Consumer prices rose by 0.1% in **February** meaning modest price increases were sustained from the previous few months. Annual inflation dropped to 3.6% (4.6% in December last year), while the average inflation rate continued to decline and came in at 5.1% in February (5.6% in December last year). As in the past few months, when price rises were not significantly influenced by one-off and/or chance factors, February's inflation was chiefly shaped by seasonal factors (lower prices of food and non-alcoholic beverages, clothing and footwear). In addition, the prices of motor vehicles, electricity for households and car insurance increased. Figures for the first two months confirm the IMAD's inflation forecast (January 2004; see SEM 1/2004:3), while price rises were even lower than anticipated as a result of the consistent pursuing of restrictive policies (see SEM 12/2003:3) and, according to our estimates, declining inflationary expectations.

In 2003, modest growth in **exports of goods** (up 3.1%, measured in euros), which was in line with the autumn forecasts, was largely due to the slow economic recovery in EU members, Slovenia's most important trading partners. The importance of these markets has declined for several years as exports to other regions rose: exports of goods to the EU accounted for 58.4% of total exports of goods (59.4% in 2002). Unlike in 2002, exports to the countries of former Yugoslavia, except Croatia, dropped (measured in euros). Exports to Russia and CEFTA sustained the relatively strong growth of 2002, as projected in the autumn forecasts (see pp. 4-5). Following the rise in domestic consumption, **imports of goods** increased by 5.5% (measured in euros), more than projected in the autumn forecasts. Robust growth in imports of investment and consumer goods (up 12% and 5.6%, respectively, measured in euros) confirmed the anticipated strengthening of investment and private consumption, while the low growth in imports of intermediate goods (up 3.9%) was in line with **manufacturing's** modest production growth. After falling in the second and third quarters, production volumes increased in the last quarter, up 1.6% year on year, following a gradual improvement in economic conditions in the EU. The biggest growth was seen in highly export-oriented industries, while industries mainly depending on the domestic market stagnated. The first group also increased employment, however, employment fell in manufacturing as a whole. This points more to the diverging levels of competitiveness among manufacturing industries than manufacturing's export dependence.

These export-import flows reduced the current account surplus from EUR 330 million in 2002 (1.4% of GDP) to EUR 17 million in 2003 (0.1% of the estimated GDP). The roughly balanced current account was the result of a larger trade deficit and a lower surplus in services compared to 2002 (see pp. 4-6). The capital and financial account of the balance of payments recorded a net capital inflow of EUR 228 million (excluding international reserves) compared to the EUR 1,590 million seen in 2002. Inflows of loans were much higher than in 2002, with domestic banks' borrowing surging in particular. Foreign direct investment first recorded a net outflow, while the net outflow of portfolio investment increased. Following the modest export growth, net capital outflows in the form of commercial credits shrank (see pp. 4-5).

In 2003, the average number of **persons in employment** fell by 0.8% over the year before mainly due to a lower number of farmers (down 19.5%), while the number of employees in enterprises and organisations rose by 0.3%. The number of persons in employment fell the most in agriculture and mining, and rose chiefly in business services and the public administration (see p. 11). The average **registered unemployment** rate was 11.2% (11.6% in 2002) and the **unemployment rate according to the labour force survey** was 6.7% (6.4% in 2002). The number of registered unemployed, which totalled an average of 97,674 in 2003, fell primarily thanks to high deletions from unemployment registers for usual reasons, as well as high deletions of the unemployed who entered training (10,000 Programme) or were transferred to other registers (see SEM 12/2002:14). On the other hand, the survey unemployment rate (ILO) rose because of a higher number of unemployed and a lower number of persons in employment, mainly farmers and those in informal employment. The latter seem to respond the most quickly to changing economic conditions. Deterioration in the labour market was therefore mostly the result of the faltering economic growth experienced in the last three years.

In 2003, real **wage growth** lagged behind the estimated labour productivity growth by around one percentage point. The gross wage per employee rose by 1.8% in real terms, up 2.1% in the private and 0.7% in the public sector, slightly less than anticipated in the autumn forecasts (see p. 12). While wage growth was moderate and conditions in the labour market deteriorated, **household borrowing** from banks increased, especially long-term borrowing (tolar loan growth was 5.6% in real terms in 2003 compared 0.4% in 2002). Factors that could account for these developments are the disburdening of household income from loans taken out in 1999 prior to the introduction of VAT and the start of a new cycle of buying durable goods (see p. 10). Falls in interest rates were the main reason that real growth in **household savings** in banks hit an **all-time low** (up 6.5% in 2003 and 12.6% in 2002), while investment in mutual funds increased at the same time (see p. 9). After falling in 2002, tolar **corporate borrowing** intensified (up 3.9% in 2003 and down 4.9% in 2002), while foreign currency borrowing maintained its robust growth from 2002 (up 39%; see p. 10). These dynamics were in line with the intensified investment activity of 2003.