

Focus on: Armenia

International Business Report 2012 – Economy focus series

The economy

After a tentative recovery from a deep recession in 2009, the economy is estimated to have expanded by 4% in 2011. Exports climbed steadily in 2011, surpassing pre-recession levels, but the current account deficit remains more than twice as large as in 2007. Growth prospects for 2012 look robust but a full-scale meltdown in the eurozone represents a major downside risk.

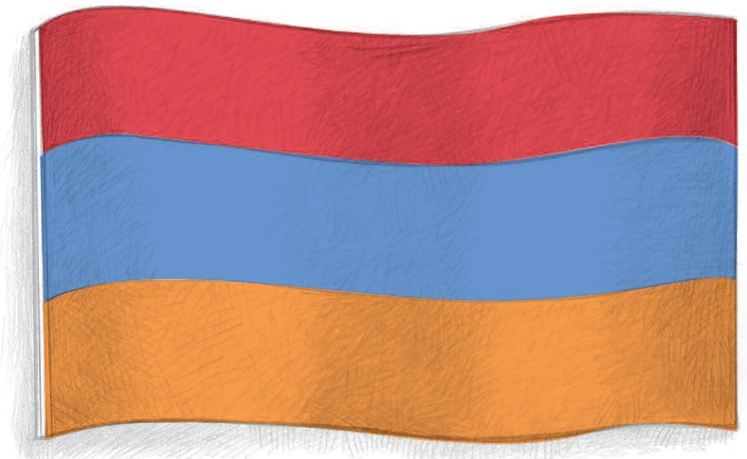
The key indicators¹ are highlighted below:

- the National Statistics Service announced growth of 6.5% in the three months to September 2011, an increase of 40.1% year-on-year
- exports climbed 24.1% in November from the same period 12 months ago to USD124.1m
- imports climbed to USD380.4m, up 6.7% from November 2010
- the current account balance is estimated to have narrowed slightly to USD1.2bn in 2011.

The business perspective

The Grant Thornton International Business Report (IBR) surveys more than 11,500 businesses in 40 economies around the world. This report focuses on businesses in Armenia and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that businesses in Armenia are more optimistic for the year ahead than they were in 2010. Expectations for hiring staff has increased slightly, but revenue and profitability prospects have declined. Reduced demand and a lack of skilled workers are the major constraints on business growth prospects.



¹ source: International Monetary Fund, The Economist and Experian.

The outlook

The economy is forecast to expand by around 4.5% this year, picking up to 5.2% in 2012. Growth is expected to be driven by increasing demand from China, already Malaysia's largest export market, and expected to be its largest trading partner by 2015. Total exports are expected to increase by 16.8% this year, dropping back to 8.6% in 2012.

Private consumption should be boosted by rising household incomes and low unemployment. A surge in private investment – forecast to expand from 10.2% this year to 15.2% in 2012 – is expected to drive growth following various measures undertaken to enhance productivity and competitiveness in the private sector. The government is aiming to scale back the fiscal deficit – public expenditure is expected to grow by 2.8% this year, down from 3.8% in 2010.

Talk to us to find out how we can help you deal with the challenges your business is facing today.

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Figure 1: Key indicators for MLEs

Armenia compared to the EU average	2009 Arm	2010 Arm	2011 Arm	2011 EU
Outlook for the economy over the next 12 months				
Net optimism over pessimism	+46%	+32%	+52%	-17%
Change in employment levels				
Net hiring expectations	+35%	+33%	+34%	+15%
Constraints on expansion				
Shortage of orders/reduced demand	23%	46%	25%	29%
Lack of skilled workers	28%	20%	16%	22%

Source: Grant Thornton IBR 2012



International Business Report results

The results reveal that global business optimism dipped again in the fourth quarter of 2011. However, businesses sentiment for the next 12 months in Armenia rose from net 32% to net 52%.

The sovereign debt crisis is weighing heavily on businesses confidence in Europe; business optimism across the European Union dropped to -17% in Q4. However confidence in the BRIC economies ticked upwards to 34%.

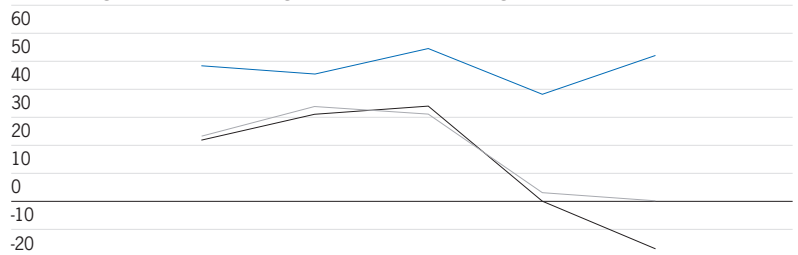
Year-on-year optimism amongst businesses has declined slightly from net 22% in 2010, to net 16% across 2011.

Optimism/pessimism

- business optimism in Armenia rose from net 38% in Q3 to net 52% in Q4
- the EU³ average plummeted to -17%
- the global average fell from net 3% to net 0%, down from net 34% in Q1-2011.

Figure 2: Outlook for the economy over the next 12 months: Q4 2010 to Q4 2011

Net percentage of businesses indicating optimism less those indicating pessimism²



	Q4-2010	Q1-2011	Q2-2011	Q3-2011	Q4-2011
● Armenia	48	46	54	38	52
● EU	22	31	34	0	-17
● Global	23	34	31	3	0

Source: Grant Thornton IBR 2012



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

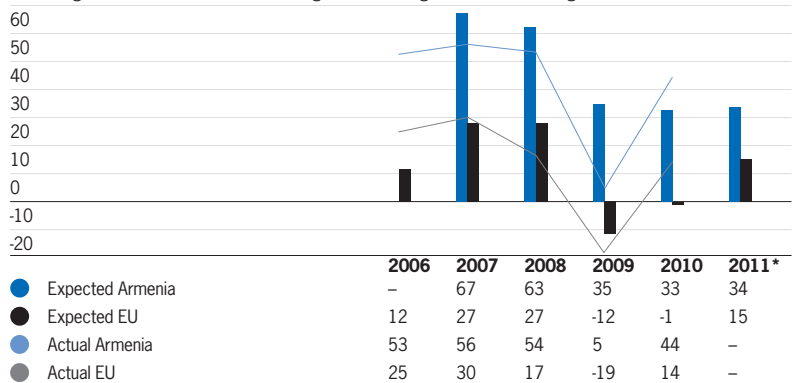
³ for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

Employment

- business hiring expectations for the next 12 months in Armenia remain steady at 34%, compared with 33% in 2010
- the EU average is far lower at 15%
- however, the proportion of businesses reporting boosting staff numbers over the past 12 months was 44%
- again, well above the EU average of 14%.

Figure 3: Employment history: 2006-2011

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



*actual 2011 data will be documented in IBR 2012

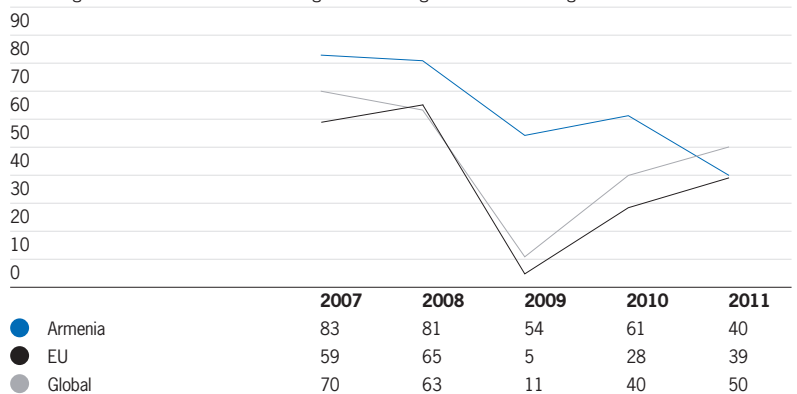
Source: Grant Thornton IBR 2011

Revenue expectations

- business expectations for increasing revenues over the next 12 months fell to net 40%, down from 61% in 2010
- the EU average rose to net 39%, up from 28% twelve months previously
- the global average also rose to 50%, up from 40% in 2010.

Figure 4: Revenue expectations: 2007-2011

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



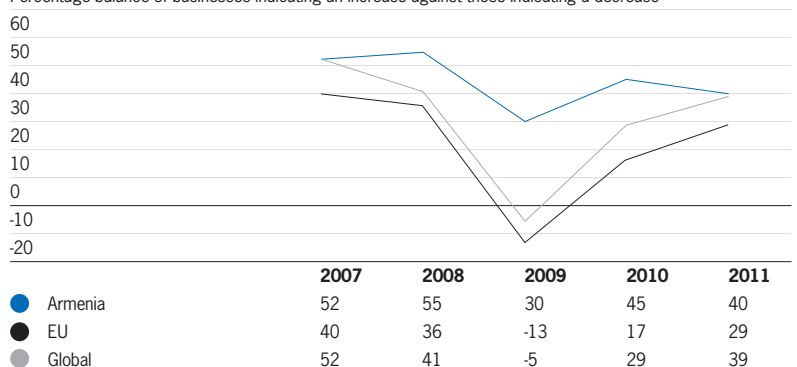
Source: Grant Thornton IBR 2012

Profitability expectations

- profitability expectations in Armenia in have dropped slightly over the past 12 months, falling from 45% to 40%
- the EU average rose from 17% to 29%
- the global average also rose from 29% to 39%.

Figure 5: Profitability expectations: 2007-2011

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



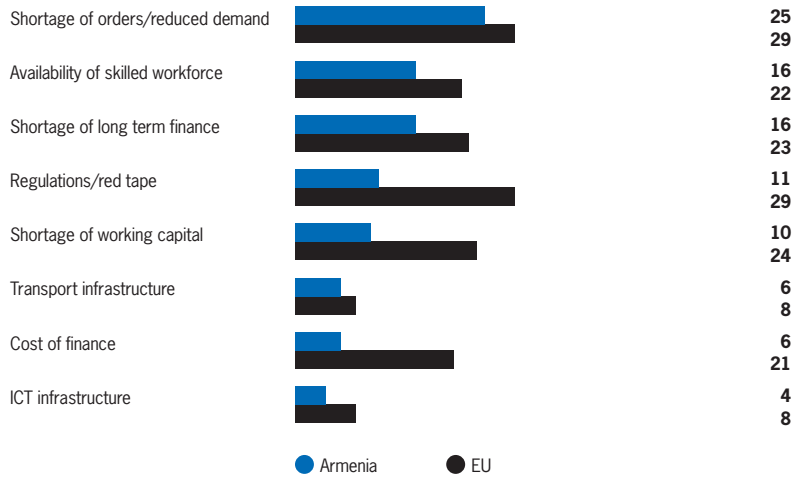
Source: Grant Thornton IBR 2012

Constraints

- the shortage of orders/reduced demand is the greatest constraint facing businesses in Armenia (25%)
- a lack of skilled workers and a shortage of long-term finance (both 16%) are also cited as growth constraints
- however, all constraints are more pressing across the EU than in Armenia.

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



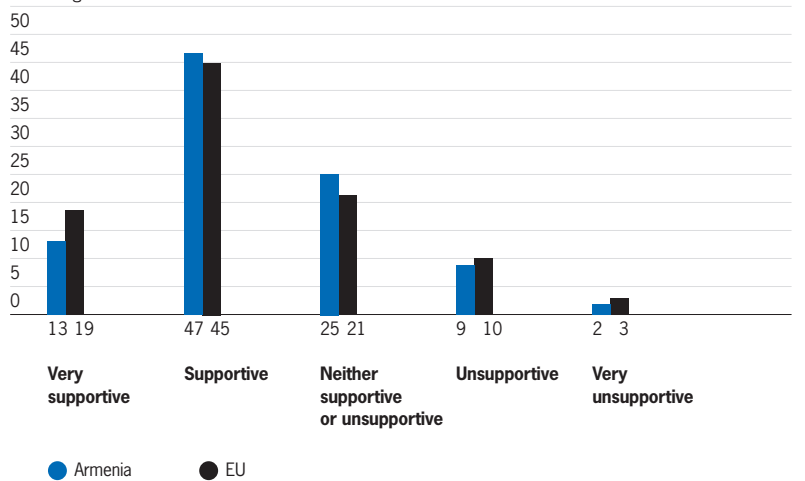
Source: Grant Thornton IBR 2012

Support of lender

- 60% of businesses in Armenia class lenders as supportive of their business
- this compares with 64% in the EU
- 11% class lenders as unsupportive, compared with 13% in the EU.

Figure 7: Level of support provided by lenders

Percentage of businesses



Source: Grant Thornton IBR 2012

Country specific questions

- 27% of businesses in Armenia expect the availability of donor financing to grow over the next 12 months; a further 21% expect it to decrease
- further, half of businesses in Armenia describe the recovery of the economy from recession as inefficient
- meanwhile, just 22% of business leaders believe the government purchase of shares in private sector companies is justified as a measure to overcome the economic crisis.

Figure 8: What do you expect to happen to the level of donor financing availability for Armenian businesses in terms of equity and debt financing over the next 12 months?

Percentage of businesses



Source: Grant Thornton IBR 2012

The Grant Thornton International Business Report (IBR) is a quarterly survey of 2,800 senior executives in businesses all over the world. Launched in 1992 in nine European countries the report now surveys over 11,500 businesses in 40 economies on an annual basis providing insights on the economic and commercial issues affecting the global economy.

In Armenia 200 businesses were surveyed across all industry sectors. These businesses ranged from medium to large in size with total employment of between 50 and 750. Data for this report were drawn from interviews conducted between January and December 2011.

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	Malaysia
Armenia	Mexico
Australia	Netherlands
Belgium	New Zealand
Botswana	Peru
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Georgia	Switzerland
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Arab Emirates
Ireland	United Kingdom
Italy	United States
Japan	Vietnam



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