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MY TELNO 69: VISIT BY MEMBER OF YUGOSLAV PRESIDENCY

SUMMARY

1. DJURANOVIC'S VISIT NEXT WEEK COMES AT A TIME OF DRIFT WITHIN BOTH PARTY AND GOVERNMENT LEADERSHIPS AND FRUSTRATION AMONG THE POPULACE. CHRONIC YUGOSLAV RELUCTANCE TO MAKE NECESSARY ECONOMIC CHANGES IS COMPOUNDED BY CURRENT POLITICAL UNCERTAINTIES. WE MAY BE ABLE TO HELP BY SHARPENING YUGOSLAV PERCEPTIONS OF THEIR OPTIONS.

DETAIL

2. I HAVE AN APPOINTMENT TO SEE THE SECRETARY OF FINANCE ON 18 MARCH. SUBJECT TO ANYTHING HE MAY SAY NOTHING SO FAR APPEARS TO HAVE HAPPENED WHICH MIGHT HELP OVERCOME THE IMPASSE IN YUGOSLAV NEGOTIATIONS WITH THE IMF, WHICH THE YUGOSLAVS NOW EXPECT TO RESUME ON 21 MARCH. THE FEC STILL DO NOT APPARENTLY SEE A NEED FOR SIGNIFICANT POLICY CHANGES, DESPITE THE PROSPECT OF SEVERE FOREIGN EXCHANGE DIFFICULTIES SOON, DISQUIETING INFLATION FIGURES FOR FEBRUARY FOR ALL THE PRICE FREEZE (WITH FIGURES FOR MARCH LIKELY TO BE AT LEAST AS BAD) AND SIGNS OF INTERNAL FINANCIAL STRAIN.

3. THE FIRST MEETING ON 9 MARCH OF THE COMMISSION UNDER MIKULIC'S CHAIRMANSHIP TO CONSIDER ECONOMIC REFORMS BASED ON GOVERNMENT PROGRAMMES TO DATE WAS INDICATIVE IN THE CONFUSION OF AIMS IT REVEALED. IT SEEMS THE WORKING BODIES OF THE COMMISSION HAVE YET TO BE ESTABLISHED. THE FEC APPEAR TO HAVE NO CLEAR IDEA OF WHAT TO DO AFTER THE FREEZE ENDS ON 15 MAY. THE PROMISED PRICE LIBERALISATION PROGRAMME IS LIKELY TO BEGIN BY FREEING THE PRICES OF 15 PER CENT OF YUGOSLAV GOODS AT PRESENT SAID TO BE IN SURPLUS SUPPLY. SPOKESMEN FOR THE GOVERNMENT SAY THE FEC ARE WORKING DAY AND NIGHT FOLLOWING UP THE 126 MEASURES AGREED IN NOVEMBER ('ASPIRATIONS' WOULD BE A BETTER DESCRIPTION) BUT WE KNOW OF NO CONCRETE RESULTS SO FAR. IT IS AS THOUGH THE AUTHORITIES ARE HOPING EXORCISM WILL WORK, SINCE THEY CANNOT AGREE ON ACTION.

4. THE PRESENT FREEZE ENDS WITH THE EXPIRY OF MIKULIC'S FIRST MANDATE AS PRIME MINISTER. HE COULD NORMALLY EXPECT TO BE GIVEN ANOTHER 2 YEARS. HE PROBABLY WILL RUT IT COULD BE A CLOSE RUN THING. AND PRESENT POLITICAL UNCERTAINTIES MAKE IT STILL MORE DIFFICULT AT PRESENT TO DECIDE ON LONGER TERM POLICIES. IT IS CLEAR THAT MIKULIC'S STANDING IS VERY LOW AND THAT THE SLOVENES AND CROATS ARE NOT ALONE IN WISHING THERE WAS SOMEONE BETTER TO TAKE HIS PLACE. BUT THE ISSUES RUN DEEPER THAN THE QUESTION OF WHAT SHOULD BE DONE ABOUT THE PRESENT GOVERNMENT. DIVISIONS WITHIN THE ESTABLISHMENT AS A

WHOLE NOURISH THE HOPE THE STATUS QUO CAN SOMEHOW BE SHORED UP AND A CHOICE FURTHER POSTPONED BETWEEN SIGNIFICANT ECONOMIC AND EVENTUALLY POLITICAL REFORMS ON THE ONE HAND AND A MORE REACTIONARY STANCE ON THE OTHER. THE LATTER OPTION, HOWEVER IMPRACTICAL, APPEARS TO BE FAVOURED BY THE SERBIAN LEADERSHIP, BUT EVEN HERE THE SIGNALS ARE MIXED. THE 13TH PLENUM OF THE LCY HELD ON 29 FEBRUARY AND 1 MARCH IN PREPARATION FOR THE PARTY CONFERENCE, NOW DUE IN MAY, WAS NOTABLE FOR ITS TRENCANT CRITICISM OF THE LEADERSHIP, BUT IT ENDED NONETHELESS WITH A SET OF THESES FOR THE CONFERENCE FULL OF EXHORTATION AND DEVOID OF REAL CONTENT.

5. THE LEVEL OF CONCERN AND MUTUAL CRITICISM WITHIN THE HIERARCHY HAS BEEN RISING IN RESPONSE TO THE GROWING PRESSURES. CRITICISM AND ALIENATION WITHIN THE OTHER AND MORE PUBLIC YUGOSLAVIA HAS AGAIN BEEN ON THE INCREASE, AND FULLY REPORTED AS WELL AS ARTICULATED IN THE YUGOSLAV MEDIA. PART OF IT HAS FOCUSED ON MIKULIC AND THE FED, WHICH OUGHT TO MEAN THAT ANY NEW TEAM COULD ATTRACT A MEASURE OF HOPE IF ONLY BY BEING DIFFERENT. THE ACCENT HAS ALSO BEEN ON YUGOSLAVIA'S SYSTEMIC WEAKNESSES, INCLUDING THE ROLE OF THE PARTY. THE CURRENT DEBATE OVER CONSTITUTIONAL AMENDMENTS COULD PERHAPS PROVIDE MORE AND MORE OF A FOCUS AND HAS ALREADY GONE BEYOND THE BOUNDS ITS PROTAGONISTS HAD HOPED TO SET. THE END RESULT WILL STILL NO DOUBT BE A MOUSE BUT THE FACT THAT THE MOUNTAIN IS IN SUCH LABOUR UNDERLINES THE DEPTH OF PUBLIC CONCERN.

6. YUGOSLAVIA IS PREOCCUPIED WITH ITSELF YET FOREIGN AFFAIRS NEVERTHELESS REMAIN IMPORTANT TO THE COUNTRY'S SELF-IMAGE. THE SUCCESS OF THE BALKAN CONFERENCE WAS A WELCOME BOOST. THE FACT THAT GORBACHEV IS SPENDING 5 DAYS HERE MAY HELP TOO. THE NON-ALIGNED MOVEMENT IS STILL IN THE LITANY THOUGH IN 3RD PLACE IN THE COUNTRY'S REAL CONCERNS. AFTER ITS RELATIONSHIP WITH THE EAST AND THE WEST, PROGRESS TOWARDS AN ARRANGEMENT WITH THE IMF IS CLEARLY THE MOST IMMEDIATE AND IMPORTANT PROBLEM IN THE LATTER CONTEXT. WE HAVE YET TO SEE SERIOUS PUBLIC CRITICISM OF THE FUND OR THE CREDITORS: THE ACCENT HAS BEEN ON THE YUGOSLAV NEED TO COPE WITH THE PROBLEMS THEY HAVE MADE FOR THEMSELVES.

7. WE CAN HELP THE YUGOSLAVS BY DOING WHAT WE CAN TO CONCENTRATE THEIR MINDS, PARTICULARLY BY OUR ATTITUDES TOWARDS THEIR NEGOTIATIONS WITH THE IMF AND REFINANCING, AS WELL AS THE COUNTRY'S RELATIONSHIP WITH THE COMMUNITY. IT IS GOOD THAT WE ARE PREPARED TO GIVE THEM SYMPATHY AND PUBLIC ATTENTION AS WELL AS TO ACCORD THEM THE DIGNITY OF ESCHEWING THE OPTION OF OFFERING SHORT-TERM PALLIATIVES.

WOOD

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ERD 5
PROTOCOL DEPT 7
SOVIET DEPT 5
ECD(E) 6
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MR MAUD 1
MR HERVEY 1
MR RATFORD 2