

**December 9, 1989**  
**Yugoslavia: Weak Economy Aggravating Regional  
Disputes** □□□

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**Summary:**

An analysis of Yugoslavia's economic deterioration and ethnic conflicts.

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**Weak Economy Aggravating Regional Disputes in Yugoslavia**

Serious economic deterioration over the past decade has compounded Yugoslavia's ethnic and political problems.

- The annualized inflation rate exceeded 16,000 percent in October 1989 and has been greater than 100 percent since 1986.
- The gross social product, which has declined since 1986, probably will fall by more than 2.5 percent this year.
- Real net income per worker has fallen almost every year since 1978, according to the IMF. The decline last year was about 8 percent and probably will be about the same this year.

The decline has soured the atmosphere for economic reforms. The recent Serbian-Slovene conflict has endangered Premier Markovic's economic reform package by prompting renewed Serbian calls for his ouster. Interrepublic bickering last month stymied Markovic's attempt to push major reform legislation through the National Assembly.

- Slovenia, the wealthiest republic, opposed a draft tax law because Slovene authorities feared that the imposition of corporate profit and income taxes would disproportionately fall on local industries and increase subsidies Slovenia provides other republics.
- Serbia blocked a draft foreign exchange law calling for a fully convertible dinar because it would reduce the advantages Serbian firms gain from unique financing arrangements for trade with the USSR.
- Croatia rejected a draft law that would have made petroleum prices subject to market forces because the law would have hurt Croatia's large oil industry.

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