Figures show that the forecasts of economic recovery in the **EU** are in fact being realised. According to the preliminary estimate, GDP growth was 1.3% in the euro zone and 1.6% in the EU-25 in the first quarter compared to the same period last year; growth was 0.7% in Germany, 0.8% in Italy and 1.7% in France. However, the trend rate of industrial production growth slowed down in early 2004 after it had started to rise in the second half of 2003; it even fell in Germany and Italy in March over the same period last year. On the other hand, the level of order books increased significantly in the euro zone and the EU-25 in March in both month-on-month and year-on-year terms.

Figures for **Slovenia** are in line with these developments: **growth in exports of goods** strengthened markedly to 8% in the first quarter over the same period last year (measured in euros). This acceleration was chiefly due to substantial growth in exports to EU-15 members in March; in the first quarter exports to the EU regained the 2001 level after rising modestly in 2002 and 2003. Exports to Germany and Austria increased, while exports to France and Italy fell. The relatively strong rise in exports to Croatia, Russia and former CEFTA countries seen for several years now strengthened further in early 2004 (see p. 4). Figures on production activity are in line with these trends: production strengthened in March in particular and rose by 4.2% year on year in the first quarter, slightly less than in the last quarter of 2003 when the recovery began (see p.13). **Imports of goods** increased by 5.9% year on year in the first quarter (measured in euros) and sustained last year's high levels. The biggest rise was seen in imports of consumer and investment goods thanks to accelerated growth in March, suggesting that the forecasts of strong private and investment consumption growth are being met. This is supported by figures on household and corporate borrowing (see p. 9). The current account of the **balance of payments** recorded a slight surplus in the first three months (compared to a slight deficit seen in the same period last year) mainly due to the lower trade deficit. As far as international financial transactions are concerned, outward direct investment maintained a high level, while inward direct investment increased slightly in the first three months over the same period last year. Outflows of investment in securities continued to strengthen because capital gains are tax-free and movements in foreign financial markets are favourable. Following the strong rise in exports, the level of commercial credits surged. The international borrowing of banks still increased, while that of enterprises fell compared to the same period last year as enterprises took out more foreign currency loans from domestic banks (see p. 9).

Given the high **oil prices** seen in the first quarter (USD 31.5 per barrel of Brent crude), the spring forecasts assume a slightly higher average oil price for 2004 (USD 27.7 per barrel) than the autumn forecasts (USD 26 per barrel). Contrary to expectations, there has been no fall in prices since March and prices rose further to total an average of USD 38 per barrel in May. If the average oil price is about USD 4 higher than assumed in the spring forecasts (totalling USD 31.7 per barrel), economic growth would be at most 0.2 of a percentage point lower than projected. This estimation is based on the negative impact of higher oil prices on domestic spending, while the forecasts of export growth should be realised because they draw on foreign demand assumptions from the latest IMF and European Commission forecasts that already take higher oil prices into account (the forecast of exports is slightly conservative in the IMAD's baseline scenario). The deteriorated terms of trade might widen the current account deficit by around EUR 100 million.

Consumer prices rose by 0.9% in May and annual inflation climbed by 0.3 of a percentage point to 3.8% (5.5% seen in May last year). This high price increase, however, did not interrupt the downward trend in the average inflation rate, which fell by 0.1 of a percentage point over April and totalled 4.6% (6.6% in May last year). May's inflation was fuelled by two groups of factors: the rise in the prices of liquid fuels for transport and heating and the impact of prices with a strong seasonal component such as the prices of clothing and footwear and recreation and culture.

The main reason for **prices increasing faster than anticipated** is the rising oil prices. On the other hand, the main economic policy guidelines remain in line with the assumptions underlying the spring forecasts. Hence, inflation trends will primarily depend on oil prices in the rest of the year: if oil prices fall or return to the level projected by the OPEC early in the year, inflation will decline close to 3.3% in Slovenia by the end of the year, as anticipated by the spring forecasts. If the average oil price climbs to USD 31.7 per barrel, inflation would be about 0.2 of a percentage point higher. However, even if oil prices do not come down Slovenia's entry to the ERM II is not endangered. Namely, the rising oil prices are also affecting prices in the EU, which climbed by 2.5% in May (2.0% in April) according to Eurostat, so the meeting of the Maastricht inflation criterion is not at risk because of these price movements.

The **survey unemployment rate** climbed slightly in the first quarter of this year, going up to 6.8% from 6.7% in 2003, which was the usual seasonal trend at the beginning of the year. The number of people in informal employment rose more than the number of unemployed or people in formal employment (which was lower than a year ago) for the first time since2001 (see p. 10). The social partners have agreed on the **bill amending the Public Sector Wage System Act**, which lays down the method underpinning the changeover from the old to the new wage system, determines the basic wage in the new system, and provides a wage adjustment of 2.5% in July for the public sector (see p. 11).