

Focus on: Armenia

International Business Report 2010 – Country focus series

The recovery

The Armenian economy suffered a double-digit contraction in 2009 as the economic crisis swept across Europe and gross government debt expanded to 40 per cent of GDP. However, data for 2010 indicates that the economy has rebounded strongly as trade has opened up across the continent.

The key indicators¹ are highlighted below:

- in the first nine months of the year, the economy grew, in market prices, by 2.8 per cent compared with 12 months previously
- exports continued their strong upward trend, posting growth of 43.9 per cent in the first eight months of the year, whilst imports were up 21.3 per cent over the same period
- industrial production increased by 11.5 per cent between January and August 2010, compared with the same period in 2009
- inflation ran at 7.8 per cent in the period January-September 2010.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Armenia, the experiences and attitudes of its businesses and how they have been affected by the economic crisis along with how they are dealing with the recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Armenia are less optimistic on the outlook for the economy over the next 12 months in 2010 than they were in 2009, and 45 per cent expected to see an upturn in the global economy by the end of 2010. Expectations for revenue and profitability are markedly more positive this year and a shortage of orders/reduced demand has become the most major constraint on potential expansion.



¹ source: National Statistical Service of the Republic of Armenia, Central Bank of Armenia, Ministry of Foreign Affairs of Armenia, International Monetary Fund, The Economist and Experian.

Looking ahead

The forecast economy growth for 2010 will be around 2.4-2.7 per cent and for the January-September 2011 period four to five per cent, whilst inflation should fall back to 8.1 per cent at the year end of 2010 and to 3.7 per cent as at September 2011.

In accordance with the draft of the national budget for 2011, expenditures totaling AMD 1023.6 billion – with a strong social orientation – are set against revenues totaling AMD 875 billion. The projected budget deficit on 2011 of 3.95 per cent is down from an expected five per cent this year.

As the economy exits recession, all businesses will face new challenges and will need to take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for businesses

Armenia compared to the global average	2008	2009	2010	2010
	Arm	Arm	Arm	Global
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+61%	+46%	+32%	+24%
Change in employment levels				
Balance of businesses expecting an increase over those expecting a reduction	+63%	+35%	+33%	+20%
Constraints on expansion				
Shortage of orders/reduced demand	14%	23%	46%	39%
Regulations/red tape	28%	35%	36%	32%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can help you deal with the challenges of a new world economic order.



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International Business Report results

The Grant Thornton IBR 2010 reveals that businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Armenia are less optimistic about prospects for 2010; their optimism/pessimism balance² has fallen 14 percentage points from +46 per cent in 2009 to +32 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

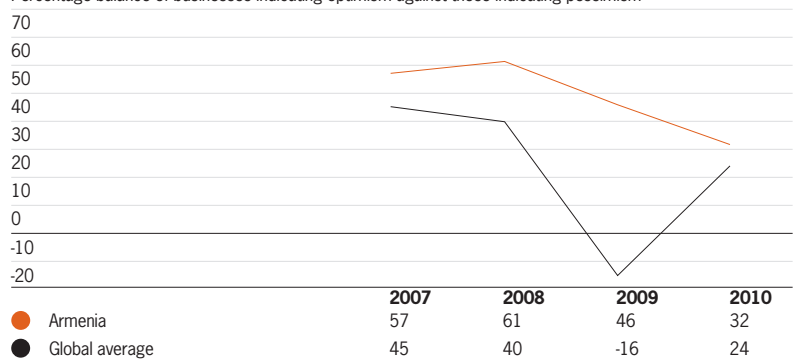
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

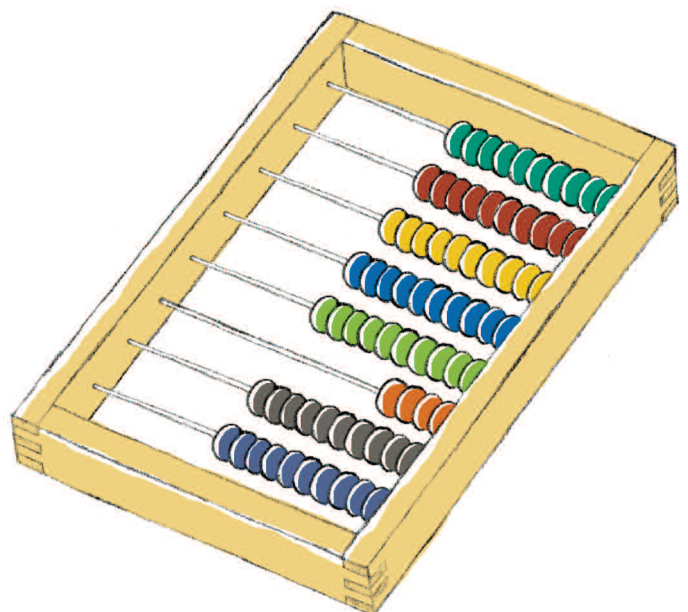
- businesses in Armenia are less optimistic about their country's economic outlook (+32 per cent) compared with 2009 (+46 per cent)
- this is higher than the global average of +24 per cent
- optimism levels globally have risen this year by 40 percentage points to +24 per cent from -16 per cent in 2009.

Figure 2: Outlook for the economy over the next 12 months: 2007-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



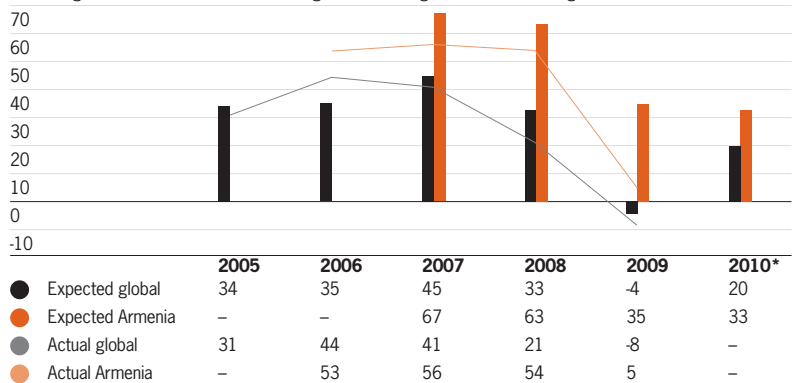
² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Employment

- a balance of +33 per cent of businesses in Armenia expect employment to grow in 2010, higher than the global average (+20 per cent)
- actual employment growth reported by businesses in Armenia in 2009 (+5 per cent) was markedly lower than what was expected 12 months previously (+35 per cent)
- actual employment contraction across all businesses (-8 per cent) was worse than expected (-4 per cent).

Figure 3: Employment history: 2005-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



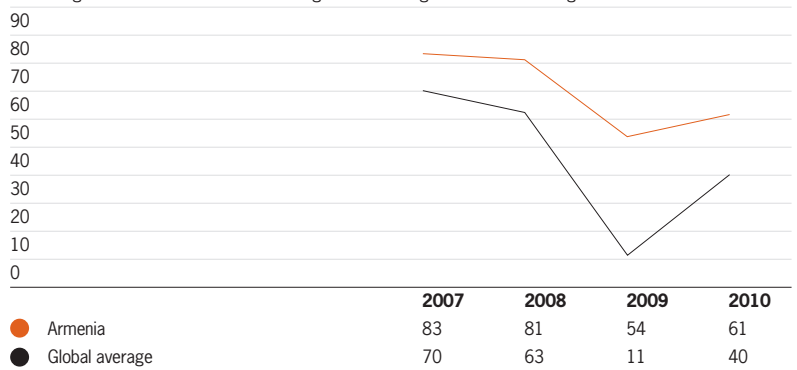
*actual 2010 data will be documented in IBR 2011
Source: Grant Thornton IBR 2010

Revenue expectations

- expectations for revenue prospects have risen by seven percentage points; from +54 per cent in 2009 to +61 per cent this year
- the global average has also risen, by 29 percentage points, from +11 per cent in 2009 to +40 per cent.

Figure 4: Revenue expectations: 2007-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



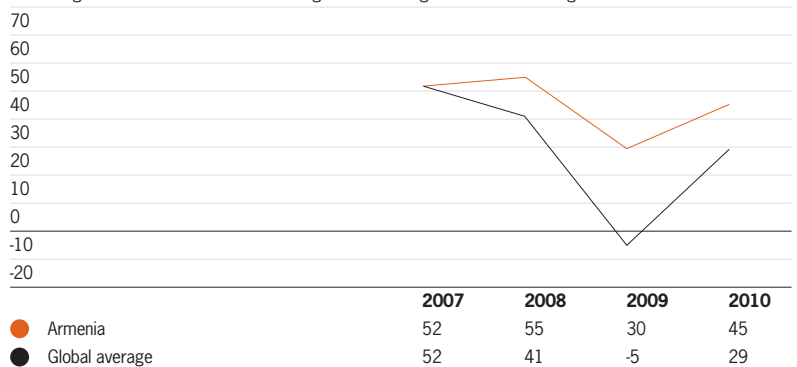
Source: Grant Thornton IBR 2010

Profitability expectations

- profitability expectations amongst businesses in Armenia have also observed a rise, an increase of 15 percentage points this year to +45 per cent
- the global average has observed a similar rise of 34 percentage points, from -5 per cent in 2009 to +29 per cent this year.

Figure 5: Profitability expectations: 2007-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



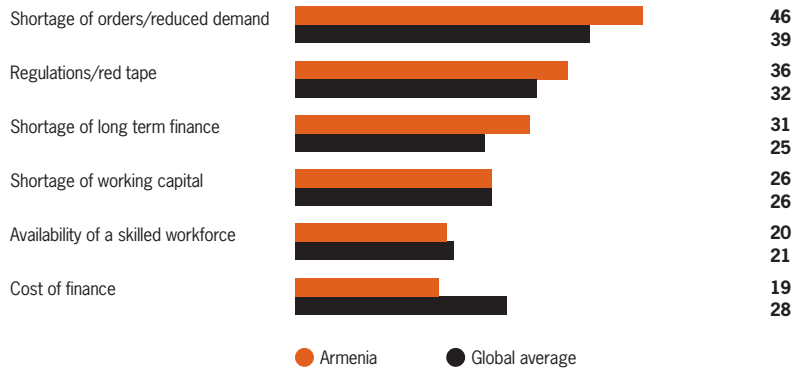
Source: Grant Thornton IBR 2010

Constraints

- a shortage of orders/reduced demand is viewed as the most pressing constraint restricting expansion for businesses in Armenia and globally; 46 per cent and 39 per cent respectively
- regulations/red tape and a shortage of long term finance are of greater concern for businesses in Armenia compared to the global average
- whereas, globally the availability of a skilled workforce and the cost of finance are of greater concern.

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



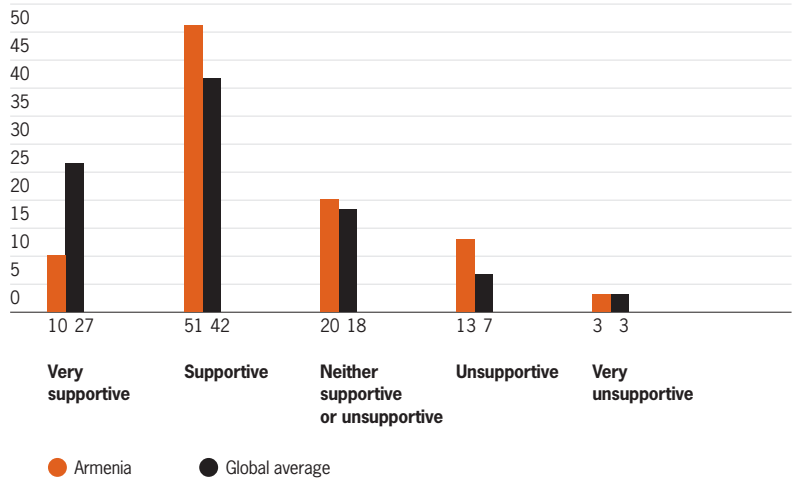
Source: Grant Thornton IBR 2010

Support of lender

- three-fifths of businesses in Armenia are happy with the level of support provided by lenders and class lenders as supportive or very supportive towards their business, lower than the global average of 69 per cent
- one-fifth (20 per cent) class lenders as neither supportive nor unsupportive
- 16 per cent of businesses in Armenia believe that lenders are unsupportive or very unsupportive of their business, compared to ten per cent globally.

Figure 7: Level of support provided by lenders

Percentage of businesses



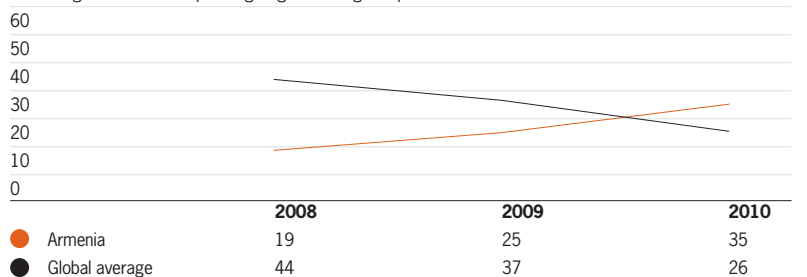
Source: Grant Thornton IBR 2010

Mergers & acquisitions

- the proportion of businesses in Armenia planning to grow through acquisition this year has increased by ten percentage points to 35 per cent, this follows a six per cent increase the previous year
- and compares to a decrease of 11 percentage points in the global average, from +37 per cent in 2009 to +26 per cent.

Figure 8: Plans to grow through acquisition in the next three years

Percentage of businesses planning to grow through acquisition

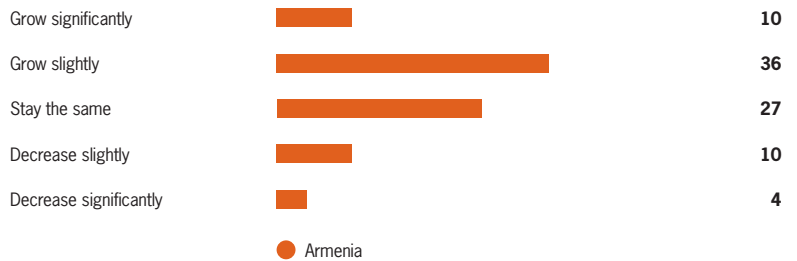


Source: Grant Thornton IBR 2010

Financial support

- 46 per cent of businesses in Armenia believe that the level of financial support to businesses in the form of capital participation or credits will either grow significantly or slightly in 2010
- one-quarter believe that the level of support will stay the same
- whilst, 14 per cent foresee a slight or significant decrease.

Figure 9: What will happen to the level of financial support to Armenian businesses in form of capital participation or credits in 2010
Percentage of businesses

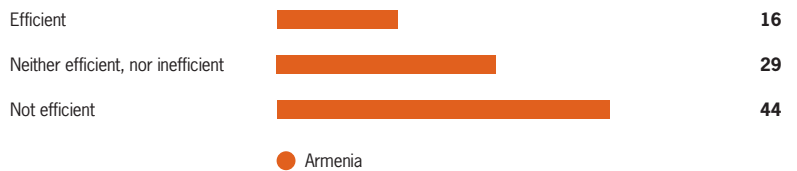


Source: Grant Thornton IBR 2010

HR management

- the majority of businesses in Armenia (44 per cent) believe that the government's anti-depression program is not efficient
- 16 per cent believe that it is efficient
- whilst, 29 per cent perceive the anti-depression program as neither efficient nor inefficient.

Figure 10: Opinion on the government's anti-depression program
Percentage of businesses

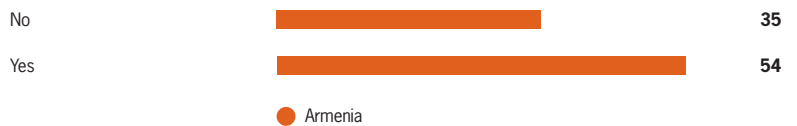


Source: Grant Thornton IBR 2010

Government participation

- the majority of businesses in Armenia believe that the government's participation in private company's capital is an efficient way of overcoming depression
- whilst, 35 per cent of businesses disagree and do not believe that government participation is efficient.

Figure 11: Is the government's participation in private company's capital an efficient way of overcoming depression?
Percentage of businesses



Source: Grant Thornton IBR 2010

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 businesses in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the ‘engine’ of the world’s economy. In Armenia 100 PHBs were surveyed across all industry sectors. These businesses ranged from medium to large in size with total employment of between 50 and 499.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

- | | |
|----------------|----------------|
| Argentina | Japan |
| Armenia | Malaysia |
| Australia | Mexico |
| Belgium | Netherlands |
| Botswana | New Zealand |
| Brazil | Philippines |
| Canada | Poland |
| Chile | Russia |
| Mainland China | Singapore |
| Denmark | South Africa |
| Finland | Spain |
| France | Sweden |
| Germany | Taiwan |
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