The 2004 spring forecasts were prepared on the basis of data available up until mid-March; the current macroeconomic indicators are moving in line with the forecasts. **Exports of goods** (measured in euros) increased by 4.2% in the **first two months** over the same period last year (up 2.9% in 2003). Exports to EU members (up 1.2%) maintained roughly the level of the previous year (up 1.3%) because the economic recovery was still relatively modest. Exports to Croatia, as well as Russia, accelerated (see p. 6). Exports to CEFTA countries, which are now members of the EU, remained at last year's high level, exports to Serbia and Montenegro increased, while exports to Macedonia and Bosnia and Herzegovina stagnated. **Imports of goods** rose modestly in the first two months (up 1.1%; see p. 6), however, growth in imports of consumer goods accelerated further in line with the projections of intensified private consumption growth. This is confirmed by household borrowing figures, according to which long-term borrowing increased in particular (see p. 10). This was also encouraged by falls in interest rates (also see p. 8). On the other hand, imports of investment goods dropped because of last year's high level generated by a particular one-off transaction (see p. 6), as did imports of intermediate goods resulting from the modest growth in **manufacturing's production**. Production volumes edged up 0.6% year on year in the first two months (up 1.6% in the same period last year), according to provisional data, after rising in January and falling in February. However, production growth is expected to strengthen in the upcoming months, as suggested by the **business climate indicators**. After being at a low level in 2003, the business climate began to improve notably at the beginning of this year. The confidence indicator has been on the increase for four months running (also shown by the seasonally adjusted series), and April's value was 13.6 percentage points above the average monthly level in 2003. Business expectations of export and total demand growth for the next 3-4 months were above last year's average, however, no upward tendency has been recorded in recent months. This shows that a certain degree of uncertainty can be detected in the expectations of the business community.

Consumer prices *rose by 0.5% in* ***April****, while annual inflation stayed at the same level as in the preceding month (3.5% compared to December's 4.6%).* Like in March, price rises were mainly underpinned by seasonal factors, while the main one-off factor was higher oil prices. As a result of the rising oil prices in the first four months, Slovenia's inflation was 0.3 of a percentage point higher. Similarly, inflation in the euro-zone countries is estimated to have been fuelled by the same factor and totalled 2.0% in April, according to Eurostat's preliminary estimate.

The ***Wages Policy Agreement for the Private Sector for 2004-2005*** *was signed at the end of April, which should help private-sector wages move in line with the spring forecasts and the Social Agreement, according to which wage growth should be less than productivity growth.* The adjustment mechanism includes anticipated movements in consumer prices excluding alcohol and tobacco, anticipated inflation trends in the EU, and the anticipated exchange rate of the euro. The most important element of the Agreement is that adjustment now involves an agreed amount of wage supplement rather than a percentage increase.

The ***International Institute for Management Development (IMD)*** *from Switzerland published the World Competitiveness Yearbook in early May, assessing the competitiveness of 60 countries.* The value of Slovenia's **world competitiveness index (WCI)** rose again in **2004** (from 51.817 in 2003 to 55.498) mainly thanks to improved economic performance, government efficiency and infrastructure, while business efficiency fell notably. At the same time, Slovenia's ranking fell markedly, down from 40th place in 2003 to 45th place in 2004 among 60 countries and down from 26th to 28th place among countries whose population is less than 20 million. While the main setbacks in Slovenia's competitiveness came from infrastructure last year, the main risk factor is **business efficiency** this year, where Slovenia lost 13 places, reflecting the pending structural reforms. The lowest-ranking business efficiency sub-indexes are finance (bank efficiency, stock market efficiency and self-financing), where Slovenia occupies 52nd place, relations and values (55th place), and management practices (46th place). Some **government efficiency** sub-indexes also display negative divergence, with the worst-ranking ones being fiscal policy (52nd place), the institutional framework (central bank and state efficiency) (49th place) and business legislation (openness, competition regulations, labour regulations, and capital markets regulations) (49th place).
The IMD has identified the following **key challenges in improving Slovenia's competitiveness**: the high social security contribution rate and high effective personal income tax rate, that is the high tax burden in general, low growth in the labour force, acceleration of high-technology exports and exports of commercial services, incentives for foreign direct investment, a low level of the national culture's openness to foreign ideas (co-operation), relocation of R&D facilities and the availability of qualified engineers, the cost of Internet use, low capitalisation of the stock exchange market and its operations (insider trading), and effectiveness of Supervisory Boards.
The **level of Slovenia's competitiveness** can also be assessed in relation to other EU members. Slovenia is ranked better than Lombardia, one of the best performing regional economies in the world, occupying 36th place last year and 46th place this year. Further, slight falls in ranking were also recorded by Switzerland, the Netherlands, Belgium, the UK, the Czech Republic (35th place last year and 43rd place this year), Hungary (34th and 42nd place), Estonia (22nd and 28th place), Italy (41st and 51st place), France and the region of Ile-de-France. On the other hand, the ranking improved for Slovakia (46th place last year and 40th place this year) and Austria (14th and 13th places).