Yugoslavia's collective presidency yesterday ordered all federal army troops to withdraw from the rebel republic of Slovenia within the next three months.

The decision appears to end a feud between Slovenia and Serbia, the country's biggest republic, and may be a step towards resolution of Yugoslavia's complicated political and ethnic conflicts.

Mr Borisav Jovic, Serbian representative on the eight-man collective presidency, said the pullout would start immediately. "This is in complete accordance with our political and that the Yugoslav army should not be stationed in those parts of the country which see it as an occupier," he said.

About 70 people were killed in clashes between federal army troops and Slovene militia after Slovenia and Croatia declared independence from the crumbling Yugoslav federation on June 25.

A truce negotiated on July 8 with help of three European Community foreign ministers called on federal troops in Slovenia - bolstered by federal tanks moved in from Croatia - to return to barracks.

Mr Jovic made no mention of the future of about 70,000 federal troops on Croatian territory.

In a Balkan twist, Yugoslav president Stipe Mesic, a Croat, voted against the army withdrawal from Slovenia, fearing independence-minded Croatia would become more isolated in the Yugoslav federation.

The agreement drives a wedge between Slovenia and Croatia. It is reminiscent of the pre-war coalition between Serbs and Slovenes in the Yugoslav kingdom. Slovenia and Serbia have been locked in conflict until recently when Serbia came out in favour of Slovenia's moves towards independence.

Croatia may now be forced to negotiate with its 600,000-strong Serbian minority, which insists on remaining with Serbia if Croatia secedes from Yugoslavia. Rebel Serbs have killed at least 30 Croat policemen since the republic declared independence.

Yesterday it became clear that Mr Franjo Tudjman, president of Croatia, had created a war cabinet amid fears of an attack by the federal army and armed Serbs.

The nine-strong war cabinet will be headed by Mr Josip Manolic, the outgoing prime minister. He will be replaced as premier by Mr Franjo Greguric, deputy prime minister.

The Croatian government is increasingly alarmed at repeated attacks by Serbian nationalists in the villages in Slavonia, eastern Croatia. Mr Sime Djordan, Croatia's defence minister, claimed earlier this week that the Serbian-backed army intended to bomb Catholic churches.

Mr Tudjman held talks in Bonn yesterday with German chancellor Helmut Kohl and Mr Hans-Dietrich Genscher, foreign minister. In a 90-minute meeting, Mr Kohl repeated Germany's desire to promote a peaceful political settlement in Yugoslavia.

Meanwhile a federal minister said Yugoslavia faced food shortages, more unemployment and a further fall in industrial production.

The bleak picture painted by Mr Veselin Vukotica, responsible for privatisation in the federal government, coincided with gloomy statistics for the first half of the year. Industrial production fell a further 17 per cent, compared with a fall of 23 per cent for the whole of 1990.