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EL SALVADOR:

Rebel Offensive Damaging Economy

Although Marxist insurgents in San Salvador appear to be losing their grip on the few areas they still control, their offensive may result in significant economic damage. [redacted]

The guerrillas, reportedly suffering from heavy losses and poor morale, are slowly being dislodged from their entrenched positions. The Army, hoping to have complete control of the city before the OAS General Secretary and eight Latin American foreign ministers arrive today, has called in reinforcements from throughout the country and now controls all but three neighborhoods, [redacted]

Nevertheless, FMLN leaders believe the government and the Army will come under mounting international pressure as a result of the assassination Thursday of six Jesuit priests, which [redacted] increasingly appears to have been the work of rightwing extremists. The rebels have decided to reinforce their positions in the capital with troops previously assigned to cover an eventual retreat, [redacted] Guerrilla activity elsewhere is relatively light, although fighting with the Army continues in Santa Ana and San Miguel. [redacted]

The offensive has further damaged El Salvador's already faltering economy. [redacted] factories in areas of the capital not directly involved in the fighting are operating at only 40 to 70 percent of capacity because many workers are trapped in neighborhoods where fighting continues. Most retail operations in the capital remain closed, with the exception of some food stores. Much of this year's coffee crop is in danger of rotting in the fields because of delays in shipping the harvest to processing facilities [redacted]

Comment: Although pockets of rebel resistance in the capital continue to dwindle, sporadic and at times heavy fighting will persist at least through the weekend. Some insurgents may be using culverts and sewers to avoid being surrounded and may try to regroup elsewhere. The murders of the priests and the recent bombings of two leftist labor unions undoubtedly will cost President Cristiani some of the international support he has gained during his five months in office and undercut government efforts to attract foreign investment. [redacted]

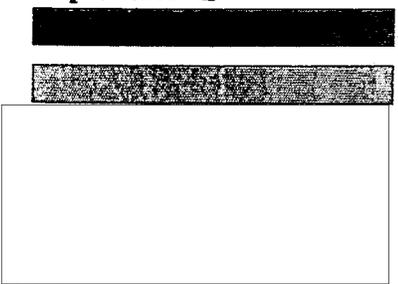
Despite the damage to El Salvador's economy, the economic infrastructure appears to be basically intact. The FMLN, however, is likely to increase economic sabotage as the fighting winds down. [redacted]

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