Real **gross domestic product** growth strengthened to 2.5% year on year in the **last quarter of 2003**. As in the preceding three quarters, growth was mainly underpinned by domestic consumption, while the contribution of international trade was negative and relatively high (1.7 percentage points). The robust private consumption growth intensified further from the second and third quarters to total 3.6% year on year in the last quarter. Government consumption growth declined throughout the year and slowed down to 1.8% year on year in the last quarter, while gross fixed capital formation sustained its relatively high level and achieved 5.5% year-on-year growth. While the contribution of changes in inventories and valuables to economic growth continued to be positive, it was lower than in the third quarter. Exports to the markets of EU members strengthened thanks to the economic growth recovery seen towards the end of the year, while exports to CEFTA and Russia remained robust. As a result, real export growth was the strongest in the last quarter in 2003, coming in at 4.5%. As private consumption and exports strengthened, real import growth climbed to 7% year on year in the last quarter.

The rise in **value added** intensified further in the last quarter. Real growth was 2.9% year on year in the service sectors and 2.7% in primary activities after the former had notably exceeded the latter in the first three quarters. In the last quarter, value-added growth accelerated in primary activities thanks to manufacturing's solid increase of 4.8% after its value added rose modestly in the preceding three quarters.

**Economic growth** was **2.3%** in **2003** as a whole (2.9% in 2002). This was less than projected in the autumn forecasts (2.6%) and at the lower end of the estimate made after the GDP figures for the third quarter were released (see SEM 1/2003:3). What chiefly differed from the forecasts is the structure of growth because the contribution of domestic consumption exceeded our projections. Private consumption achieved 3% growth (1.1% in 2002), more than estimated in autumn (2.5%). This suggests that the new cycle of buying durable goods, as household income continued to be disburdened by loans taken out in 1999, must have already started in 2003 and was additionally encouraged by falls in interest rates. Investment activity also strengthened: real growth in gross fixed capital formation was 5.5%, more than anticipated in autumn as well as more than in 2002 (1.3%). Government consumption achieved 2.8% growth (2.5% in 2002) and was largely fuelled by employment growth in the central government sector. Here, employment increased by 2.2% (according to the national accounts), while it shrank in other sectors. The accelerated investment activity and increased private consumption pushed imports up, which rose more than projected in the autumn forecasts (import growth was 6.3% in 2003 and 4.9% in 2002). Following the slow real export growth (3.4% last year and 6.5% in 2002), mainly resulting from the low economic activity in Slovenia's main trading partners, the contribution of international trade was negative (-1.8 percentage points) and bigger than anticipated in autumn. This contribution was positive in 2002 (0.8 of a percentage point). As in 2002, employment fell in 2003 by 0.2%, according to the national accounts, however, this was less than projected in the autumn forecasts.

**Value added** increased by **2.6%** in real terms in 2003, less than the year before (2.9%) chiefly due to lower growth in primary activities. Value-added growth slowed down significantly over the year before in agriculture, fishing, and electricity, gas and water supply. Manufacturing's value-added growth also slowed down, mainly due to the modest rise in export demand (2.7% in 2003 and 4.6% in 2002), while growth strengthened in mining and construction. As far as services are concerned, value-added growth was much stronger than the year before in hotels and restaurants and slightly stronger in health and social work, the public administration, and other community, social and personal services. Growth was lower than in 2002 in transport, storage and communications, and financial intermediation.

The level of business optimism in manufacturing improved in March for the third month running. According to the SORS' survey on **business trends in manufacturing**, the **composite confidence indicator** comprising total order books, stock levels and production expectations was positive in March for the second month in a row, rising by 2.0 percentage points compared to February. The indicator was 7.6 percentage points above the average monthly value of 2003. Similarly, the seasonally adjusted series of monthly values improved and showed an upward tendency. The share of surveyed enterprises expecting an improvement of the business climate was 3.0 percentage points bigger than the share of those expecting a worsening.

Business expectations of export and total demand growth for the next three to four months were substantially above the monthly average of 2003. However, after leaping in January, these expectations did not indicate an upward tendency in February and March, suggesting some uncertainty in expectations of the corporate sector. Uncertainty is also revealed by business climate data for Germany, Slovenia's main trading partner: according to figures from the IFO Institute from Munich, the level of business climate fell in March for the second month running after having improved in the preceding nine months.

**Consumer prices** rose by 0.6% in March. Nevertheless, the long-term price indicators continued to slow down from early 2003. Annual inflation dropped to 3.5% (4.6% in December last year), while the average inflation rate continued to decline and came in at 4.9% in March (5.6% in December last year). March's price rise was chiefly due to seasonal factors, while one-off factors with the biggest impact on inflation were higher prices of liquid fuels for transport and heating. Long-term deceleration in inflation can be explained by tighter macroeconomic policies and, more importantly, their improved co-ordination.