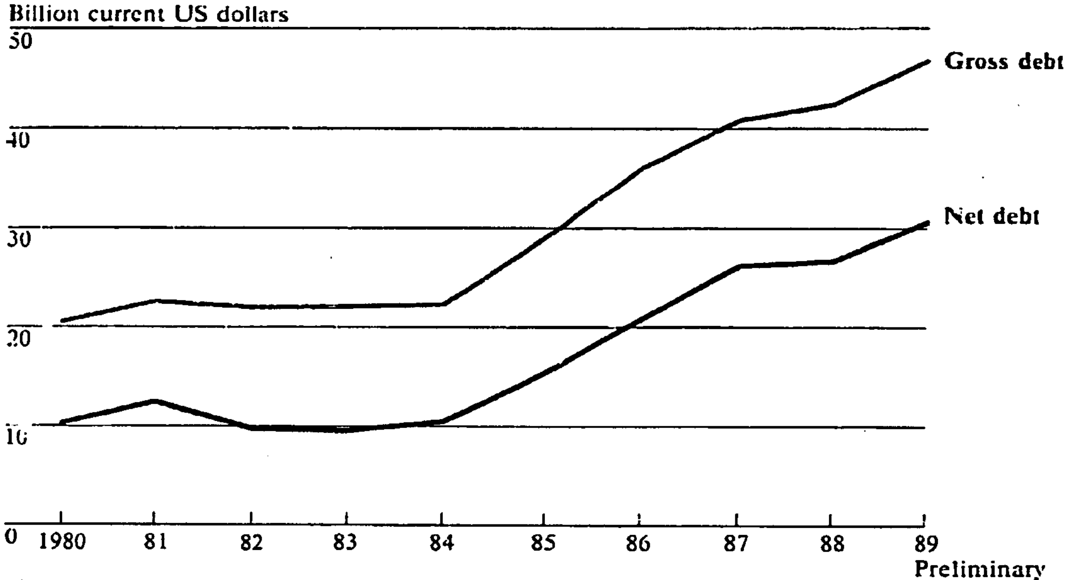
USSR: Hard Currency Debt, 1980-89[a]

Net debt is gross debt less Soviet assets in Western banks



[a] Estimated.

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USSR: Worried About Rising Foreign Debt

The USSR's growing hard currency debt and Western uneasiness about Soviet creditworthiness are making Moscow more cautious about using loans to finance imports for its sagging economy. [redacted]

Concern that top Soviet leaders have expressed recently about the debt was echoed by the Congress of People's Deputies last week when delegates adopted language calling for the 1991-95 economic plan to define measures to reduce the foreign debt. [redacted] the USSR's gross hard currency debt rose to about $47 billion this year from $42 billion in 1988. Moscow has accelerated borrowing to help finance increased purchases of light industrial equipment, agricultural products, and manufactured consumer goods. [redacted]

Some Western lenders are increasingly concerned about the USSR's creditworthiness despite its assets of some $15 billion on deposit in Western banks and Soviet gold reserves valued at $28 billion. [redacted] Western bankers are tightening credit to the USSR because of the slow pace of domestic reforms, growing unrest in the republics, and the lack of financial information on new borrowers who are now allowed to seek loans as a result of decentralization but who have no credit record. An oversupply of Soviet commercial paper to finance imports over the past year has also boosted the interest rates Western banks are charging. [redacted]

Comment: The resolution of the Congress will strengthen the hand of the leadership as it tries to fend off calls by some economists to borrow more to finance much higher import levels. Soviet officials have assiduously guarded the USSR's credit standing and would like to maintain it in the event that unexpected problems such as a poor harvest, a sharp downturn in oil production, or serious consumer unrest create a need to borrow heavily. [redacted]

Moscow is having no problem in servicing its debt—its debt service ratio is about 25 percent—but it would have to draw down reserves to meet payments should it encounter an unexpected earnings shortfall. The Soviets probably will carry through with a planned moderate increase in imports of consumer goods next year but will attempt to hold down borrowing by cutting some imports for the industrial sector and by increasing soft currency trade with countries such as China and India. [redacted]

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YUGOSLAVIA: Party Endorses End to Political Monopoly

A Yugoslav Communist party Central Committee plenum preparing for a national party congress next month has approved draft stands that would eliminate the party's political monopoly, lift restrictions on political activity, and allow direct secret ballot elections. The plenum stopped short of advocating a multiparty system, probably because of opposition from the Army and strongman Milosevic in Serbia. The five other republics have called for multiparty elections, and at least Slovenia and Croatia are planning free elections in the spring. [redacted]

Comment: The party's draft positions are a compromise. Party leaders probably fear that a more explicit stand on the multiparty system would encourage new conflict by Serbia against Slovenia and Croatia and possibly precipitate a breakup of the national party. The congress probably will adopt the compromise, opening the door for free elections in most of Yugoslavia by the end of 1991. Milosevic's refusal to keep pace with growing reform sentiment may further isolate him in the federation and erode his power base in Serbia. Milosevic probably would answer any challenge to his authority with purges or a crackdown. [redacted]

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USSR: Yel'tsin Running for Russian Republic Presidency

Political maverick Boris Yel'tsin has been nominated by voters in a small town near Moscow for the presidency of the Russian Republic, according to press reports. Yel'tsin is the only prominent candidate for the post so far. The incumbent, Politburo member Vorotnikov, has not yet announced whether he will run. The president will be chosen by the republic legislature that will be elected by the population in March. [redacted]

Comment: Yel'tsin probably views capturing the Russian presidency as a critical step in a political comeback that has been marred by recent scandals. His populist and antiestablishment stance is likely to continue to appeal to restive Russian workers and nationalists, although it is uncertain how he will fare among delegates to the legislature. The presidency of the Russian Republic is likely, in the course of political reform, to become an influential position, and, as president, Yel'tsin, who has ties to the radical Interregional Group in the legislature, might pose a serious challenge to the party in the republic. Mikhail Gorbachev, however, heads the recently created Russian Republic party bureau and is therefore well positioned to act as a counterweight to a Yel'tsin presidency. [redacted]

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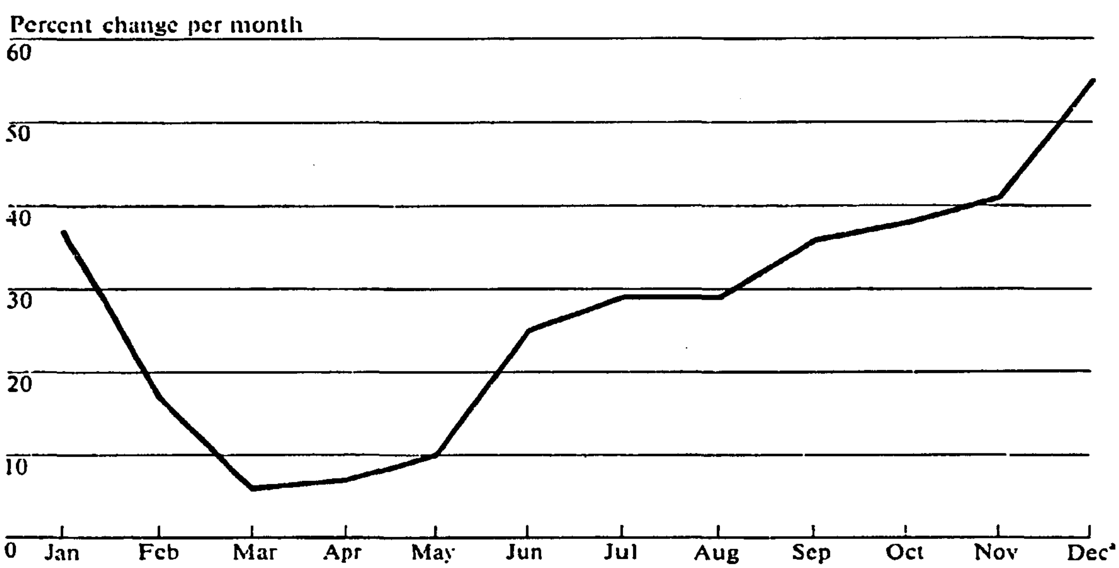
Brazil: Consumer Price Inflation



[a] Projected.

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BRAZIL: Financial Markets Resume Slide

The victory of centrist President-elect Collor over his Marxist opponent briefly calmed Brazil's financial markets, but predictions of spiraling inflation have caused the currency to resume its sharp decline. The cruzado last week dropped 14 percent against the dollar following official projections that consumer prices will rise by as much as 55 percent this month. This week, rumors of 80-percent inflation for next month caused a similar decline. Brasilia has denied it will freeze prices and instead continues to raise interest rates on its bonds, most recently to 85 percent per month. Collor has yet to name his cabinet, which the markets are interpreting as a deliberate go-slow approach. [redacted]

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UN: Security Council Membership Rotation Next Week

Cuba will chair the Security Council in February [redacted] Ivory Coast chairs the Council next month. [redacted]

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Polish Economic Reform—An Outline

The reform package is assuming greater urgency because the economy continues to decline:

- Industrial performance has dropped steadily since April; monthly output now is 9 percent below that of a year ago.
- Inflation, now running 50 percent per month, will total 900 to 1,000 percent for 1989.
- Declining coal production has cut export earnings and may further crimp industrial performance. The Soviets have reduced oil and gas deliveries, forcing Poland to arrange hard currency imports.
- A hard currency trade deficit of at least $50 million is expected this year, following three years of $1 billion annual surpluses.
- Warsaw has ceased all commercial and official debt payments.

The proposals before the legislature are intended:

- To transform financial management of state enterprises by forcing them to operate on a profit-and-loss basis.
- To further encourage private enterprise and foreign investment.
- To eliminate tax loopholes favoring heavy industry.
- To make the National Bank of Poland more a central reserve bank.
- To remove currency and foreign trade restrictions.
- To provide for layoffs and firings and unemployment compensation.
- To discourage excessive wage hikes through tax penalties.

Reforms will also affect routine economic legislation due before the Sejm (lower house) as soon as this week, including the budget law; the annual credit plan; and cultural, training, and science and technology funding.

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Special Analysis

POLAND: **The Big Push on Economic Reform**

Protracted debate in Poland's legislature over landmark economic reforms will sorely strain the Solidarity-led government coalition, and the reforms probably will cause initial economic disruptions greater than the government anticipates, risking widespread labor unrest. Slowing the pace of reform, however, might jeopardize the Western aid and investment that Poland needs to rebuild its economy. Polish officials will press for more Western help by arguing that a failure in Poland would lead other East European regimes to scale back their reform efforts. [redacted]

All the coalition parties have criticized some aspect of the program and will push their own agendas. Many deputies question whether the government can provide for laid-off workers, and Rural Solidarity—which earlier this month selected a more confrontational leader—is seeking farm subsidies and price guarantees. The Communists are focusing on opposing privatization. [redacted]

All the parties nonetheless realize the need for fundamental economic reform and probably will keep the coalition together at least long enough to launch the program. Opposition to the specifics of reform has produced neither a solid voting bloc nor credible alternatives, and using special committee sessions rather than plenary debate should speed the legislative process and keep concessions to a minimum. Although Finance Minister Balcerowicz may accept some watering down of his initiatives, Lech Walesa's claim this month that Poland's critical situation warrants government resort to emergency powers also appears to have discouraged deputies from breaking ranks. [redacted]

Testing Worker Tolerance

Balcerowicz's prediction that the reforms will lead to a 5-percent unemployment rate in 1990 and a 25-percent drop in income appears optimistic. Most government and enterprise officials are inexperienced with market mechanisms; removing price controls probably will increase inflation more than production in the short run. Output will be lower and unemployment higher than Warsaw expects, and the unemployment compensation system being developed could collapse under the strain. [redacted]

Warsaw is taking every opportunity to bolster public tolerance for reforms. Prime Minister Mazowiecki, Walesa, and Solidarity legislative leader Geremek used a joint press conference on

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Polish Reform—The Legislative Process

The government's goal of legislative approval by 1 January is difficult but not impossible to meet. The bills are before a special committee of the Sejm. The committee is chaired by a Solidarity economist, and Solidarity and the junior members of the coalition—the Democratic and Peasant Parties—hold 27 of the committee's 43 seats.

Solidarity and its newfound allies also control 269 of the 460 Sejm seats and so could in theory pass the economic legislation in the face of solid opposition from the Communists. In practice, voting on previous government initiatives has not been on strict party lines, and the government may lose some coalition votes. But it may also pick up support from reformist Communists, five of whom recently quit the party and now sit as generally progovernment independents. Other Communists may abstain to avoid being labeled obstructionist while positioning themselves to counterattack if the economy fails to respond to the reforms.

Once approved by the Sejm, the bills go to the Senate, where Solidarity controls 98 of 100 seats. The Sejm can override any Senate amendment by a two-thirds vote of members present. The final step is endorsement by President Jaruzelski, who has repeatedly endorsed economic reforms and is not likely to stand in their way. A presidential veto could be overridden by a two-thirds vote of the Sejm.

[redacted]

10 December to stress their agreement on the package, cautioning the public that the road ahead will be difficult. They also announced local elections will be held by next summer, providing an opportunity to remove Communist local officials. The election pledge is intended to reassure people that reforms will have an effect at the local level and to provide an outlet for anti-Communist sentiment. [redacted]

Mazowiecki will get an indication of the public's willingness to go along with reforms when Warsaw raises coal and other energy prices as much as 400 percent on Monday. Although an immediate round of massive protests appears unlikely, workers will press factory managers to raise wages, and resistance to such demands might lead eventually to a surge in strikes. [redacted]

Depending on the West

Polish officials probably will face a deepening economic crisis by summer when unemployment and industrial decline threaten to undermine reform efforts. They can be expected to seek more Western aid, probably claiming that the rapid pace of reform encouraged by the West helped create the problem. They also could persuasively argue that the failure of Warsaw's program would reduce the impetus for reform throughout Eastern Europe. The Poles may contend that the West must help underwrite unemployment compensation and stand ready to supplement the zloty stabilization fund, if they are not to fall back on subsidies and guaranteed unemployment to avoid widespread labor unrest.
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