

In the Spotlight	Slovenian Economic Mirror	IMAD
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Real gross domestic product growth was 2.3% in the first quarter compared to the same period last year, according to figures from the SORS. This low growth was anticipated in the spring economic forecasts (see SEM 4/2003:3-4), which projected modest economic growth in the first quarter mainly because of unfavourable developments in the international environment and its strengthening in the last two quarters. These estimates are based on international institutions' forecasts, which predict a gradual recovery of demand in Slovenia's main trading partners in the second half of the year, and on the model of leading indicators developed by the School of Business and Economics of the University of Maribor. Gross domestic product growth was driven by domestic consumption, which rose by 4.1% year on year in real terms, 0.6 of a percentage point more than in the last quarter of 2002. If we look at domestic demand components, the strongest growth was seen in gross fixed capital formation (5.6%) mainly as a result of the ongoing and intensified construction of motorway infrastructure. Growth in private and government consumption was also relatively robust (2.7% and 4.1%, respectively). The contribution of changes in inventories and valuables to economic growth was positive as well, amounting to 0.4 of a percentage point. All three domestic consumption aggregates recorded stronger year-on-year growth than in the last quarter of 2002; private consumption growth intensified by 0.3 of a percentage point, government consumption by 1.2 percentage points, and gross fixed capital formation by 1.7 percentage points. Year-on-year export growth was relatively modest (2.8% in real terms) and way below the level of the last quarter of 2002 (7%) because of the unfavourable developments in the international environment and the anticipated slowdown in export growth to the markets of former Yugoslavia and the Soviet Union. Imports increased strongly (5.7% in real terms), which was largely expected in view of the strengthened domestic demand. Hence, the contribution of net international trade to economic growth was negative (-1.8 percentage points). Despite the modest economic growth seen in the first quarter, the **spring forecast of 3.1% economic growth for 2003** is achievable. Similar dynamics were seen in 2002, when economic growth was 3.2% in the year as a whole but just 2.5% in the first quarter (the SORS' provisional estimate was even lower at 2.2%).

Value added rose by 2.2% year on year in the first quarter in **real terms**, 1.4 percentage points less than in the final quarter of 2002. Value-added growth was the strongest in construction (4.7%) and public services (3.7%; activities from L to O). Growth was also robust in wholesale and retail trade (3.1%), where it intensified compared to the last quarter of 2002. Value-added growth continued to be above average in manufacturing (3%), however, growth decelerated from 6.6% in the third quarter through 4.7% in the final quarter of 2002 as a result of the subdued foreign demand. Value added is expected to rise strongly again in the autumn months. Real value added fell in some activities (agriculture, fishing, mining, transport, and slightly in financial intermediation), but this was primarily due to quarterly fluctuations rather than any long-term downward trends.

After recording a deficit of EUR 30 million in the first quarter, resulting from accelerated import growth and subdued export growth, the current account was brought back into balance in April because of the slowdown in import flows. In the **first four months**, the **current account deficit** amounted to just EUR 2 million (see p. 4). This roughly balanced current account should turn into a surplus thanks to the strengthening of export flows in the second half of the year.

In **April**, the number of people employed in enterprises and organisations continued to rise, while the number of farmers and individual private entrepreneurs dropped so the total **number of people in formal employment** stayed roughly the same. Broken down by activities, employment shrank the most in agriculture and rose the most in construction and financial intermediation (see p. 9). The number of registered unemployed fell slightly in April – this was a seasonal development typical of the spring months – and the **registered unemployment rate** was 11.1% (11.3% in March).

Consumer prices climbed by 0.3% in **June**. Annual inflation rose to 6.0% despite the gradual slowdown in monthly price rises, which was the result of last year's different dynamics. Namely, prices fell by 0.2% in June last year. Annual inflation is expected to follow similar fluctuations in the upcoming months, but it should still drop to 5% at the end of the year.