THE ECONOMY AND ARMY PROVIDE FORMIDABLE HURDLES

Uncertainties impede progress to independence

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AGREEMENT between the European Community and Yugoslavia's leaders late on Sunday night marks the beginning of Slovenia's long road towards international recognition of its independence, **writes Judy Dempsey.**

But there are uncertainties which could still prevent the Slovenes carrying their June 25 declaration of independence to its logical conclusion.

The first is the federal army. General Blagoje Adzic, the army's chief of staff, remains committed to protecting Yugoslavia's territorial integrity. But it may have boxed itself in.

As Mr Hans-Dietrich Genscher, Germany's foreign minister, said at the weekend, if the army again attacked Slovenia the EC's non-recognition of the republic as an independent state would be reviewed.

Slovenia's government, which is divided between "hawks" led by Mr Janez Jansa, the defence minister, and "pragmatists" headed by Mr Janez Drnovsek, a member of the state presidency, is taking no chances.

It has placed contracts with an engineering plant to make steel (and mined) barricades which are being placed across the republic's main intersections.

The second problem facing the republic is the economy, even though Slovenia is relatively the best placed of Yugoslavia's six republics.

Slovenia's industrial output fell 11.2 per cent in the first quarter this year, against the corresponding period in 1990. This compares with a drop of 19.2 per cent in overall Yugoslav industrial production over the same period.

Exports were down 0.1 per cent (8.5 per cent for the rest of Yugoslavia) in the quarter.

Mr Joze Mencinger, a former deputy prime minister and economics adviser to the Slovene government, said growth would continue to fall because of the independence declaration and subsequent crisis. This year's tourist receipts, which make up 12 per cent of GDP, have been wiped out.

"It will be difficult. Thirty per cent of our GDP – which last year totalled $12bn [£7.5bn] – consists of exports. For a small country like ours, we need about 70 per cent."

Boosting foreign exchange exports will be difficult in the short term; more than 30 per cent of the republic's exports, mostly white goods and electronics, are earmarked for the rest of Yugoslavia.

The republic also needs foreign capital, preferably earned through privatisation. But the parliament has yet to approve a privatisation bill, which envisages nationalising the republic's enterprises before putting them on the market.

In contrast to Mr Jeffrey Sachs, the Harvard economist who earlier this year sped into Slovenia with a shock therapy plan, Mr Mencinger had suggested a gradual approach towards privatisation. This would keep unemployment down and allow enterprises themselves to seek foreign buyers.

"Unemployment is still relatively low. By the end of March 65,000, from a labour force of 730,000 [including the state and private sector], were unemployed. It is getting worse", he said.

Slovenia is also saddled with debts. The public debt, which consists of domestic savers' hard currency accounts, totals $2.5bn and has been already siphoned off by the National Bank of Yugoslavia, with which the republics have to deposit foreign exchange.

Mr Franco Arhar, head of Slovenia's central bank, appealed last week to foreign creditors for a grace period which would allow domestic savers to be reimbursed with funds which could then help stimulate the economy.

Slovenia's share of Yugoslavia's total $14.8bn external debt amounts to $1.8bn. Mr Mencinger believes this debt is manageable. "Our annual foreign exchange exports total $4.6bn," he said.

In the meantime, Slovene inflation, running at more than 10 per cent a month, could reach 200 per cent by the year's end.