



# ‘Armenia’

Country Presentation

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# Main Macroeconomic Indicators of RA

	2002-2006 Average Growth Rate, %	2007 Growth Rate, %	2008 Forecast
DGP	13.0%	13.7	10.0
Foreign Trade	21.3	39.7	42
Gross Investments	29.1	60.2	55.0
FDI	24.9	110.0	40

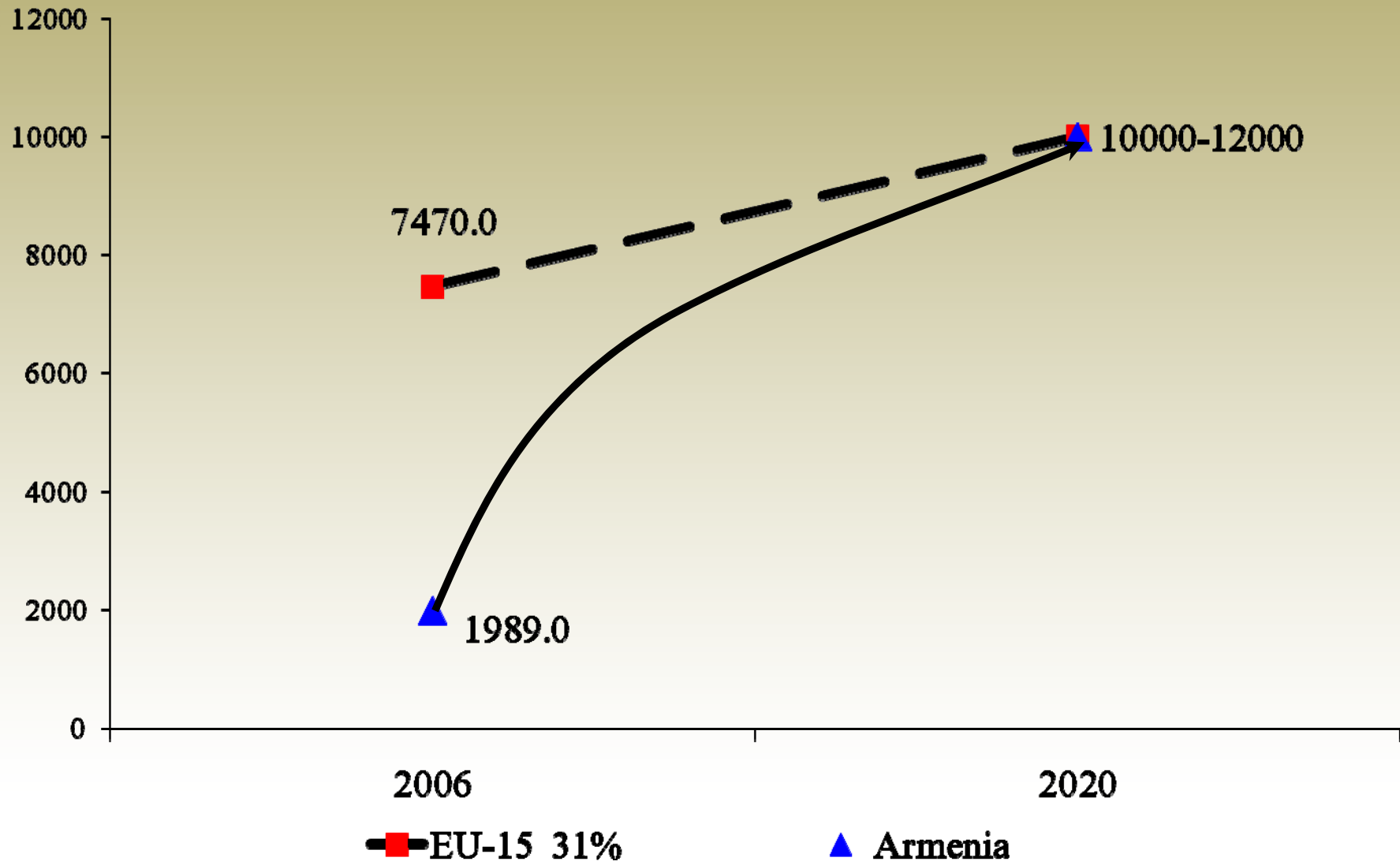


# Main Macroeconomic Indicators of RA

	2002-2006 Average, %	2007, Growth Rate %	2008 Forecast
Personal Income	10.5	25,7	26
Per-capita GDP	1247.9	2844	3311
Unemployment	7.2	7.5	7.1
Inflation	3.1	4.4	6.0
Gross Investments/GDP	26	25.7	26.1
Gross Savings/GDP	19.1	23.6	22.5

# Per-capita GDP, 2010-2025

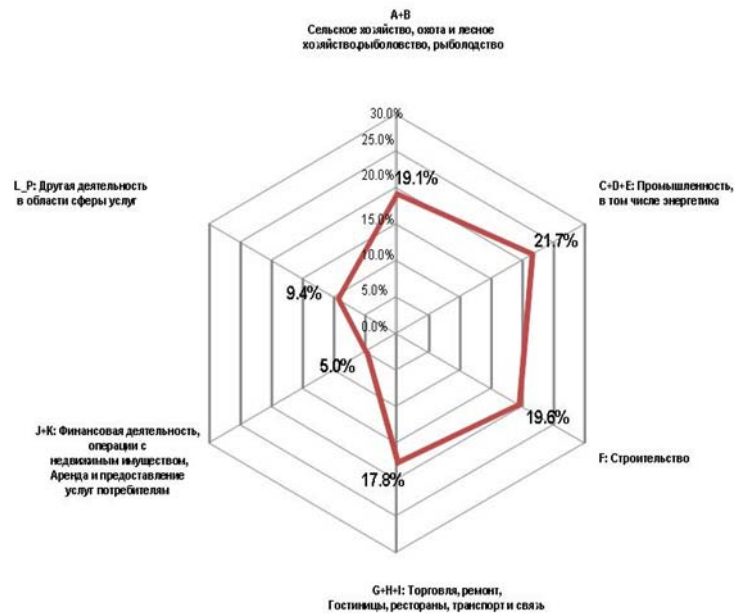
USD



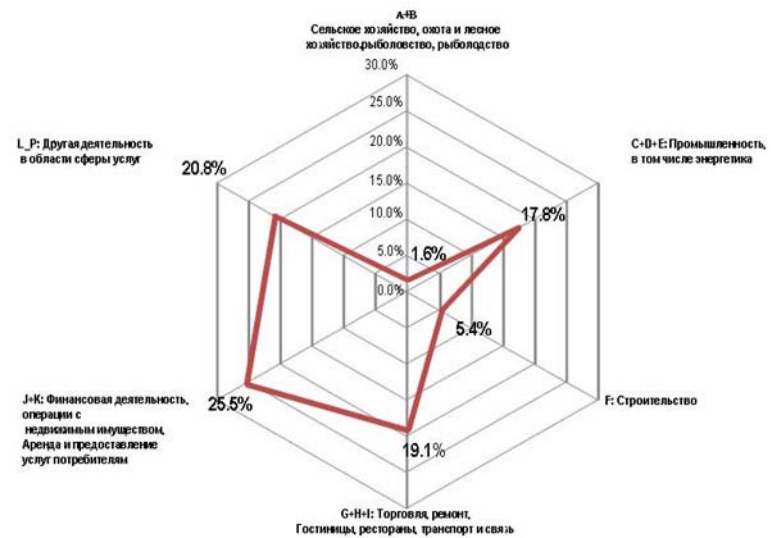


# Expected Economic Transformation 2006-2025

## Armenia

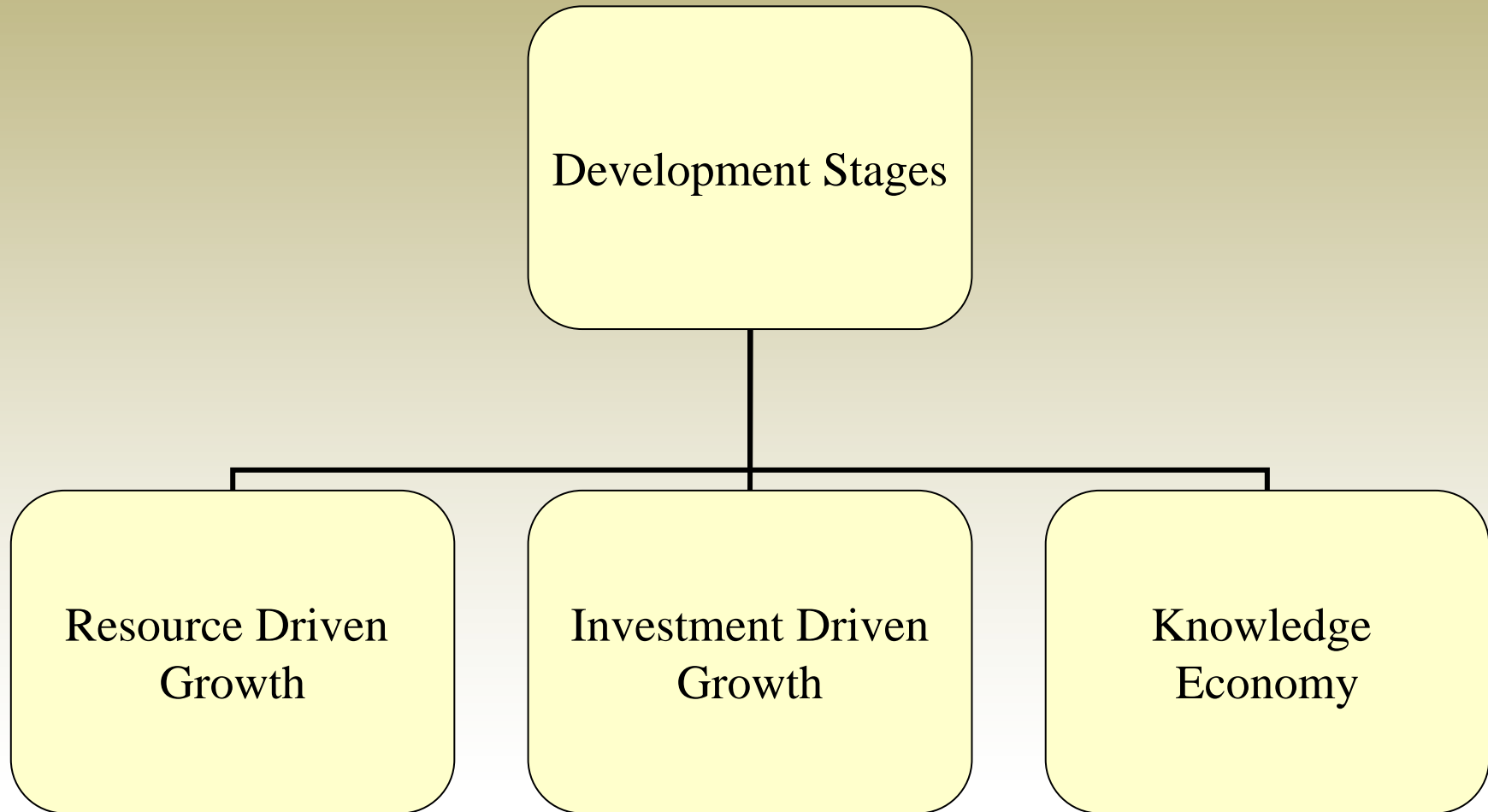


## EU-15





# Development Perspectives





# Investment Driven Growth

## *Preconditions*

- Macroeconomic Stability,
- Privatized infrastructure (Energy, Communications),
- Unrestricted Capital Inflow and Outflow,
- Reliable and Dynamically growing banking sector
  - Numerous Global Banks.
- Free customs regime on Capital Good Imports.
- Pension and Insurance Reform
  - Cumulative Pension System,
  - On average 150-200 mln. institutional long term savings.
- Capital Market Formation
  - NASDAQ-OMX is in Armenia now,
  - Introduction of Corporate Governance Rules:



# Investment Driven Growth

## *Transformation*

- Improve country's global competitiveness,
- Improve Business and Investment Environment,
- Promote the entry of Multinationals,
- Extend Private-Public Partnership in building infrastructures,
- Formation of Knowledge Economy Infrastructure.



# Improve Country's Global Competitiveness

- Accelerated growth of productivity. (we have to grow faster than our partners)
- Integration into global value chains (IT, Hi Tech, chemical and others),
- Direct application of European quality standards,
- Protection of Intellectual Property ,
- Free Trade Agreement with Russia, EU, Asian and Middle East Countries



# Improve Business and Investment Environment

- Placing Armenia among top 10% of countries on the Doing business ranking.
- Reforming state governance
  - Simplify tax filing
  - Simplify Customs
  - Simplify Licensing
  - Increase corporate social responsibility
  - E-Governance in 5 years



# Promote the entry of Multinationals

- Know-How,
- Targeted efforts using the Diaspora connections,
- Flexibility in government decisions.



# World Class Infrastructures

- *Private-Public Partnership and Best practice*
- *Modernization of Energy Sector According to Development Goals*
  - Extend capacities,
  - Renewable .
- *Modern Physical Infrastructure*
  - Paid tunnels and highways.
- *Communications*
  - National Network,
  - Liberalization of frequencies
  - A new mobile communication's company entry in 2009
- *Implementation of Best Practice*



# Knowledge Economy

- We started from education (Business → University → knowledge /school/)
  - Interactive education (every Armenia should be able to read and speak English and Russian) ,
  - Establishment of Business → University Link,
  - Emphasize and strengthen the engineering school,
  - Modern Business school and educational center.
- Techno Parks and Business Incubators
  - Gyumri techno park pilot program
  - Modern techno park nest to Yerevan as final target
- SME development,
  - Innovations and Integration into Global Value Chains,
  - Massive use of IT and Hi Tech in production and daily life.

*Government should spend 1% of GDP on R&D provided that private sector matches this to 3-4% of GDP.*

*Diaspora is an important source of knowledge and entrepreneurship.*



## Government's 5 ongoing national level programs

- Armenia should be the most competitive place to conduct a business in the region.
- Armenia will introduce e-governance with the aim to have one window entrance for the investors in 5 years and with 80% of government services being provided online.
- Armenia should become one of the most popular travel destinations worldwide.
- Armenia should become a regional financial center.
- Armenia should become a regional health center.



## Attractive Investment Opportunities

- IT and High-tech.
- Nairit and Vanatzor Chemical Cluster.
- Energy production.
- Copper-Molybdenum production.
- Agriculture.
- Jewelry Cluster.
- Construction of houses and social buildings.
- Transport infrastructure.
- Tourism.



# IT and High-tech

- Challenges
  - Armenia is 134<sup>th</sup> in the World by the level of development of Information Technologies
  - The productivity level in Armenian and Armenian-based foreign companies is 9 and 17 % of that US indicator
- Competitive Advantages/Opportunities
  - 30% growth in the output, 17% growth in the employment in 2007
  - 200 operating companies, 50 of them multinational companies
  - 70% of the output goes to exports



# Nairit and Vanatzor Chemical Cluster

- Challenges
  - An investment of 250 million dollars is needed to increase the annual output of caustic to 100 thousand ton.
  - The price of Nairit's output increased by 25% recently, caused by the evaluation of Armenian dram, more than 80% of the output is produced for foreign markets.
- Competitive Advantages/Opportunities
  - The only manufacturer of polychloroprene caustic in the post-Soviet region.
  - In Soviet-Armenia Nairit was producing 75 thousand tons of caustic – the 30% of World's output.
  - The Hurricane Katrina destroyed Dupon plant in New Orleans, decreasing the supply and increasing the price for caustic in international markets.



# Energy Production

- **Challenges**
  - Russian authorities already announced about future increase of gas price.
  - International organizations are increasing the pressure on closing Metzamor nuclear plant. A new nuclear plant will cost around \$1 billion and 7-8 years to complete the construction.
- **Competitive Advantages/Opportunities**
  - A huge deficit in the region: Georgia, Turkey, Iran and Iraq are consuming more electricity than they produce – Armenia has a good opportunity for export.
  - Harzdan TPP's 5<sup>th</sup> block and a new block in Yerevan TPP will start producing much cheaper electricity starting from 2009.
  - Hydro and Wind power capacities are largely underused.



## Copper-Molybdenum production

- Challenges
  - Almost all of the output is being exported, meaning that Armenia is wasting the opportunity to organize value adding production on the metal.
  - Find the most “nature friendly” way to employ the mines.
- Competitive Advantages/Opportunities
  - Armenia holds around 10% of the World resources of molybdenum.
  - The largest Kajaran mine will last for approx. 100 years at the current production level.
  - There are still many unexplored mines available.



# Agriculture

- **Challenges**
  - Although almost half of the working population is employed in the agricultural sector, it makes only 20% of the GDP. Further, Armenia produces only 55% of its agricultural needs.
  - In 2007 Armenia imported \$544 M and exported just \$174 M of agricultural products.
- **Competitive Advantages/Opportunities**
  - Government expenditures on agricultural sector have increased for about 10 times in the last 5 years.
  - Large amounts of government subsidies, tax advantages are being put on agricultural sector.
  - Russia has unlimited demand for fruits.
  - Brand names for different products have been already established.



# Jewelry Cluster

- Challenges
  - The recent evaluation of Armenian dram almost ruined the diamond business. All of the 4 biggest manufacturers, except for Rosenblue, were closed.
  - To find a better (more value added) knish in the jewelry design value chain.
- Competitive Advantages/Opportunities
  - Diamond business has started in Armenia during Soviet times, in 1950's. Since then Armenia developed a diamond cluster with qualified workers and good business relations with the World's largest investors in this field.
  - At the end of 1990's the Diamond production in Armenia reached to its peak. Foreign investors, among them World's biggest Rosenblue, came to Armenia. The biggest 4 companies employed more than 2500 people, with 10-15% income on output.
  - Export is VAT-exempt in Armenia.
  - The Gyumri techno park will have a jewelry design cluster.



# Construction of houses and social buildings

## Challenges

- Though construction makes up 26% of GDP, in 2007 only per capita 0.15 m<sup>2</sup> construction was done, which is one of the lowest in the World and among former Soviet Republics. To reach a typical level the current construction volume (469 thousand m<sup>2</sup>) should be expanded 6-7 times.
- Interest rate on mortgages are still high 12-15%.
- **Competitive Advantages/Opportunities**
  - Large endangerments of natural construction resources.
  - Many opportunities to use R&D and come up with new products.



# Transport Infrastructure

- Challenges
  - Since the independence Armenia is still being in a blockade. The only way to Russian, European and American markets is through a railroad to port of Poti and then to Ukraine and Russia by Black Sea. Further, in 2006, the automobile road through Georgia's Verin Lars was closed.
  - Due to this crisis railroad transportation decreased almost 10 times and currently railroads carry only 30% of Armenia's overall traffic.
  - The southern automobile road to Iran passes through a mountainous landscape.
- Competitive Advantages/Opportunities
  - Recently Russian railroad company purchased Armenian railways, promising to invest more than \$500 M, and in the case of opening Turkish and Azerbaijani borders the investment will sum to a promising \$2.2 billion.
  - A targeted paid tunnels construction will from a challenge to an opportunity.



# Tourism

- Challenges
  - Last year 60% of the tourists were from Armenian Diaspora, and more than 80% at least once visited Armenia in the past.
  - Air tickets are very high. Low cost airlines do not fly to Armenia and there are only few charter flights.
- Competitive Advantages/Opportunities
  - In 2007 more than 500 thousand tourists visited Armenia. Income from tourism rose from \$300 (in 2006) to \$450 million, generating 5% of GDP.
  - There are still many Diaspora Armenians never visited their motherland.
  - Reach Christian Heritage.
  - Possibility of becoming an retirement destination.
  - Great Health-Tourism destination.
  - 2014 winter Olympic games will take place in Sochi, which is only one hour to fly from Yerevan.