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Abstracts

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Ugis Magone, CEO of Latvia's state railway company Latvijas dzelzcešs (Latvian Railways), in mid 2010 said that the country was hoping to attract rail cargo volumes from China in future. Latvian railroads are presently carrying more than 60% of freight from Russia and there are very few chances that these volumes will increase as the opening of Russia's Ust Luga Port near St Petersburg may result in losing some cargo volumes. China, meanwhile, could provide entirely new cargos for the Eastern-Western transport corridor. Magonis added that a lot of preparatory work was required to attract Chinese freight.

The Latvian government planned to spend US\$154mn on developing rail infrastructure over the next five years, increasing the importance of rail as a mode of transport. Going into 2011, Latvia could at last begin to see the end of its extended three-year recession, which had its deepest downturn in 2009. BMI's view is that the recovery began to take hold in the latter part of 2010, with signs of strongly improved export performance beginning to feed through to industrial production.

We also expect domestic consumption to stabilise. However, the medium-term outlook is for no more than a return to moderate growth, as the country still struggles with a high unemployment rate and works through an internal devaluation process that will take time to restore competitiveness.

The outlook is also not risk free, as investors remain nervous, and renewed financial difficulties elsewhere in Europe (in economies such as Greece, Ireland, and Portugal to name a few) could have a negative spillover effect for Latvia. As a result of our analysis, BMI estimates a 2010 GDP contraction of 2.3% (following on from the massive 18.0% contraction the previous year). Our outlook for 2011 is for moderate GDP recovery of

2.9%, edging up to 3.3% in 2012. In the five years to 2015, we expected growth to average 3.5% per annum, implying Latvia will begin to find a more stable development path, although there will be no return to the pre-2009 boom years.

Expansion of Latvia's airfreight volumes is being held back in part by a financial dispute between airBaltic and Riga International Airport which is holding up the construction of a new airport terminal. After a series of deep peaks and troughs (including a 38.6% fall in 2007, a 25.6% gain in 2009, and an estimated 18.4% fall in 2010) we are predicting that the industry will see something of a standstill year in 2011 (+0.3% to 7.07mn tonnes of cargo). The latest data show that the country's ports remain exposed to the weakness of the bulk shipping sector, while container traffic is beginning to improve. Latvia's main port at Riga was largely able to sidestep the international recession in 2009, experiencing 0.5% growth in tonnage handled, up to 29.724mn tonnes.

BMI estimates this was followed by a small contraction of 1.9% in 2010, taking total volume handled to 29.159mn tonnes. Against the background of a wobbling trade recovery in Europe we now project marginal growth of 0.8% in 2011 to reach a total of 29.382mn tonnes. Latvian railway cargo depends more on East-West transit than on domestic demand. Growth of transit demand will however be constrained by Russia's development of its own Baltic port at Ust Luga, so stateLatvia owned Latvijas dzelzcešs is hoping to secure other transit business. In terms of cargo volume, Latvia's railway system experienced two years of decline, with a fall of 4.3% in 2009 and an estimated further contraction of 9.9% in 2010 to 48.346mn tonnes. BMI estimates that a very weak recovery will begin in 2011 with 0.6% growth to 48.646mn tonnes.

In 2011, we expect total tonnage volume carried by road to increase by 1.9% to 43.918mn tonnes, following an 14.0% gain in 2010. In real terms, Latvian trade slumped by a massive 25.0% in 2009, had a standstill year in 2010 (estimated growth of 1.5%) and is set to remain at that level in 2011 (+1.4%). This means that the country's trade value remains significantly below its previous peak achieved in 2007. In nominal terms we are expecting imports to total US\$12.5bn in 2011, with exports lower at US\$10.35bn. Latvia will therefore register a small trade deficit. In the period to 2015 average import growth in real terms will be 2.3% per annum, with exports growing at the higher rate of 2.6%."

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