In November, the government and the Bank of Slovenia (BS) prepared a joint **Programme for Entering the ERM2 and Introducing the Euro**, in which they commit themselves to taking measures to enter the ERM2 as soon as possible and estimate that it is most appropriate to enter this mechanism by the end of 2004 in view of the current and anticipated macroeconomic conditions. This should allow Slovenia to introduce the euro in early 2007. The Programme lays down measures to cut inflation to be taken in tax policy, the policy of administered prices and interest rate policy, envisages further de-indexation being carried out in agreement with the social partners and a gradual narrowing of the structural general government deficit. By implementing structural reforms, the government will facilitate the establishment of competition in those sectors where it is still inadequate. The BS has committed itself to conducting a monetary policy that will gradually cut interest rates. The dynamics of cutting interest rates and increasing the exchange rate, which are not defined in detail in the Programme, will be determined on the basis of nominal convergence of interest rates and stabilisation of the exchange rate before the end of 2004. The government has estimated that 3.5%-4% inflation is achievable in 2004 provided that the Programme's measures are consistently applied, while in 2005 inflation may be reduced to a level corresponding to the Maastricht criteria set for the reference period before introducing the euro. The slightly higher inflation rate forecast for 2004 and 2005 in this year's Autumn Report (see SEM 8-9/2003:3) was made in September, when the date of entering the ERM2 was not yet known and we made a technical assumption that Slovenia will enter the mechanism in mid-2005, as set by the government and the BS in the Pre-accession Economic Programme (August 2003). Further, the BS' monetary policy guidelines were not known while making the forecasts since they were published in October. We also assumed that food prices would rise at the end of the third or beginning of the last quarter due to the drought in summer, adding about 0.3 of a percentage point to inflation. Since this was not the case, third-quarter inflation was reduced by the assumed contribution of food prices, while monetary policy underwent some changes.

In **November, consumer prices** rose by 0.3% for the third month running. As prices stayed unchanged in November last year, the annual inflation rate climbed to 5.1%. The average inflation, however, was lower than in October, coming in at 5.8%. Given that no major deviation from current price movements is expected in the last quarter, the year-on-year price rise should roughly equal to the current level at the end of the year and should be about half of a percentage point lower than forecast in the Autumn Report. After assessing the impact of the Programme's measures, the IMAD will make a new inflation forecast for 2004 and 2005 by mid-January 2004, which will be used for indexing social transfers.

Economic indicators available in September (balance of payments, employment) and October (manufacturing's production volumes) are largely in line with expectations. The long-term trend of nominal **exports** of goods turned upwards in the third quarter after falling in May and June, however, nine-month export growth remained modest (2.2% year on year). As regards the regional composition, exports have slowed down in EU markets and increased in CEFTA countries, the USA and Russia since mid-year (see p. 4). These movements are in line with the Autumn Report forecasts (IMAD, 2003). Growth in **imports** of goods remained relatively strong (5.5% year on year in the first nine months), suggesting relatively robust domestic consumption, both investment and private. Broken down by end-use product groups, imports of investment goods rose the most (measured in euros), up 14.5% year on year in the first nine months, especially imports of industrial machinery (see p. 4). The latter indicates a rise in manufacturing's investment, which corresponds with the expected recovery of EU economies.

This assumption is confirmed by October's **production activity of manufacturing** (see p. 13). In the first ten months, production volumes increased by just 0.6% over the same period last year, however, the monthly trend rate increased markedly for the first time this year (0.6%). If this trend is sustained, manufacturing will grow in line with the Autumn Report forecasts (IMAD, 2003).

With imports of goods rising more than exports, the trade deficit widened significantly in the first three quarters from the same period last year (from EUR 88 million to EUR 340.7 million). This was the main reason for the fall in the **current account surplus** (from EUR 334 million to EUR 56 million). The structure of the capital and financial account also changed as foreign direct and portfolio investment saw a net outflow, while commercial banks' long-term borrowing abroad increased significantly. The net financial flow (excluding international monetary reserves) totalled EUR 225 million in the first three quarters (EUR 825.2 million in the same period last year).

September's rise in the **number of persons in employment** was in line with seasonal trends, but was slightly stronger than last year (up 0.3% and 0.2%, respectively). Close to three-quarters of this rise was underpinned by recruitment in education so it is hard to say that the labour market is reviving. On the other hand, the number of unemployed climbed less than usual in this period in both September and October. This was due to varying reasons: in September mainly due to the high flow from unemployment into employment and in October mainly due to high deletions from unemployment registers. The latter was largely underpinned by the exceptionally high number of people enrolling in full-time education programmes, part of which was within the framework of the 10,000 Programme (see p. 10). The **unemployment rate** determined by the labour force survey stayed the same in the third over the second quarter (6.6%), which was a usual seasonal trend.