



## Latvijas Republikas Valsts prezidenta kanceleja Prezidenta preses dienests

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### **Address by H.E. Dr. Vaira Vīķe-Freiberga, President of Latvia, at the Financial Services Roundtable Meeting Mansion House, London July 11th, 2006**

Mr. Lord Mayor,

Excellencies,

Ladies and gentlemen,

I am pleased and honoured to address this prominent audience here in London, the financial centre of Europe. I extend my sincere thanks to the Lord Mayor of London and his office, to the Economic Development Office of the City of London, to International Financial Services London, and to the Representative Office of the Latvian Investment and Development Agency in the United Kingdom for organizing this important event.

It is a particular pleasure to take part in this meeting during my official visit to the United Kingdom as a guest of Her Majesty's Government. I am being accompanied here today by a high-level delegation that includes Latvia's Minister of the Economy, Mr. Aigars Štokenbergs, the Governor of the Bank of Latvia, Mr. Ilmārs Rimševičs, as well as representatives of commercial banks based in Latvia and Latvian banks present in London.

In May of 2004, just few days after Latvia joined the EU, I had the pleasure to be here as a special guest of the then Lord Mayor of London, Alderman Robert Finch, and to take part in an official dinner that celebrated the accession of the EU's new member states. I am glad to be back here again.

We are gathered here today because Latvia is drawing an increasing amount of attention from international financial institutions and foreign governments. Latvia's remarkable economic growth and political success have positioned my country as an emerging financial centre in Central and Eastern Europe. I note with satisfaction the presence here today of representatives from some of the best-known companies in the international financial services industry. Your interest is a tribute to the opportunities that exist in Latvia and all of the Baltics. Latvia holds significant advantages as a new European Union member-state. It is ready and able to use its unique historical, geographic and cultural attributes to profit from its proximity to Russia and to the markets further east.

Mr. Lord Mayor,

You may already be aware that the United Kingdom has traditionally been one of Latvia's most important trading partners, with trade links between Latvian and British ports going back several centuries. For example, there are two significant buildings in Riga that attest to the long-standing presence of British interests in Latvia. The first is St. Saviour's Anglican Church, which allegedly was built upon British soil that had once served as ballast in trading vessels. The second is the George Armistead Children's Hospital, named after its founder, a former mayor of Riga of British descent.

The United Kingdom became a major trading partner of Latvia between the two world wars, importing considerable quantities of Latvian timber, butter and bacon. After Latvia re-established its independence in 1991, the UK provided various forms of invaluable assistance that has helped Latvia to become the success story it is today.

The relations between Latvia and the United Kingdom acquired a new dimension in the spring of 2004, when Latvia joined the European Union and NATO. This double accession has had an extremely favourable impact on Latvia's economy and has created unprecedented opportunities for foreign entrepreneurs and investors to do business there.

Today, the UK is the fourth largest export market for Latvia – accounting for 10% of Latvian exports and surpassed only by Estonia, Lithuania and Germany. The structure of Latvia's exports to Britain and to other countries has evolved considerably over the past years. Fifteen years ago, around 40% of Latvian timber exports were going to the United Kingdom and we still remain among the leading timber exporters to Great Britain. Now Latvia's exports have become much more diversified and include a wide range of items, from cheddar cheese to lingerie, and from knitwear to electronics and software.

In terms of accumulated investment, Britain is the tenth largest investor in Latvia. There are 630 ventures with British capital registered in Latvia, a number that has increased more than threefold during the past ten years. The fields covered by these enterprises include manufacturing, trade, real estate, transportation and financial intermediation.

Mr. Lord Mayor,

You are also doubtless aware that Latvia currently has one of the fastest growing economies in the world. Since the year 2000, Latvia's GDP growth has averaged at 7– 8% per year. Last year, Latvia's GDP growth rate reached 10.2%, which is the highest in the European Union and the 5th highest in the world. This year's GDP growth rate promises to be even higher. Latvia's GDP structure corresponds to that of industrially developed countries: more than 70% (73.8 in 2005) of Latvia's GDP is made up by the services sector, while the share of agriculture has declined to less than 4% (3.7 in 2005).

The role of the EU in Latvia's foreign trade is strengthening. In 2005, more than three quarters (76.2 %) of Latvia's exports went to the EU countries. More than two thirds of foreign direct investment into Latvia has also come from the EU (68.2 % in 2005). At the end of 2005, the FDI stock in Latvia amounted to 4 billion euros, or 40 percent of Latvia's GDP. During 2005, the most significant direct investments in Latvia were made by Swedish, Estonian, German, Russian, Dutch and Danish entrepreneurs. A fact that speaks for itself is the "A" grade credit rating awarded to Latvia by leading international agencies.

As part of the common financial market of the European Union (EU), Latvia is trying to create a stronger and more vibrant financial sector. Despite the fact that my country's experience in the financial services area started only fifteen years ago, when Latvia regained its independence from the Soviet Union, Latvia has established a sound and reliable banking system, which now is one of the most developed sectors of Latvia's economy. At present, more than 20 commercial banks are operating in Latvia, along with a branch office of *Nordea Bank Finland*. Respectable foreign banks such as *Skandinavskė Enskilda Banken*, *Swedbank*, *MeritaNordBanken*, *Norddeutsche Landesbank*, *Nordea bank*, *Sampo bank*, *GE Money Bank* and others are contributing to the development of the Latvian financial services sector, which generates around 5% of Latvia's GDP – a figure broadly comparable to other countries of the European Union. Commercial banks make up the largest share of Latvia's financial sector, accounting for over 90% of its total assets.

In the area of financial markets, Latvia has introduced and implemented all of the EU's directives, which was a precondition for joining the European Union. The result is a modern, comprehensive and internationally recognized legal framework for financial operations. In the implementation of the Basel Core Principles in banking, Latvia was ranked among the top 4 countries in Central and Eastern Europe by the European Bank for Reconstruction and Development (EBRD). Latvia's financial sector still has large growth opportunities, taking into account that the saturation of its market has not yet reached EU levels.

Mr. Lord Mayor,

We are well aware that the financial services sector in the UK is one of the most developed in the world. The City of London has attracted the world's largest financial corporations and has induced a number of multinational companies to establish their operations here. While Latvia is obviously not playing in the same league. With its much shorter banking history, it shows great promise as a significant financial centre in the Baltic Sea region.

Although the euro is probably not the most popular theme of discussion in Britain, we in Latvia are planning to introduce the euro as soon as possible in order to facilitate economic relations with our main trading partners and investors. Last year, Latvia's national currency, the lat, was pegged to the euro and Latvia joined the Exchange Rate Mechanism II. Our country has set the fulfilment of the Maastricht convergence criteria for adopting the euro as a medium-term target and is already in compliance with all of these criteria except one – inflation, which has surpassed 6 % during the past two years.

Before it joined the EU, Latvia's annual rate of inflation was among the lowest in Central and Eastern Europe and did not exceed 2 – 3 %. The price rises that Latvia has recently experienced have been stimulated by the country's rapid economic growth, as well as an increase in the price of fossil fuels, high domestic demand and other factors. This means that Latvia will probably have to adopt the euro after 2008, which has been the planned date for its introduction.

Mr. Lord Mayor,

Excellencies,

Ladies and gentlemen,

An increasing number of foreign investors are choosing Riga, the capital of Latvia, as a base from which to expand their activity in the direction of both the Russian, CIS and European markets. Riga is showing all the potential of becoming a significant commercial, financial and transportation centre in Northern Europe. Riga's airport is the largest in the Baltic countries and is a short flight away from Europe's major economic centres. Direct flights lasting only 2.5 hours connect Riga and London at least once a day.

Investors of the international financial services industry are certainly most welcome in Latvia. Latvia's high economic growth rates, low taxes that include a flat 15% Corporate Tax Rate, highly qualified labour in many areas, and numerous other assets make it a very attractive location for doing business and for investing.

I encourage everyone who would like information on the business environment in Latvia to visit the Representative Office of the Latvian Investment and Development Agency here in London. The Head of the Office in the UK, Ms. Indra Freiberga, will be glad to help you find out more about the opportunities Latvia offers for business and partnerships.

Although the summer months are traditionally more quiet than others, Latvia is busily preparing to host the next NATO summit that will take place in Riga this November. Latvia will be happy and proud to receive many international leaders during that important event, including the British Prime Minister Mr. Tony Blair. I am also very much looking forward to welcoming Her Majesty Queen Elizabeth the 2nd to Riga later this year. Her Majesty's arrival promises to be a truly historic event, as it will be the first ever visit by a reigning British monarch to Latvia.

Mr. Lord Mayor,

Excellencies,

Ladies and gentlemen,

I sincerely hope that today's meeting here in London will help to increase the interest in Latvia as a place for doing business. I wish continuous growth and success to the City of

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London and to all of you in your business and personal endeavours.