The government's **Programme for Effective Integration into the European Union** (July 2003) proposes measures to accelerate reforms in the most critical areas. The government will increase the flexibility of public expenditure, which should facilitate adjustments to the economic cycle and gradually remove the structural deficit. Part of the saved funds will be appropriated for development incentives in the areas of: (i) technological development and applied research; (ii) the economy's competitiveness; (iii) tertiary education; (iv) social transfers, part of which should be redirected from passive assistance to active forms that encourage people to enter the labour market and help reduce structural unemployment. Within the tax reform, the government will provide incentives for investment in R&D equipment and training and ensure that the tax burden on labour does not increase any more. In the field of structural reforms, the government will: (i) continue to pursue a restrictive prices policy in sectors regulated by the government; (ii) increase competition in the telecommunications market by setting up two new providers of telecommunications services; (iii) continue to open up the electricity market; (iv) restructure Slovenian Railways in order to allow competition in railway transport; (v) provide a legal basis allowing local authorities to conclude contracts of limited duration with local public utility providers, which should increase competition among providers; (vi) ensure control over cost-efficiency of public enterprises through representatives in supervisory boards or independent sectoral regulators; (vii) introduce measures to increase the efficiency of health services within the health reform; (viii) continue to rationalise public administration within the public administration reform; and (ix) update legislation regulating public services within the public sector reform, which should allow a greater role of the private sector.

Negotiations between the social partners over the public sector's wages policy for 2004 and 2005 were successfully concluded in July 2003. It was agreed that this August's 2.4% adjustment of the basic wage will be replaced by a premium of voluntary supplementary pension insurance. This should help slow nominal wage growth down in the public sector and contribute to bringing inflation down during this and even more the next year. This will also enable public-sector employees to begin to use a new system of acquiring rights from the pension insurance. The elements agreed to be used in the adjustment mechanism – domestic inflation, inflation in the EU, and the euro's exchange rate – will carry a weight of 52%, 38% and 10% in 2004 and 52%, 48% and 0% in 2005. Wages will be adjusted in July in both years. In line with the new Public Sector Wage System Act, half of the agreed wage rise for 2004 and 2005 should be given to reduce unjust wage differentials. The proposed adjustment mechanism will help reduce pressure on general government expenditure (see p. 12).

The number of **employees** continued to rise in May, albeit at a lower rate than in the previous two months. Nevertheless, in the first five months the total **number of people in formal employment** was lower than in the same period last year, owing to marked falls in the number of farmers recorded in January and April. The **number of the unemployed** continued to fall for seasonal reasons and totalled 94,385 at the end of June. In the first six months, the influx into unemployment was stronger than in the same period last year, of which the influx of first-time job-seekers was the strongest. The outflow from unemployment also intensified, however, fewer people were hired and as much as 37% more people signed off or were deleted from unemployment registers for other reasons than last year, over a quarter of whom were transferred to registers regulated by other laws (see SEM 12/2002:14). The structure of registered unemployment changed as a result (see p. 11).

Manufacturing's production volumes increased by 0.5% year on year in the first six months. A more pronounced revival of production activity is expected in the autumn months of 2003 (see p. 14). In line with the modest production activity, the value of merchandise exports (measured in euros) climbed by just 2.5% year on year in the **first five months**. As a result, the **trade deficit** was significantly wider than in the same period last year. The current account recorded a surplus of EUR 79 million last year, which turned into a deficit of EUR 69 million this year (see p. 5). The net financial flow recorded modest capital inflows this year (the same period last year saw an outflow) which, coupled with the current account deficit, reduced the foreign exchange reserves of banks. The structure of **financial flows** changed significantly compared to last year because outward foreign direct investment exceeded inward investment. The latter amounted to EUR 42.7 million, a modest sum compared to the EUR 659.8 million recorded in the same period last year. This year's outward investment, on the other hand, almost reached last year's total value (EUR 105 million and EUR 122 million, respectively). Portfolio investment also increased, both inward and outward. Net corporate borrowing abroad increased significantly from last year, totalling EUR 142 million and EUR 73.6 million, respectively. Banks borrowed EUR 45.2 million this year, while they repaid a net amount of EUR 117.5 million last year. With the current account deficit widening, the volume of net commercial credits extended abroad fell. The biggest capital outflows continued to be generated by households.

Consumer prices rose by 0.5% in July, the same as in July last year. The annual inflation rate remained at 6.0%, while the average inflation rate dropped to 6.5% (1.3 percentage points lower than in July last year). July's inflation was mainly pushed up by the prices of services, 0.2 of a percentage point of which came from recreation and culture services. Inflation was also pushed up by 0.2 of a percentage point with the raising of excise duties on tobacco, as prescribed by law.