Package of radical measures is intended to prevent collapse of the economy

Emergency budget for Yugoslavia

By **Judy Dempsey** and **Laura Silber** in Belgrade FINANCIAL TIMES 11/7/91

YUGOSLAVIA'S federal government yesterday pushed though an emergency budget and a package of radical measures aimed at preventing the economy from collapsing, hours after Slovenia's parliament accepted the EC peace accord.

Mr Bozo Marendic, federal minister for economic development, said this year's public spending would be sharply reduced by YD60bn (£1.56bn) to YD100bn (£2.6bn).

The federal budget will be financed by customs revenues and payments from the national bank. It will be used exclusively to finance the state administration and the federal army. The republics have their own budgets. Last year, the federal army received more than 46 per cent of the budget.

The federal government has had no budget since the beginning of the year because the six republics and two provinces disagreed about its size. This meant that promised loans from international financial institutions were blocked.

Mr Marendic, however warned that the agreement on the budget did not mean an immediate fresh flow of credits from the International Monetary Fund. He explained that the federal government could not meet the IMF's requirements for obtaining new loans because of the political crisis.

However, he added that an economic collapse could only be avoided if "we obtain $3bn" in new or previously committed funds. This would include $2bn of new loans, and $1bn from a refinancing accord with its western creditors.

Yugoslav deserters of Croatian descent smile for the cameras in Zagreb yesterday. They have quit the federal army to join the Croatian militia

The other measures announced by Mr Marendic include:

- Securing foreign reserves in order to meet international obligations. Yugoslavia is scheduled this year to repay interest and principal amounting to $4bn. Its total foreign debt exceeds $14.6bn
- Imposition of a tight monetary policy throughout the country. This will be implemented through a squeeze on credits and loans to the commercial banks. Credits will be made only available for housing construction and projects which "stimulate the growth of the private sector".
- No financing of, or subsidies for, bankrupt enterprises.

The federal government was forced to take such radical measures because of the sharp fall in industrial production, rising inflation, and the complete collapse of the tourist industry, he said.

Production for the first four months of this year fell 23 per cent compared to a year ago. But a government official said yesterday he expected production to fall by 50 per cent this year overall because of the political crisis.

The government's goal of keeping inflation below 80 per cent for 1991 has also been revised. "Inflation will be much higher. But we hope it will not get out of control," said Mr Marendic.

The tourist industry, which last year accounted for at least 8 per cent of gross domestic product, has collapsed because of the simmering ethnic war in the western republic of Croatia, and the army's occupation last month of Slovenia.

Meanwhile, Slovenia's parliament yesterday overwhelmingly accepted the EC peace accord, despite sharp criticism from deputies that the republic had conceded too much.

However, Mr Milan Kucan, the Slovenian president, said: "We have managed to internationalise our cause. This [vote] will ultimately help us to be recognised" – 189 deputies voted for the accord, and 11 against.