



Foreign and Commonwealth Office

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20 April 1989

Jo
John Chancellor

Meeting with the Yugoslav Federal Secretary

Mr Budimir Loncar is to call on the Prime Minister briefly on 21 April. This is his first visit to Britain since he became Foreign Minister in December 1987. He visited Britain for a Wilton Park Conference in 1984 and as Deputy Foreign Minister in 1987.

Yugoslav Internal

Yugoslavia's state of political and economic crisis is now turning from chronic to acute. The differences between the Republics, the weaknesses of the Federal centre, and the divisions in the Party have been compounded by inflation at 400%, a resurgence of Serbian nationalism, and popular unrest, especially in the province of Kosovo.

The previous government, led by Mikulic, was forced to resign at the end of 1988. The new Premier, Ante Markovic (a Croat) was appointed in March. He is a pragmatic reformer. Markovic will probably give priority to reforming the economic system, and to giving a freer hand to enterprises and the private economy. He has promised tighter public expenditure controls and a restrictive monetary policy. He needs a new understanding with the IMF to replace the 1988 IMF Standby Arrangement and a new rescheduling of official debts (total external debt \$20 billion).

Interrepublican infighting has distracted Yugoslavia from its other major problems. The populist Serbian leader, Milosevic, has campaigned for greater Serbian control over the two autonomous provinces, arousing fear of Serbian ambitions throughout the Federation. This approach has led to conflicts between Milosevic and the Federal Party leadership, with neither side able to prevail. It has also provoked unrest: serious rioting in Kosovo in March after the Serbian Constitution was amended to give the Serbs greater control over the region left 23 dead.

Bilateral Relations

The UK played a major role in last year's IMF and Paris Club agreements. We have encouraged the Yugoslavs to face up to their problems, and occasionally been reproached for severity (we continue to withhold ECGD cover removed in 1982).

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There are, however, bilateral problems. The Yugoslavs have failed to settle our claims over the Zagreb air disaster of 1976. And the shooting of a Croatian emigré in Scotland may have involved the Yugoslav Security Services, although there is no definitive evidence to that effect. A Yugoslav goes on trial for attempted murder today.

The Prime Minister will recall her two visits to Yugoslavia in 1980 (one for President Tito's funeral). The most recent high-level visit was that of a member of the Federal Presidency, Mr Djuranovic, in March 1988, who was received by the Prime Minister. The Yugoslavs are keen that the Prime Minister should pay a second visit to Yugoslavia to return that of Mrs Planinc in 1983. We will submit advice on this when the Prime Minister reviews her travel programme for next year.

Mr Loncar will be accompanied by the Yugoslav Ambassador, Mr Calorski. Andrew Wood, HMA Belgrade, will also attend if that is acceptable to you.

Yours ever,

Richard Gozney

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Private Secretary

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