Balance of Payments, Jan–Dec 2003, EUR million	Inflows	Outflows	Balance[1]	Balance Jan–Dec 2002
Current account	14,862.8	14,846.0	16.7	329.7
Trade balance (FOB)	11,426.5	11,970.8	-544.3	-265.4
Services	2,464.6	1,923.6	540.9	626.9
Factor services	525.3	598.0	-72.7	-174.2
Unrequited transfers	446.4	353.6	92.8	142.4
Capital and financial account	1,726.1	-1,789.0	-62.9	-326.6
Capital account	6.9	-3.2	3.7	2.0
Capital transfers	6.7	-1.2	5.5	2.8
Non-produced, non-financial assets	0.2	-2.0	-1.8	-0.8
Financial account	1,719.2	-1,785.8	-66.6	-328.5
Direct investment	160.4	-269.4	-109.0	1,608.2
Portfolio investment	0.0	-218.9	-218.9	-69.1
Other long-term capital investment	1,558.8	-1,002.8	556.1	51.1
Assets	0.0	-963.3	-963.3	-939.2
Liabilities	1,558.8	-39.5	1,519.4	990.2
International reserves (BS)	0.0	-294.7	-294.7	-1918.7
Statistical error	46.2	0.0	46.2	-3.2

Source of data: BS. *Note*: [1] minus sign (-) in the balance indicates the excess of imports over exports in the current account and the rise in assets in the capital and financial account and the central bank's international reserves.

In **2003**, export flows were shaped by **weak international demand**, while import flows were largely influenced by **increased domestic demand**.

Exports shown in current euros increased by 2.7% in nominal terms over 2002 (exports of goods were up 3.1% and exports of services 0.6%). As a result of modest economic growth in EU members (0.8%), the share of merchandise exports to these markets shrank by one percentage point to 58.4%, declining for the fourth year running. While exports to Austria and Italy increased (up 6.8% and 11.7%, respectively), exports to Germany and France dropped (down 3.8% and 13.1%, respectively), leading to a modest rise of 1.3% in total merchandise exports to the EU. Exports to the countries of former Yugoslavia were also low, with exports of food products and electrical machinery and equipment falling notably, while exports to the former Soviet Union and CEFTA increased mainly in the second half of the year. The biggest growth was seen in exports to non-European OECD members (up 30.9%) chiefly due to a surge in exports of medical and pharmaceutical products to the USA. Broken down by end-use product groups, exports of investment goods increased the most (up 6%), while exports of consumer goods rose the least (up 0.3%). Thanks to the increased domestic consumption, especially investment and private spending, **imports** given in current euros rose by 5.5% in nominal terms over 2002 (imports of goods were up 5.5% and imports of services 5.6%). Import growth was also influenced by major one-off transactions such as the purchase of a civil aircraft and helicopters. Excluding these, import growth would have been 0.3 of a percentage point lower. As regards end-use product groups, imports of investment goods rose the most (up 12%) mainly thanks to imports of industrial machinery, which was underpinned by intensified investment activity in manufacturing. Weak demand, particularly in the EU, affected manufacturing's production volumes, which rose by just 1.6% compared to 2002. As a result, imports of intermediate goods were modest and rose the least among all product groups (up 3.9%). The strengthening of domestic demand led to robust and accelerating growth in imports of consumer goods. The trade deficit widened as a result of a larger deficit with EU and EFTA countries and a smaller surplus with the countries of former Yugoslavia.

Growth in trade in services was weaker than growth in trade in goods. The surplus in services trade narrowed from 2002 even though the terms of trade in services improved thanks to the higher export prices of transport, and restaurant and hotel services (see p. 6). Exports of the three main categories of services (transport, travel and other services) rose less than their imports. This was due to faltering exports on one hand and, on the other, growing imports of other services (mostly insurance, computer and information, and intermediation services) and transport services, which were fuelled by intensified growth in goods imports.

As far as **factor incomes** are concerned, the biggest rise was seen in interest earned on investment in bonds and notes, resulting from residents' increased portfolio investments abroad. Interest paid on external debt climbed by 2.3%, with interest paid by domestic enterprises and the government falling and interest paid by domestic commercial banks rising. Given the rise in external debt, interest payments would have been higher if interest rates in international financial markets had not fallen. Despite the higher interest payments on external loans, the deficit in factor incomes narrowed mainly thanks to the changed methodology of calculating foreign investors' reinvested earnings. As regards the current transfers balance, transfers received from other sectors were less, while transfers of other sectors abroad increased (insurance and other transfers).

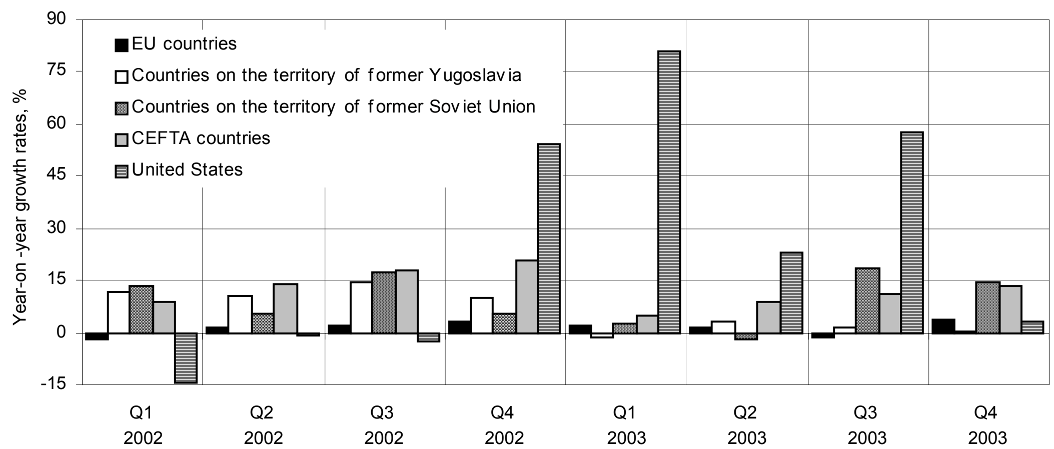
The **current account surplus** narrowed markedly compared to 2002 primarily owing to the larger trade deficit and partly owing to the smaller surplus in services. Despite the increased domestic spending, domestic savings were sufficient to finance domestic investment, leading to a slight current account surplus (0.1% of the estimated GDP).

Along with the narrowing of the current account surplus, assets in the capital and financial account rose less than in 2002. The structure of the capital and financial account changed, and the **net financial flow** (excluding international reserves) totalled EUR 228.2 million, equalling just 14.3% of the net flow seen in 2002. As regards net capital inflows, the largest ones were net external loans, and currency and deposits with banks. Capital outflows involved currency and household deposits, commercial credits, investment in securities and direct investment.

Slovenia was a net investor in the field of direct investment and investment in securities. **Foreign direct investment** slumped, only accounting for 0.7% of the estimated GDP (7.3% of GDP in 2002). On the other hand, Slovenia's outward investment increased, mainly involving equity investment, especially in the countries of former Yugoslavia. Slovenia's direct investment abroad outstripped foreign direct investment in Slovenia for the first time after 1992. **Investment in foreign securities** also rose and totalled EUR 193.6 million (EUR 94.1 million in 2002). Short-term **commercial credits** fell from EUR 419.4 million in 2002 to EUR 235.3 million in 2003 owing to slackened growth in exports of goods compared to 2002. According to figures from the Bank of Slovenia, net external assets involving short-term commercial credits increased by EUR 88.6 million against the countries of former Yugoslavia, EUR 76.1 million against the USA and EUR 55.2 million against the former Soviet Union. Net external liabilities rose mostly to EU members (up by EUR 64.9 million), of which the most were to Austria and Belgium. **International borrowing** increased as a result of the difference in the cost of domestic and external borrowing. Net inflows of loans extended between non-affiliated residents and non-residents (banks, the government, other sectors) totalled EUR 870.5 million, EUR 272.1 million more than in 2002. Banks borrowed EUR 550.2 million and other sectors EUR 387.1 million. The government sector, which only recorded liabilities to non-residents, continued to repay loans as repayments totalled EUR 66.8 million more than borrowings. Net loans extended between affiliated residents and non-residents, included under direct investment (other capital), amounted to EUR 200.5 million. Most of this increase was the result of structural changes to direct investment introduced in July 2003 (equity was reclassified as a loan). The overall net loan position, regardless of capital affiliation, shows that Slovenia was a net recipient of loans, amounting to EUR 1,071.1 million (EUR 615.4 in 2002). A rise was chiefly seen in the long-term international borrowing of commercial banks, which pushed up gross external debt the most. As much as 63% of new net indebtedness came from domestic commercial banks, which stimulated corporate borrowing in foreign currency. Net corporate borrowing abroad fell by EUR 41.3 million compared to 2002.

The **rise in the overall balance of payments**, reflecting the central bank's international reserves, was much less than in 2002 because of the lower current account surplus and modest net capital inflows. These balance-of-payments developments reduced the stock of net external assets of the Bank of Slovenia and commercial banks which, in turn, kept growth in the M3 monetary aggregate down. At the end of 2003, the **central bank's international reserves** totalled EUR 6,879.0 million, while commercial banks' reserves totalled EUR 1,024.8 million. The **stock of total foreign exchange reserves** amounted to EUR 7,699.8 million, down EUR 142.3 million from the year before. Total foreign exchange reserves were sufficient to cover 6.6 months' average worth of imports of goods and services (7.1 months' worth in 2002).

Graph: **Year-on-year growth in Slovenia's exports of goods (EUR) in 2002-2003 broken down by quarters**



Source of data: SORS, calculations by the IMAD.