Gross domestic product increased by 2.3% in real terms year on year in the **third quarter** and by 2.2% in the first nine months of 2003. In the third quarter, the growth structure was similar to that of the second quarter and roughly in line with the Autumn Report forecasts (IMAD, 2003). The trend of growing domestic spending was sustained from the last quarter of 2002; real growth in domestic spending contributed 4.5 percentage points to the 2.3% GDP growth (3.2 percentage points in the last quarter of 2002, 3.5 percentage points in the first and 4.1 percentage points in the second quarter of 2003). On the other hand, the contribution of international trade was again negative, amounting to 2.2 percentage points; it was the same as in the second quarter and the biggest since 1999. Real growth in final consumption remained at roughly the level of the first half of the year, coming in at 2.9% year on year; real growth in private consumption was robust and equalled 3.2%, the same as in the second quarter, while real growth in government consumption slowed down to 2.3%. Gross fixed capital formation added 2.3 percentage points to economic growth, the most in the last three years. Almost half of this was due to the strong growth in stock levels. Capital formation increased by 5% in real terms and sustained robust growth of the first half of the year without there being any one-off purchases, which pushed investment growth up in the second quarter in particular. The increased domestic demand further fuelled imports of goods and services so import growth was 6.7% year on year (5.6% in the first and second quarters). Similarly, export growth was slightly stronger in the third than in the second quarter, coming in at 3.2% chiefly due to increased exports to CEFTA countries, Russia and the USA. Exports of goods were up 4.2%, while exports of services were down 1.2% in real terms compared to the third quarter of 2002.

Real **value-added growth** strengthened slightly in the third quarter, going up from 2.1% year on year in the second to 2.3% in the third quarter, however, modest growth typical of the first half of the year remained. Like in the first two quarters, growth was strongest in the service sectors (up 3.4%), primarily in financial intermediation (5.3%), public administration (5.3%), and hotels and restaurants (4.8%). In primary activities, value added continued to rise modestly and was somewhat below expectations chiefly due to the ongoing weak growth in manufacturing and a slight slowdown in construction activity. Growth was also below expectations in some service sectors, mainly transport, storage and communications.

The **number of persons in employment** continued to fall in the third quarter of 2003 after this trend began in 2002 as a result of slow economic growth. Employment dropped by 0.3% year on year, with employment falling by 0.5% in the corporate sector, 1.2% in the household sector (chiefly on account of the number of farmers) and rising by 2.1% in the government sector.

Even though economic growth was slightly below expectations in the first three quarters (the autumn forecasts 2003), a number of indicators suggest that economic recovery was evident in the last few months of the year: growth in exports (see p. 4) and industrial production (see p. 12) strengthened, and corporate and household borrowing increased (see p. 8). Economic growth in 2003 is estimated to be just about two-tenths of a percentage point lower than projected (2.6%), while the forecast for 2004 (3.6%) is still achievable.

Consumer prices climbed by 0.1% in December, which makes it the second lowest rise in 2003. Prices rose by **4.6%** in **2003** as a whole (7.2% in 2002), while the average inflation rate was 5.6%. December's price rise was mostly underpinned by higher prices in the groups of transport (roadworthiness tests) and recreation and culture, while inflation was 0.2 of a percentage point lower thanks to falls in the prices of clothing and footwear.

In 2003, price growth was lower than in 2002 owing to: (a) *the slowing rise in administered prices:* they were up 4.0%, while they climbed by as much as 9.2% in 2002. Their contribution to inflation is estimated to total 0.6 of a percentage point (1.3 percentage points in 2002); (b) *a lower raising of indirect taxes:* changes in tax rates added 0.7 of percentage point to inflation (1.7 percentage points in 2002). Further, the counter-cyclical adjustment of excise duties on liquid fuels helped ease off inflationary expectations; (c) *slower depreciation of the tolar:* the euro's year-on-year appreciation slowed down by 1.2 percentage points to 2.8% at the end of December. In 2003, the euro's rise over the same months of 2002 increasingly decelerated towards the end of the year and, assuming the high pass-through effect of the exchange rate on consumer prices, which takes place with a six to nine month delay, the contribution of the euro's appreciation to inflation fell by about 0.8 of a percentage point.

In its autumn 2002 forecasts, the IMAD already projected that inflation's drop to around 5% in 2003 could not be realised without the co-ordinated action of the government and the Bank of Slovenia. Following the measures these two institutions applied up until August 2003, when the inflation forecast was made under the Autumn Report 2003, and taking into account possible one-off effects on inflation (primarily drought in summer) and previous price movements (up until August inflation slightly exceeded the forecast), we corrected the inflation forecast upwards to 5.5% in September. The government and the Bank of Slovenia made their policies more restrictive in the last quarter of 2003 and also took additional measures (the Programme for Entering the ERM2 and Introducing the Euro, and the suspension of raising administered prices in case of unfavourable trends in inflation). At the end of the year, the government adopted the Plan of Adjusting Administered Prices for 2004-2005, which envisages lower growth in administered prices than before. These prices should rise by no more than 3.4% in 2004 and 2.3% in 2005, while their contribution to inflation should total 0.5 and 0.4 of a percentage point, respectively. The IMAD will make a **new forecast of inflation** by 15 January this year as a result of the profound changes brought about by these measures.