

CURRENT ECONOMIC DEVELOPMENTS

Consumer prices rose by 0.3% in **October** (by 0.5% in October last year), while the annual level of inflation dropped to 4.8% (7.2% in October last year). The average inflation rate also declined and amounted to 5.9% (7.5% in October last year). According to preliminary figures released by the SORS, prices were mostly influenced by seasonal factors: 0.6 of a percentage point came from the higher prices of clothing and footwear, while inflation was reduced by 0.2 of a percentage point because of the lower prices of package holidays. Inflation dropped by a further 0.1 of a percentage point thanks to the lower prices of other services and food products.

The autumn inflation forecast was made on the assumption that economic policy measures which crucially determine price movements will not change in the last quarter, while we also assumed a 0.3 of a percentage point rise in food prices in the last quarter caused by the drought in summer. If these assumptions are realised, the (annual) inflation rate should be 5.5% at the end of this year and 4.5% at the end of 2004. Unlike in the EU, a food price shock has not materialised in Slovenia, which is why October's inflation was lower than anticipated.

The **number of persons in employment** fell by 0.1% in **August** over July; this was a usual seasonal trend typical of summer holidays. The **number of unemployed** increased more than usual because of the very modest outflow into employment. In **September**, the number of unemployed remained the same because the usual strong seasonal inflow of jobless school leavers was offset by an exceptionally high outflow into employment and high deletions (see p. 8).

Production activity recorded an upward trend in August and September after declining or stagnating earlier in the year. Up until September, manufacturing's production volumes rose by just 0.2% compared to the same period last year (see p. 11). This modest production activity was the result of low export demand, which also led to a wider trade deficit and a narrower surplus in trade in services. In the first eight months, the current account deficit totalled EUR 37.2 million, compared to the surplus of EUR 204.2 million seen in the same period last year (see p. 4). The current account deficit has narrowed gradually since June and should turn into a surplus before the end of the year, according to the autumn forecasts.

Net capital inflows, excluding international monetary reserves, amounted to EUR 393 million in the first eight months (EUR 447.9 million in the same period last year). The biggest changes compared to last year were seen in foreign direct investment, loans, and commercial credits. Slovenia was a net exporter of direct investment this year, with inward investment being modest (EUR 33.7 million this year and EUR 576.6 million in the same period last year) and outward investment being substantial (EUR 171.1 million this and EUR 63.1 million last year), mainly going to the countries of former Yugoslavia. Bank borrowing abroad was much higher this year than last (EUR 424.3 million and EUR 119.8 million, respectively), while net capital outflows through short-term commercial crediting decreased because of the subdued exports of goods (EUR 90 million this year and EUR 380.6 million last year).

REPORT ON STRUCTURAL REFORMS

EU accession countries have been invited to prepare their first national **reports on structural reforms**, which provide an overview of structural reforms and their impact on the operations of product and capital markets. National reports serve as a basis for the spring meeting of the European Council and also provide a source for formulating the EU's broad economic policy guidelines.

The report deals with the issues of opening up markets to competition, policies and their impact on product markets, public services and network industries, acceleration of the knowledge-based society and environmental policy, structural reforms in the capital market, as well as other reforms that shape product and capital markets. Slovenia has fulfilled most requirements from the negotiating positions concerning the free movement of goods, further, most directives regulating technical harmonisation in the area of the free movement of goods have been transposed into Slovenia's legislation, while regulations and decisions will be directly applicable after full EU membership. What appears to be critical for enterprises and their competitiveness are reforms designed to improve the effectiveness of the institutional regulatory framework and public administration, including measures to improve the business environment. Liberalisation of network industries should allow more competitors to provide their services and enable consumers to choose between different providers. The telecommunications market has been largely liberalised, and competition has been established in all segments of the market, except in fixed telephony for inland calls. Slovenia continues to open up its electricity market in line with the guidelines adopted in 1999. Liberalisation has brought about lower prices for the biggest consumers whose bids were accepted at a call for tenders to import electricity, while the outcome is still unknown for other industries. As regards transport, legislation allowing free access to railway infrastructure has been adopted, while the restructuring of Slovenian Railways will open up some railway transport to competition.

According to the main indicators of the level of the financial system's development, Slovenia is one of the most developed accession countries. The key financial intermediaries in Slovenia's financial market are banks, reflecting the selected method of privatisation. However, advancement of the capital market is lagging behind; most trading involves existing securities, while new issues (except government securities) are practically non-existent. Development of non-banking financial intermediaries was slow as a result of the ownership transformation of insurance companies and the transformation of authorised investment companies into regular financial institutions, i.e. mutual funds. Reforms are being pursued effectively in the areas of regulating, supervising and aligning Slovenia's legislation with EU directives, while further reforms will concentrate on raising the financial system's competitiveness and efficiency.