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Address of H.E. Dr. Vaira Vīķe-Freiberga at the Latvian-Luxembourg Business Forum, 6 December 2006

“Your Royal Highness Grand Duke Henri,

Minister Schmit (Minister delegate for Foreign Affairs and Immigration, Mr. Nicolas Schmit),

Mr. Gramegna (Managing Director of the Chamber of Commerce),

Excellencies,

Entrepreneurs,

Ladies and gentlemen,

It is a pleasure to address this prominent audience of business representatives here in Luxembourg. I extend my thanks to the Ministry of Economy and Foreign Trade of Luxembourg, the Chamber of Commerce of Luxembourg, the Latvian Investment and Development Agency and all other involved parties for their co-operation and support in organizing this forum.

Our two countries are cooperating closely in the areas of art and culture, higher education and defense, as well as regional and rural development. There is a further potential for strengthening our ties in the areas of financial services, information technology and the media. I hope that this Latvian State visit to the Grand Duchy of Luxembourg will help to intensify our countries' economic co-operation and that the exchange of meetings between Latvian and Luxembourgish business representatives will bring fruitful results.

At this time Latvia has a fast growing economy. Between the years 2001 and 2005, Latvia's GDP grew on average by more than 8% per annum. Last year, the GDP growth rate reached 10.2%, which was the highest in the European Union and among the highest in the world. Rapid economic growth is continuing also this year and we expect the GDP rise by around 11%.

Maintaining a high GDP growth rate is extremely important for us, and our objective is to attain the median EU income level as soon as possible, which is still below 50% of the EU average. To achieve this goal, Latvia needs to do a number of things. It needs to increase its competitiveness by producing exportable goods and services with higher added value, it needs to make effective use of high technologies, it needs to promote research and innovation, and it needs to ensure a highly qualified labour force. We hope that the effective use of the EU's structural and cohesion funds will help us to implement these priorities.

Latvia's rapid economic growth, along with an increase in the price of fossil fuels, strong domestic demand and other factors have led to relatively high annual rates of inflation, which have surpassed 6% during the past two years. Considering the probability of rising energy prices and other factors, it will be difficult to significantly reduce our inflation rate in the nearest future. As a result, my country will have to delay introducing the euro, which was initially planned for 2008. Otherwise, Latvia is in full compliance with the Maastricht convergence criteria necessary for joining the Economic and Monetary Union.

Your Royal Highness,

Excellencies,

Ladies and gentlemen,

Just as Luxembourg has developed very close economic relations with its neighbouring countries, Latvia's most important trade partners are her Baltic neighbours – Estonia and Lithuania, as well as Germany, Russia, Sweden, Finland and others. Around three quarters of our trade turnover is with the EU countries, and more than two thirds of foreign direct investment into Latvia has come from the EU. At the end of 2005, the FDI stock in Latvia amounted to 4 billion euros, or 40 percent of Latvia's GDP. During 2005, Swedish, Estonian, German and other entrepreneurs made the most significant direct investments in Latvia.

Since Latvia entered the EU common market in 2004, trade relations between Latvia and Luxembourg have been increasing quite significantly. During the first half of this year, Latvia's exports to Luxembourg increased by over 60 percent (61,0%) compared to the year before, but our imports from Luxembourg have grown threefold. I hope that the positive trends in our trade relations will continue and that our exports to Luxembourg will increase still further.

Investments from Luxembourg into Latvia have increased substantially over the last two years, reaching over 15 million euro this year, compared with only around one million euro in 2004. The largest investments have been mainly in the area of finance and especially insurance. We hope that more investors from Luxembourg will consider Latvia as a stable and profitable place for their investments and for establishing joint ventures.

One of Latvia's major advantages is its strategic location at the crossroads between Eastern and Western Europe, at the very centre of the Baltic Sea region. Latvia is in a unique position to continue and expand its role as a significant transportation hub. It can serve as a natural bridge for East-West (Europe-Asia) traffic, with connections to the Trans-Siberian rail route and direct links with Russia and other countries of the former Soviet Union, as well as rapidly growing ties with East Asia, including China. Our three largest ice-free ports are endowed with very cost-efficient and well-developed infrastructures.

Riga, the capital of Latvia, 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 from Europe's major economic centers.

Companies and investors from Luxembourg are certainly most welcome in Latvia. Our high economic growth rates, our advantageous location, our attractive business and investment environment, low taxes including a 15% Corporate tax rate, a well-established and strong banking system, highly qualified labour in certain areas, high potential in the field of research and development and many other assets make Latvia an ideal base for locating business operations geared to both the Western and Eastern European markets, including Russia.

Many of you are also aware that only ten days ago Riga hosted the NATO summit, which turned out to be a great success. I have no doubt that this summit provided additional indications to Latvia's visitors about how far my country has come in the past few years.

Your Royal Highness,

Excellencies,

Ladies and gentlemen,

As members of the European Union, Luxembourg and Latvia are interested in a well-functioning European internal market, together with social stability and long-term prosperity for our inhabitants. The EU's members need to improve their competitiveness and make their economies more dynamic by promoting innovation and knowledge as the driving force behind long-term growth and employment. Only then will the countries of

Europe, including Luxembourg and Latvia, be able to compete successfully with the leading economic powers in other parts of the world.

I might add that the EU's new member states – where wages are generally lower, but growth rates are high – might provide the needed stimulus for Europe to increase its competitiveness. I firmly believe that if Europe is to keep prospering, then the basic principles of a free market economy and open competition must not be compromised. The free movement of persons, goods and services must be secured, for only under such conditions can the economic and social development of each and every EU country be assured.

Your Royal Highness,
Excellencies,
Ladies and gentlemen,

In spite of its small size, Luxembourg has become one of the world's most advanced and wealthiest countries, prospering in a calm and peaceful social climate. Latvia is very much interested to learn from Luxembourg's experience in promoting financial services, information technologies and other sectors, as well as in establishing globally competitive companies and products.

I would like to note that Latvia is successfully building a strong and vibrant financial sector, which is one of the fastest growing branches of our national economy. It accounts for about 17% or over 600 hundred million euro of the foreign investment in Latvia and generates around 5% of Latvia's GDP – a figure broadly comparable to other countries of the European Union. I certainly hope that as a result of this State visit, financial services representatives from Luxembourg will consider Latvia as a place for their investments.

The small, but distinguished Latvian business delegation accompanying me on this visit represents several areas of the economy, including financial services, the media, and food processing, among others. I hope that the encounters between the entrepreneurs of our two countries will generate new business opportunities and that the flow of resources, trade and people between Luxembourg and Latvia will continue to increase in the coming years.

My best wishes to you all.”