ICEG EUROPEAN CENTER

NEWS OF THE MONTH
on EU-8 and CIS

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News of the Month, *on EU-8 and CIS*

The ICEG European Center issues its monthly publication, which includes 3-4 brief analyses dealing with underlying macroeconomic and microeconomic issues. The publication focuses on two groups of countries: *Countries of Independent States - CIS* (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan) and *Eight New Member States – EU-8* (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia).

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East-West labour migration in the EU and impacts in the EU-8

Ágnes Magai

One of the main worries concerning the EU enlargement in 2004 was labour migration from transition economies to the old member states. In the middle of nineties Europe suffered from high unemployment, therefore restrictions for free labour movement were set for the new member states. Following the EU-accession, Central and Eastern Europe became the origin of labour migration to Western Europe. Particularly Baltic, Polish and Slovakian people have made their way to old EU countries hoping to find better working conditions, since the United Kingdom, Ireland and Sweden opened their labour markets for the new entrants. Parallel with strengthening migration flows, labour market conditions in Central and Eastern Europe have improved notably, while some labour bottlenecks became severe in certain sectors.

Patterns of labour migration from EU-8

By 2007, the number of labour migrants from the Eastern part of the EU is estimated up to 5 million persons. The fastest migration is registered from Poland, Slovakia, Latvia, Lithuanian and Romania. On one hand, among EU-8 countries net migration was negative between 2001-2006 in Poland, Lithuania and Latvia, where labour outflow has been significant since the accession. On the other hand Hungary, Slovenia and the Czech Republic experienced a small outflow of national workers. However, the number of Slovakian emigrants is high; the number of arrivals went above that of departures; therefore net migration is positive. According to *Eurostat* estimates, in 2007 net migration turned to be negative in Estonia; until 2006 4.5% of the labour force left the country.

Table 1. Emigrant stocks in EU-25 in 2006 and approved applicants in the UK in 2004-2007

Country	**Persons**	**% of home country labour force**	**Approved applicants in the UK, 2004-2007**
Latvia	99 600	8.6	37 300
Lithuania	157 480	10	73 315
Slovakia	225 810	8.5	78 830
Poland	1 207 070	7.1	508 385
Estonia	31 030	4.5	6 845
Czech Republic	54 480	1.0	34 555
Hungary	25 430	0.6	25 755

Source: adapted from IMF: Migration in EU-8 countries; Regional Office Note August 2007 and Border & Immigration Agency Accession Monitoring Report May 2004 – Dec.2007

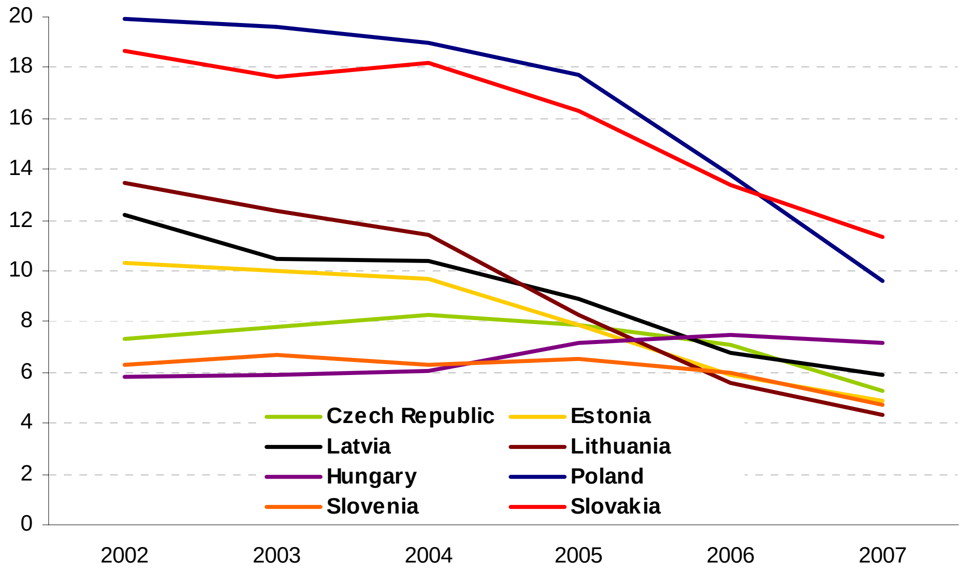
The most popular host country for Eastern Europeans is the UK, followed by Ireland and Sweden. In the period May 2004 to December 2007 0.8 million workers were registered in the UK. This number is significantly higher than earlier expected. The number of Polish workers registered in the UK grew to half a million and accounts for 66% of the EU-8 emigrants. The emigration to the UK had its peak in 2006, since then the yearly inflow of EU-8 workers has reduced. 82% of the EU-8 labour migrants were aged 18-34. The top five sectors for foreign workers in the most attractive host land are business and management (39%), hospitality and catering (19%), agriculture (10%), manufacturing (7%) and food, fish, meat processing (5%). The heaviest impact has been in Ireland, in proportion to the native population, which has seen an influx of 200 thousand.

Increasing employment and decreasing unemployment

According to theories, international migration is a win-win solution. East-West migration in the enlarged EU has proved to be beneficial for hosting countries, by filling some gaps in labour market. Despite of fears unemployment rate in the UK and Ireland remained about 5% and employment rate passed 71% in the UK and moved close to Lisbon target of 70% in Ireland.

The Eastern part of the EU has gone through favourable developments since the accession. In contrary to early 2000 marked improvement has been experienced in labour market conditions in EU-8 since 2004. High economic growth in the region – except for Hungary – has raised labour demand. Unemployment has fallen significantly from a very high level, because many of the earlier unemployed found jobs (*see Chart 1)*. Recent fall in unemployment is in relation with increasing demand for labour force, enhanced labour market flexibility, more effective matching of workers and emigration of labour force.[1] However, increasing demand for workers seems to be the most reasonable factor for improving labour conditions, also shown by rising job vacancy rates and annual wage growth. Though, labour migration plays an important role in reducing unemployment, increasing employment and wages in certain EU-8 countries. Unemployment has fallen most in the Baltic States, Poland and Slovakia, where emigration of working age population was relative large *(see Table 1).* In 2006, employment rates in Lithuania, Latvia and Estonia reached 64%, 66% and 68%, respectively. Job creation hasn't been so successful in Poland; employment rate was only 2.8 percentage point higher in 2006 than in 2004 (51.7%).

Chart 1. Unemployment rates, 2002-2007



Source: Eurostat

Labour shortages and wage increase

Labour migration between East and West is fuelled by wage disparities. Rising labour demand strengthened the power of employees in the wage bargaining process. Rising labour costs and growing skill shortages have becoming challenges for Eastern Europe.

Outflow of high proportion of work age population has caused labour shortages in several sectors in the new member states. Labour supply is particularly low in construction and catering, but serious worry about loss of

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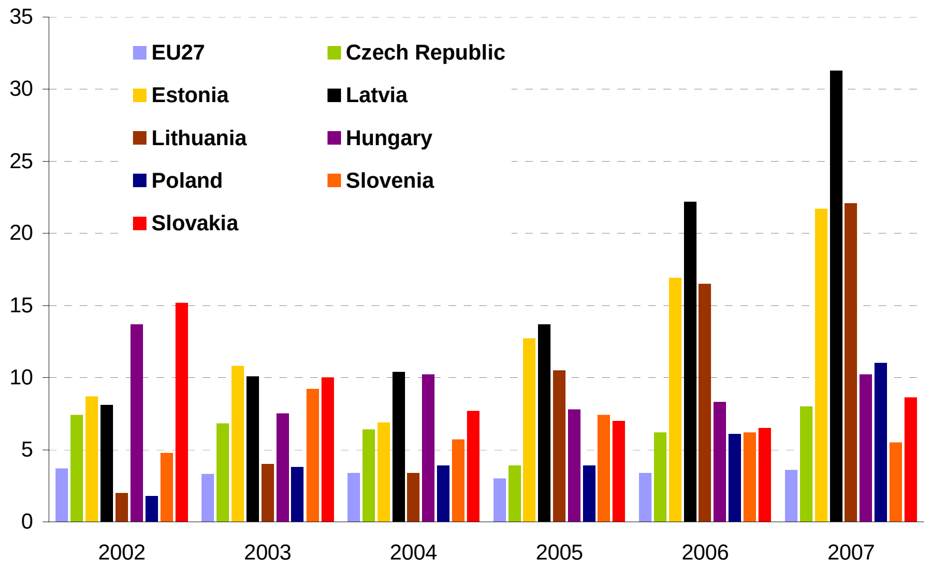
[1] World Bank EU8+2 Regular Report Part II: Special Topic: Labour Markets in EU8+2, September 2007

educated young people has been also emerged. Engineers, architects, nurses are in all short supply and the lack of skilled workforce has become one of the top business concerns. Labour shortages are evidenced in increasing job vacancy rates. Vacancy rates have grown remarkably in construction, manufacturing, retail trade and hospitality recently.[2] EU-8 countries that are particularly affected by labour and skill shortages are Latvia, Lithuania, Estonia, Czech Republic, Poland and Hungary. An enterprise survey conducted by the National Bank of Poland reflects that hiring workers in Poland has become a key obstacle to future firm growth. In 2007 60% of enterprises had particular problem with recruiting workers. 24% and 55% of Polish firms reported difficulties with hiring unskilled workers and skilled workers respectively. The most affected is the construction sector where 90% of the enterprises experienced hiring problems. In Estonia employers have difficulties to find highly qualified specialist in engineering, steel construction and electronics industries. Health care professionals are a bottleneck in Estonia and Hungary, where wages in health care and social work are extremely low as compared to Western Europe.

Labour shortages have led to accelerating wage growth in the EU-8. In some sectors, principally in construction, labour productivity growth is behind salary growth causing higher unit labour costs. Labour costs have never grown so dynamically since the collapse of the communism *(See Chart 2.).* Also real wages have been escalated significantly in the region.

Chart 2. Labour cost index, 2002-2007 (change on previous year, %)



Source: Eurostat

Labour costs in the construction industry rose very dynamically in the last two years. The same tendency can be observed in health care, retail sales and in Poland in agriculture. Labour productivity (in terms of GDP/person employed) increased by more than 5% in Estonia, Latvia, Lithuania and Slovakia on average in the period 2004-2007. Increasing wage pressures, especially in the Baltic States have reinforced inflationary pressures.

Conclusions

Out-migration of working age population shows a somewhat mixed picture in the EU-8. Following accession a large number of young and educated Eastern Europeans has emigrated to Western Europe, causing

[2] World Bank EU8 Quarterly Economic Report Part II, Special Topic: Labour Migration from the new Member States, September 2006

labour and skill shortages as well as wage increase in several sectors in sending countries. Continuing outflow of work age population and unskilled and low qualified workforce could be obstacles for maintaining high economic growth in the medium term. Solution can be the stimulation of labour force participation, importing workforce, motivation of emigrants to return home and reform educational systems more responsive to changing labour market needs.

Eliminated exchange rate bands in Hungary

Krisztina Matkovics

The Magyar Nemzeti Bank (National Bank of Hungary, NBH) announced the change of its exchange rate regime on the 25 February 2008 that is the most important step in the monetary policy regime since the expansion of the band. This decision means implicitly that the introduction of the euro can't be realised in the coming years, thus the uncertainty concerning the euro area entry increases. The measure seems to be a desperate attempt to act in a situation of moderate economic growth and high inflation. As being in the system of inflation targeting, the decision seems rational by shifting price convergence from the relative prices to the nominal exchange rate, not mentioning its positive externality for the credibility of monetary policy. However, it is likely that the monetary policy will not be able to avoid interest rate increase.

Good choice for the euro

With the current decision a practice that determined the monetary policy for 13 years came to the end, namely the use of nominal exchange rate as a prior and targeted monetary factor. After the change of regime in the end of '90s high inflation and considerable competitiveness deterioration was characteristic in the transition countries. In 1995 as a part of the stabilisation program the government and the NBH started to use crawling peg. The exchange rate of the forint could float within the fluctuation margin of +/-2.25%. Until 2001 there were in advance announced depreciations, making calculable the development of the exchange rate. This track of the exchange rate tied down the economic policy and the budget, and helped influencing the expectations positively through strengthening of the reliability of bodies in charge.

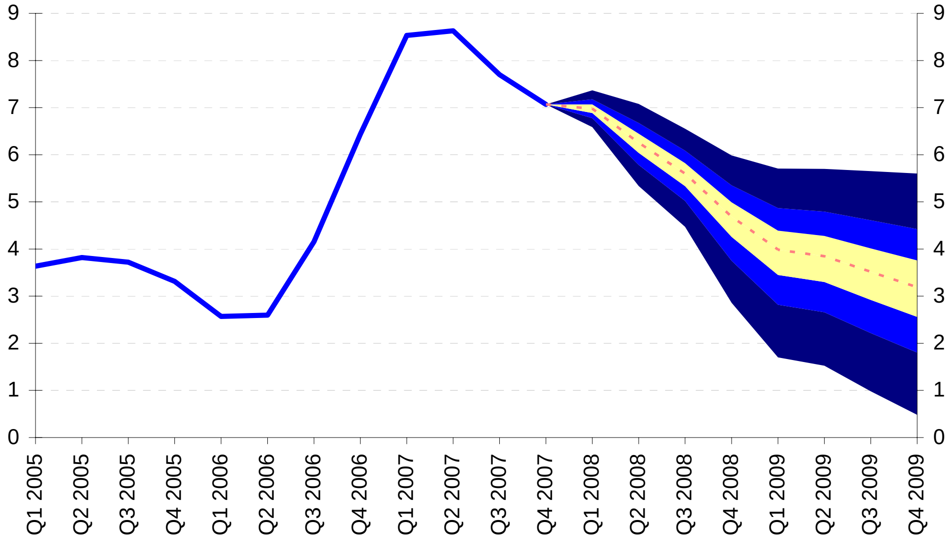
In 2001, the expressed date of the euro introduction was 2007, so the choice of +/-15% fluctuation margin seemed to be a good solution to discourage the NBH to use exchange rate revaluations. Through the wider margin the currency could also be tested by the market dynamic. Although Hungary's previous exchange rate regime and ERM-II mechanism were really close to each other, Hungary was not prepared to join the EMR-II regime, as external and internal imbalances were not adjusted, and the bands operated as anchors.

Most of the surrounding countries chose managed floating (some of the currency board) in order to concentrate fully on its imbalances, because by fixed exchange rate regimes the monetary policy has to be subordinated to be able to keep the determined rate. The NBH urged the abandonment or a widening of the band since 2003, because of the large-scale exchange rate fluctuations and the presence of a high amount of speculative capital. In 2003 the central rate was depreciated by 2.26 %. The floating means an increased room for manoeuvre and all monetary instruments are going to be available to support its primary goal, which is in case of Hungary: keeping inflation low.

The abolishment of the bands is an old intention of the NBH and wish of the professional public opinion. The repeal solves the inconvenience of twin monetary policy targets, indicating credibly that the most important objective is to reach directly price stability. This inconvenience attracted speculation against the currency. The speculation causes instability, when the rate is close to the bands. This can be warded off by changing the interest rate and buying/selling foreign currency. By the elimination of the bands this speculation effect won't influence the inflation target, and the NBH needn't interfere any more to keep the nominal exchange rate in case it approaches either of the bands.

While it seems that the new regime is far from the ERM-II, it is obvious that it makes possible for the exchange rate central parity to occupy its equilibrium. This was expressed also by the President of the NBH, András Simor, who argued that the floating facilitates the entry into the mechanism and into the euro area.

Chart 3. Fan chart of the recent MNB inflation forecast (%)



Source: Magyar Nemzeti Bank

The effect of the decision

The decision terminated the inconsistence between exchange rate and inflation target, but until that time for the NBH the 15% rate was wide enough to fulfil the inflation target, the entry criteria for eventually joining the euro. Although the NBH needn't initiate a confidential procedure to reconsider the rates, the national currency (the forint) stood on the strong side in the past years that could support the long term disinflation goal. The NBH needed to adjust its inflation target to 3.6% for 2009 as not only the international, but also the fiscal policy determined domestic environment are not really in favour of disinflation process. The mortgage crisis in the US may have a negative effect on the growth prospects of the EU and the investors aren't likely to invest in risky countries as much as before.

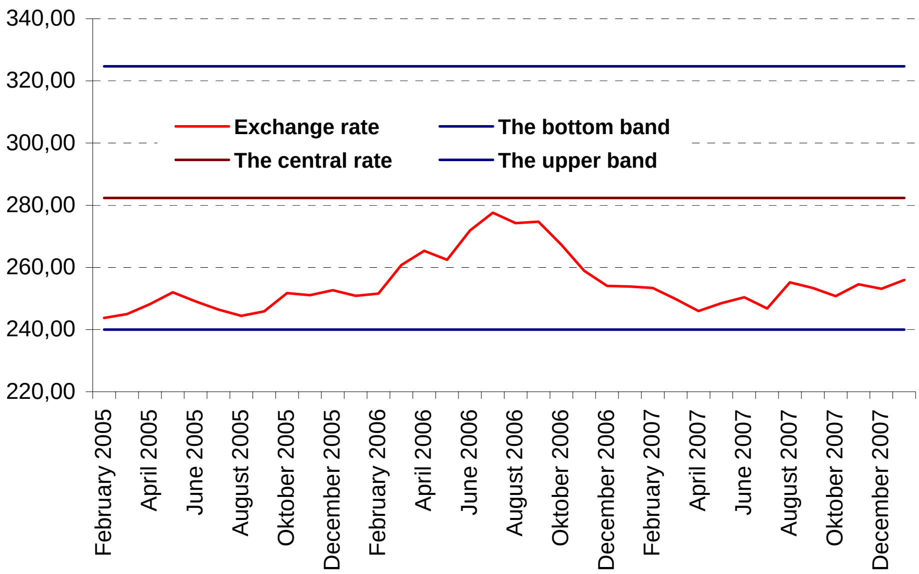
In worsening international and not really strong domestic environment, this decision was completely relevant. The market greeted the decision, because it likes, that the rate depends only on the demand and supply. Not only the market, but also the international participants received it with pleasure. Two years ago, the IMF advised a switch in the exchange rate regime to floating exchange rate would be suitable for Hungary; and Jean-Claude Juncker the chair of the committee of the finance ministers said that it was a right resolution. The success of the decision lies in quickness and unexpected character for the market; exchange rate was also far enough from the margins. These were important terms to avoid the speculation on the increase of the forint's exchange rate.

Besides long term strategy the change had also a short term effect. The market expected an interest rate increase, but the extension of the interest rate could be side-stepped by the elimination of the margins, it caused a strengthening of the forint. With the increase of credibility of the NBH the forint could steadily grow.

Reaching the main goal of the inflation, the NBH inserts some indirect instruments. The main instrument in the Committee's hand is the interest rate. It has 3 channels to effectuate: it has effect on the real interests – through on the macroeconomic demand; on the exchange rate – which has an effect both on macro demand and import; and on the expectations. Out of the main instrument of reaching the main goal is the exchange rate. By increasing interest rate the demand for the forint will be extended, this causes the strengthening of the nominal exchange rate. The exchange rate has an effect on the price of the tradable products, so it has indirect influence on the demand of the macro demand through the competitiveness of the exporting companies.

The effect of the development of the exchange rate will remain huge from inflation point of view, because the exchange rate channel remains an important instrument to tackle the inflation. The development of the exchange rate can't be left inconsiderable in the long term. Although with the elimination of the fluctuation margin the NBH won't put emphasize on the development of the exchange rate, the development of the exchange rate will determinate the central rate within the ERM-II mechanism, which serve as a base of the final fixed rate between euro and forint, when Hungary joins to the euro zone.

Chart 4. HUF/EUR exchange rate within the intervention band, 2005-2007



Source: National Bank of Hungary

Conclusion

There were two main reasons behind the timing of the regime change. The international environment and the investor's mood were not advantageous, and the possibilities of the Hungarian market depend really on the performance of the big foreign markets like the EU. The ability of carrying risk has decreased much. The unfavourable development of the international environment could hinder the Hungarian economy so it's catching up. The uncertain situation because of the resistance of the reforms has an effect on the track of the exchange rate. The elimination of the exchange rate reflects responds of the NBH on the disadvantageous period, encouraging the grow of it's credibility.

From investor point of view the floating of the forint was a great decision, but the development of the exchange rate can't be left inconsiderable in the future, because it remains important factor in inflation processes. The exchange rate before joining the ERM-II system can determinate the central rate.

Strong national currency and its consequences in the Czech Republic

Péter Hornyák

Recent months the Czech currency experienced considerable appreciation against the euro. Basically there are two main factors that lead to stronger koruna. From one side, the country converges to the euro area and it leads to real appreciation against the currencies of developed countries. From the other side, the "carry trade" in effect: investors borrow at low interest rates and bring their money to countries where higher interest rate is offered. The relatively high interest rate in Eastern European countries (for example 3.75% in Czech Republic) attract foreign investors who borrow yen (interest rate is 0.5% in Japan) and buy higher yielding assets in the region. Currencies in Central and Eastern Europe all appreciated against the euro but the Czech koruna appreciated against two of the Visegrád countries as well.

History repeats itself

The situation was quite the same in 2002, when the annual appreciation of the exchange rate peaked at 15% against the euro(just as it did this year in mid-February) and was only halted thanks to intervention and rate cuts of the Czech National Bank (CNB). Afterwards, the crown weakened in the course of a year and a half, and it took another three and a half years before it started to appreciate to its new record. The impact of the overvalued exchange rate was felt throughout the economy. The steep decline in export prices led to an absolute drop in exports as expressed in crowns. Export companies suffered from the lower growth in added value.

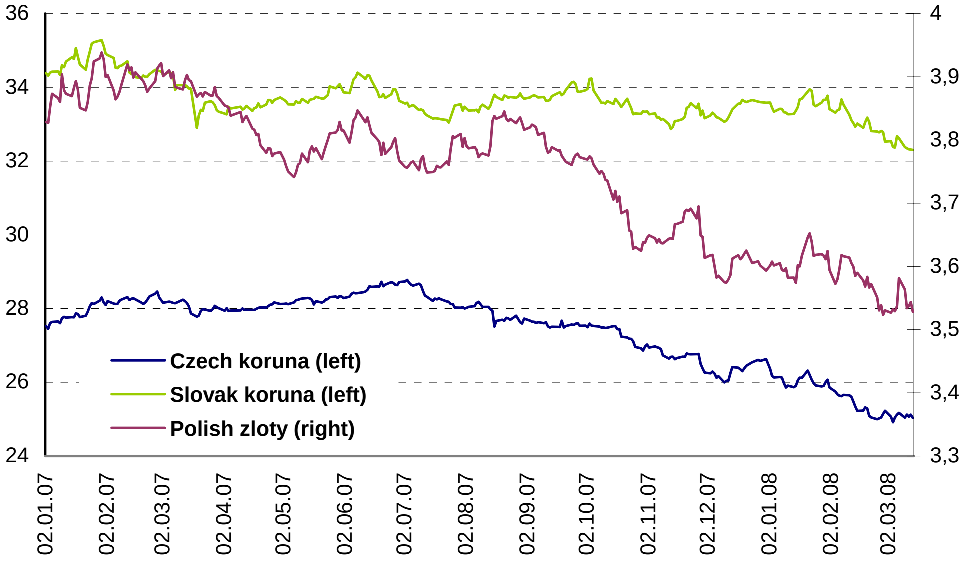
After half a year, inflation changed into deflation at the beginning of 2003 (the lowest value was -0.4% in the first three month). Consumers confronted with an unexpected growth in purchasing power, and only a drop in companies' investment activities prevented a worsening of the economy's external balances.

Some analysts expect this year's developments accompanied by many similar phenomena. Nevertheless, analysts do not expect 2008 to be a complete repetition of 2002, since the current situation differs in many ways. The global economic cycle is in a slightly different phase and the influence of autonomous prices will probably not allow deflation to occur. Exports are more dynamic and export companies are making more intensive use of instruments for exchange rate hedging. All of these factors should help to soften impacts. On the other hand intervention by the CNB that would speed up a turnaround on the currency market appears unlikely. Companies may thus be faced with a longer period of strong currency. Nowadays the CNB is not in the same economic environment, the inflation pressure doesn't allow a cut rate as in 2002.

Is the Czech koruna different from regional currencies?

Slovakia, Poland, Hungary and the Czech Republic are all committed as soon as possible to join the euro area under the terms of their entry into the European Union and to enter the ERM-II that is a precursor to euro adoption concerning the exchange rate criterion. However, only one of these states has designated target date as Slovakia wants to adopt the euro in 2009. For the major foreign investors these countries are treated quite similarly, so basically the region's currencies moving more or less together. Data confirm this co-movement.

Chart 5. Exchange rates of regional currencies against the euro, 2007-2008



Source: ECB

Their monetary policy shows similarities too, unlike the Baltic countries, each country employs inflation targeting regime. As Hungary eliminated the forint bands on 25 February 2008, all of the countries have floating exchange rate. Their monetary policies are sufficiently transparent, the major problems could occur around their fiscal policies.

The issue of the euro

It's apparent that the koruna's 15% real appreciation against the euro over the past 12 months is beyond its natural long-term appreciation trend, according to Tomas Holub the head of CNB's monetary and statistics section. The koruna gains not only cap inflation by lowering import prices, they also threaten to curb GDP expansion by making exports more expensive or by lowering exporters' koruna revenue. As the main trading partners of the country are located in the EU, the price competitiveness is likely to suffer seriously. While it is fair to mention that the strong national currency is favourable for imports and for domestic debtors with foreign currency denominated debt. One of them is the Czech government.

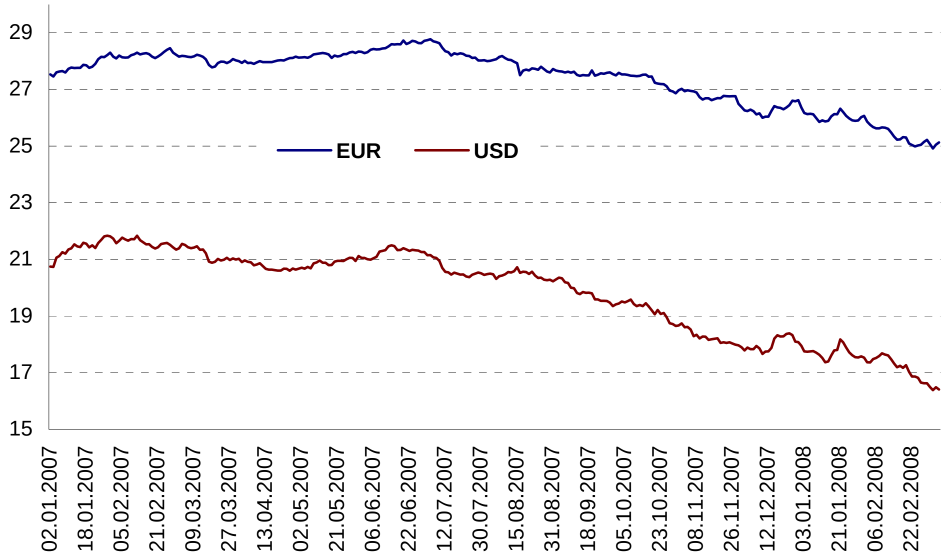
Not all of the gain must represent a great problem for the economy because part of the real appreciation reflects an increase in the price level arising from higher taxes, regulated prices and food costs. In the short run inflation expected to grow to 5.7% in 2008 from 2.9% in 2007, then back to 3.3% until 2010. This is such a type of inflation that doesn't undermine the economy's competitiveness. Besides stronger koruna helps fighting against inflation due to the diminishing import prices such as oil, which reaches record prices.

The economy's good condition and structure will prevent a major deceleration of GDP growth unlike in the years 2001-2002, when the koruna's strengthening and a faltering euro-zone economy stifled the expansion to below 2%, Holub said. Still, the central bank predicts the 2008 growth of only 4%.

Global challenges

Economists fear of global recession after the subprime mortgage crisis in the US. Signs have already shown in the US as analysts expect 1% growth this year. This is likely to affect the economy of the EU as well.

Chart 6. Czech koruna against major currencies, 2007-2008



Source: Czech National Bank

The global economic slump can weaken the currencies of the Central and Eastern European countries as the major export target country - the EU - is expected to grow at a slowing pace, 2.2% in 2008 and 2.1% in 2009. Declining tax revenue could also contribute to wider deficits (2.4% is forecasted in 2009 and 2010) and fiscal problems in the region.

Economic prospects and challenges in Uzbekistan

Mihály Borsi

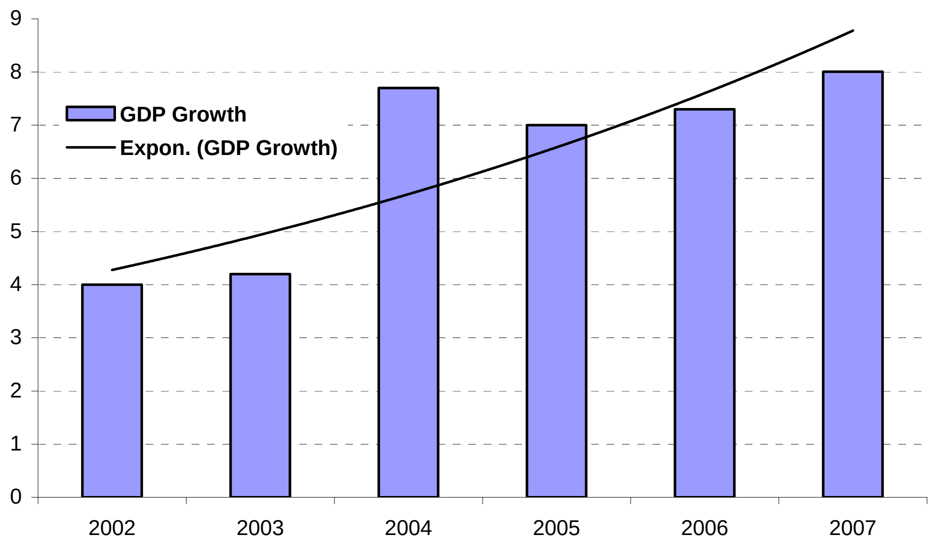
The Uzbek economy is characterised by strong, but narrowly based growth, which depends mainly on exports and productivity gains in the agriculture. Agriculture contributed to about 20%[3] of the GDP in the year of 2007. The outstandingly high trade surpluses in one of the yet best performing countries among the Caucasian and Central Asian region is due to its endowment of natural resources, such as cotton and gold. Uzbekistan is now the world's second largest exporter of cotton (fifth largest producer) after the USA, while being the seventh largest world producer of gold. The country is also major exporter of uranium, natural gas, coal and oil.

Although GDP development has already proved its positive results over the last two years, major challenges over the medium term are to handle poverty and unemployment issues, manage upcoming inflationary pressures and to integrate the economy with the region of CIS (Commonwealth of Independent States); continuing the revision of trade and customs policies and removing state control of economic activities are indispensable to achieve a favourable investment climate and foreign trade development.

Robust economic performance

Due to unreliable statistics of the Government of Uzbekistan, it is difficult to estimate economic growth, however, good results could be observed in the latter period. At the same time unequal redistribution of wealth has contributed to more than 25% of the population living below the poverty line, according to World Bank data provided. Real GDP growth topped at 8% year-on-year in 2007 (7.3% y-o-y in 2006) as a consequence of favourable world prices and strong external demand of such key export products as cotton, gold, corn and oil. Uzbekistan reached an outstandingly high trade surplus of nearly USD 2 billion in 2006 on account of terms-of-trade improvements.

Chart 7. Real GDP Growth of the Republic of Uzbekistan, 2002-2007 (%, y-o-y)



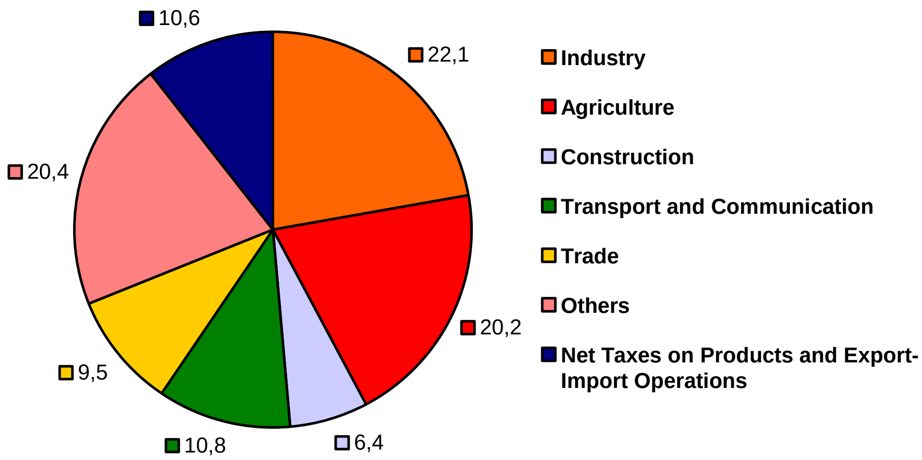
Source: State Statistical Committee of Uzbekistan

[3] Note: Government of Uzbekistan statistics is not consistently reliable.

In addition to the previously mentioned socioeconomic conditions, salaries and pensions increased 1.5 times last year[4], but unfortunately, revenues from production of commodities were distributed among the ruling elite, while cotton-harvest was carried out by students as unpaid labour.

The Republic of Uzbekistan is within the richest economies in the region concerning its natural resources, although the share of public sector made up only 21% of the GDP. Private sector currently owns 80% of industrial production and 100% (99.9%) of agricultural production and retail trade. The structure of the GDP, which can be seen in *Chart 8.* also demonstrates the importance of the agriculture and industry, being the main components of GDP growth in the country. While agriculture accounts for 20.2% of the total GDP in 2007, Uzbekistan's dominant crop, cotton production totals up to almost 16% of it. Although it is not the most important component, improvement in construction activities showed a notable increase compared to last years 5.6% of the GDP production (6.4 % in 2007).

Chart 8. The Structure of GDP Production by Activities in January - September 2007 (%)



Source: State Statistical Committee of Uzbekistan

Due to the great economic significance of the agriculture sector, reforms are being introduced constantly. The network of the market infrastructure has been recently extended, and privately owned firms deal with the processing of the agricultural products. As wheat, fruit and vegetables also assign to great importance, heavy irrigation developments are needed as well in the near future.

Minerals and mining are another main source of income for Uzbekistan, since it's the world's seventh largest producer of gold, with the production of over 80 tons of gold per year.[5] Production and export of not only gold but natural gas and oil have also increased because of growing external demand, which was favourable because of the gradual rise in world market prices of the country's major exports lately.

Trade developments

Favourable conditions of terms-of-trade have determined the economy of the Republic of Uzbekistan. Liberalised trade and private sector development contributed to high export growth; moreover, changes in world market prices for commodities were also prosperous concerning the export of the country. Annual

4 Average salaries reached USD 210 in 2007 December

5 Unofficial estimates

export growth was approximately 18% in 2007, 7% higher than two years before, and official reserves continued to rise as well. Only in the first half of 2007, exports increased by 40.7%, while imports increased by a bit more than 10%, ensuring a stable balance of payment. The trade balance exhibited a surplus of 19.5% of the GDP in the same period of the year. Cotton and some other agricultural products made up around 40% of the total exports; biggest export partners in 2007 were Russia, Ukraine, Turkey, Kazakhstan, Iran and China. Main imports are manufacturing products like machinery and equipment, but chemicals are also important goods streaming in the country.

Although cotton is considered as the driving force of economic growth, Uzbekistan is attempting to be less dependent on it, hence changing the industrial structure of the country. The State has achieved by some measures that more emphasis is put on finished goods such as textiles, electronic products, fertilisers, construction materials, while export of raw materials like cotton fibre have already started to decline by now. Trade regime still remains restrictive after liberalising the agricultural sector, obviously to protect domestic industries. The government exercises import substitution policy to prevent capital outflow - restricting foreign imports by applying high import duties -, in this way also explaining the large current account surplus of the country. However, the customs regulatory framework still causes substantial costs for foreign economic activities due to the lack transparency in administration procedures, and is not properly harmonised with international standards yet. The final result of the lack of precise regulation is that investment climate shows worsening tendencies and the participation of private sector in the country's foreign trade activity is declining as well.

Further Challenges

Despite the boom in export growth and prosperous reforms in the construction sector in the Republic of Uzbekistan, the country still has to face several challenges over the medium term. Besides the need of a new revision of the Customs Code mentioned before – that should conform to international standards and agreements -, ensuring transparency of customs administration and efficiency of the customs control, inflationary pressure is the newest phenomenon that generates distress in the country. Inflation rate made up 6.8% year-on-year in 2007 and did not exceed the forecasts[6], according to Islam Karimov, the President of Uzbekistan. Main sources of inflation in general are massive foreign exchange inflows, which the central bank intends to limit through partial sterilisation and use of other indirect monetary instruments. Wage and social expenditure - pensions and welfare programs - increases also put a rising pressure on achieving inflationary targets, albeit social reforms are inevitable. Hence, it is hard for the authorities to maintain prudent fiscal policy in today's Uzbekistan. Unemployment is another growing problem; unofficially, unemployment is estimated around 10% and underemployment around 20% although it has been reduced by some measures recently; a total of more than 630,000 new workplaces were created last year, even so, underemployment in rural areas is particularly high.

On the whole, further steps in regulations and the introduction of new reforms are indispensable when talking about economic prospects of the country in the future. The Government has to cope with upcoming inflationary pressures while the problem of underemployment should also be solved. At the same time, as external demand will continue to be high in 2008, foreign trade will still remain the most important contributor to economic growth in the Republic of Uzbekistan.

[6] The Government of Uzbekistan targeted an inflation of 5-7% for the year of 2007