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Address by H.E. Dr. Vaira Vīķe-Freiberga, President of Latvia, at a luncheon with the business community of Milan, Fiera Milano, March 28th, 2007

Excellencies,

Ladies and gentlemen,

Mr. Aigars Štokenbergs, the former Minister for Economics who is currently the Latvian Minister of Regional Development and Local Government, is also accompanying me on this visit. He will be able to provide you with a detailed view of Latvia's economic growth and business potential, and he will be able to answer any specific questions you might have.

This year the people of Europe are celebrating the 50th birthday of the European Union. Its founding document, the Treaty of Rome, was signed, appropriately enough, in the Eternal City. For me, who have spent such a long time in exile, it is with great joy and deep satisfaction that I am representing my native country, at a time when Latvia, as a full member State of the EU, can participate in the planning and building of Europe's future together with Italy.

Three years have now passed since Latvia joined the EU and NATO. Our accession to these structures helped to dramatically improve the investment climate in my country, which now boasts the fastest economic growth in the EU. Latvia offers excellent and exciting business opportunities and can serve as a gateway to both the Western and Eastern markets. Because we are a full member State of the EU, legislation and regulations in Latvia pose no difficulties for any Italian company wishing to do business in Latvia.

Riga, our capital and the largest city in the Baltic States, is easily reached from anywhere in Europe. Thus direct flights from Milan, for example, will take you to Latvia in less than three hours. Our institutions are continually working to minimize administrative barriers to business and to make the investment climate in our country ever more attractive. We have long been a multilingual land, and finding polyglot employees presents no problem. Although the most commonly spoken major languages are English, German, Russian and French, Italian speakers are not a rarity either.

Italy was one of the first countries to open an embassy in Riga when Latvia's independence was restored in 1991. The early 1990s saw the arrival of the first Italian investors and economic partners in Latvia. Since then, cooperation between various institutions and companies has flourished. Italy's Foreign Trade Institute opened its Riga office in 2001, thus beginning a new chapter of even more dynamic economic relations between our countries.

Excellencies,

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In this era of globalization, more and more businesses are looking beyond the borders of their home countries for opportunities and are taking a broader view of their operations. Latvia's geographical position at the heart of northern Europe and as a bridge between the East and the West is not the only advantage we offer. We also have an advanced infrastructure and a favourable tax regime designed to stimulate investment. Economic and political stability, along with impressive economic growth, are other major factors that

attract international business to our country.

Latvia has been an important crossroads for trade throughout its history. Our centuries-long experience in international commerce is helping us to take advantage of our strategic location as a transport hub for the Baltic Sea region. Modernized railways link our ports to Russia and the CIS. These railways also connect Latvia to the markets beyond, forming a new Silk Road to Central Asia and China. I will add that almost half of Russia's foreign trade passes through the ports of the Baltic Sea, including those of Latvia. Our three largest ice-free ports possess the latest equipment to handle a wide variety of cargo. The advantages of Latvia's transit infrastructure are already familiar to a number of Italian entrepreneurs, including Mr. Pezzoli's textile company, which uses Riga's port facilities to ship cotton from Uzbekistan and Tajikistan.

Latvia has been developing industrial and technological business parks that are modern and competitive, as well as logistics centres and special economic zones. Our tax policy is very favourable to business, with a corporate income tax rate of only 15%. I have no doubt that Latvia can serve as an ideal location for those Italian entrepreneurs who are seeking to establish a base in the Baltic Sea Region or to do business with the CIS.

The Baltic Sea Region is one of the most dynamic and competitive regions in the EU and the world, long at the forefront of the knowledge-based economy that is central to sustainable development today. Riga is fast becoming a major business, financial and transportation centre for this region. Riga's airport is the largest in the Baltics, offering swift and efficient connections to Europe's most important cities. The airport is currently planning a large-scale expansion and would benefit from the experience of other European airports that have expanded into hubs, like Malpensa.

I will add that Latvia's tourism industry has been experiencing spectacular growth in the past few years and that Riga has recently become a centre for major international events. Last year, for instance, we hosted the World Ice Hockey Championship and the NATO Summit of Heads of State and Government. As a UNESCO World Heritage Site, Riga is Northern Europe's capital of Art Nouveau architecture and one of the most beautiful cities in the region.

The Latvian financial sector has become one of the most stable in Central and Eastern Europe. Favourable conditions for its development were created by the successful fusion of foreign investment and know-how with local expertise. At the end of last year, almost 70% of the base capital of Latvia's banks belonged to foreign shareholders. Major foreign banks and lending institutions are helping to develop the banking sector in Latvia, which now makes up 5% of the GDP. I should note that one of Europe's largest banking groups, UniCredit, is planning to establish a united Baltic bank with branch offices in all three Baltic States, and that the centre of this network will be set up in Riga.

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Ladies and gentlemen,

I would like to emphasize the dynamic growth that my country is experiencing and the promising business opportunities that it offers to Italian investors. Latvia's economic growth during the past years has been truly impressive. From 2001 to 2005, our GDP grew by an average of more than 8% per year. In 2006, Latvia's GDP grew by almost 12%. Our growth rate is currently the fastest in the EU, and the difference in incomes between my country and Western Europe is steadily decreasing. We would, of course, like to ensure that this growth is balanced. We are seeking to raise our productivity, increase our competitiveness, produce goods with a higher added value, concentrate on research and development, focus upon education, and stimulate the high-tech industries. We are making use of EU structural funds to ensure that our economy develops in accordance with these priorities. Foreign investment is an important part of this process.

Rapid growth is taking place in every important sector of Latvia's economy. Services – including retail, construction, transportation, and communications – now account for about three quarters of our GDP growth. As I already mentioned, the tourism industry is among the most promising sectors.

Unfortunately, this rapid growth has also led to increased inflation. Because our domestic consumption has grown so swiftly, imports into Latvia are growing faster than exports, increasing our current accounts deficit and consumer debt. Inflation, which had been held at a stable 2-3% for some time, has exceeded 6% during the last three years. In response to this, the Latvian government has formulated a plan to reduce inflation and protect our currency, the lat, which has been remarkably stable since its introduction. While strong measures *are* being taken, the introduction of the euro will have to be delayed until 2010, rather than 2008 as originally planned. Currently Latvia meets all of the Maastricht criteria, except with regard to the rate of inflation.

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Ladies and gentlemen,

The fact that about two thirds of Latvia's exports are to the EU countries and that close to two thirds of the foreign investment in Latvia is also from the EU testifies to my country's successful integration into the European Union within a very short time. Many multinational and European companies have entered the Baltic market, taking advantage of Latvia's business-friendly environment to establish a base in the region. German and Scandinavian businesses have been especially active. A number of German companies are manufacturing automotive parts in Latvia for such renowned carmakers as Mercedes-Benz, BMW, Volkswagen and Porsche. Other well-known companies, such as Exigen, Radisson, Procter Gamble, Philip Morris, IBM, Siemens, McDonald's and Coca-Cola need no introduction. All of these corporations have been doing business in Latvia for years.

I could mention many other well-known enterprises with a presence in Latvia, but instead I would like to emphasize our ability to attract high-tech companies, due to our highly educated work force and scientific potential. For example, the American firm ISP Optics grows crystals in Latvia and produces hi-tech lenses that are used in the defence industry, in research and in the study of the universe. NASA, Boeing, and Lockheed Martin are among this company's principal clients.

I am citing these successful examples because I would like you to seriously consider the opportunities that my country has to offer. Already I have been quite pleased to see an Italian business presence in Latvia. That presence has been growing in transportation, logistics, retail, marketing, real estate and other sectors. Since the year 2000, Italian investment in Latvia has risen from about 2 million euros to 14 million. There are now more than 240 companies in Latvia with Italian capital. Seven years ago, there were less than 100. Italy is now Latvia's 12th largest trading partner. Trade between our countries has steadily increased, although Latvia's imports from Italy have always exceeded our exports to your country.

I often recall my State visit to Italy in 2005, when I was accompanied by representatives from more than 40 Latvian companies. They were pleased to meet with their Italian counterparts and established many new contacts. I am convinced that Latvia's cooperation with Italy could, and should be much more active in the future. There is tremendous growth potential that we should be taking advantage of, and it is my sincere hope that still more major Italian companies will enter the Latvian market.