

Armenia

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance¹ of +95 per cent with the Philippines joining them at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent whilst PHBs in Armenia are more optimistic about 2008 (+61 per cent) than they were about 2007 (+57 per cent).

The Armenian economy

The Armenian economy continued to grow rapidly in 2007, with real GDP up by 13.7 per cent, buoyed by robust performances in the construction (18.4 per cent growth), services (12.4 per cent) and agriculture (9.4 per cent) sectors.

Strong remittance inflows, rising incomes, and solid private investment fuelled domestic demand. As escalating prices of energy and food imports pushed up inflation, the central bank increased the refinancing rate and allowed the domestic currency to appreciate.

Exports grew by 12.8 per cent, but huge import growth of more than 70 per cent saw the current account balance deficit increase to -4.7 per cent of GDP. Despite strong growth, unemployment stayed high at 6.7 per cent, a slight improvement from 7.2 per cent in 2006.



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¹ the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.

Business expectations/revenue

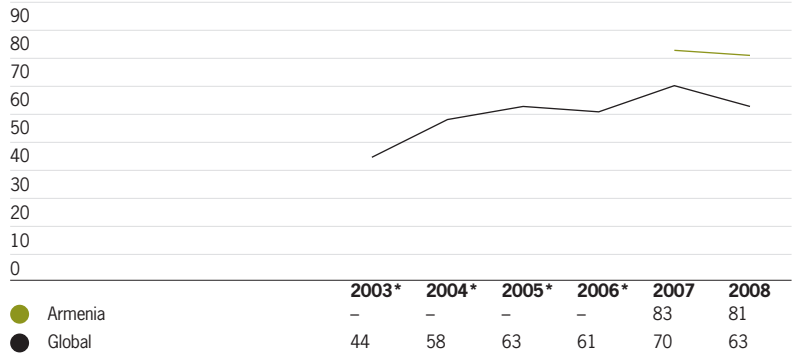
- PHBs in Armenia are slightly less optimistic about their revenue prospects in 2008 (+81 per cent) compared to 2007 (+83 per cent).
- Levels of optimism regarding revenue performance are well above the global average (+63 per cent).
- Levels of optimism regarding exports (+17 per cent) are marginally below the global average (+18 per cent) and are down from +21 per cent in 2007.

Employment

- Expected employment growth in Armenia fell slightly, from +67 per cent in 2007 to +63 per cent in 2008.
- Businesses globally are far less optimistic with regard to employment growth in 2008 (+33 per cent) than PHBs in Armenia.
- Actual reported employment growth in Armenia (+56 per cent) was lower than expected in 2007.

Figure 1: Revenue expectations for Armenia and the global average 2003-2008

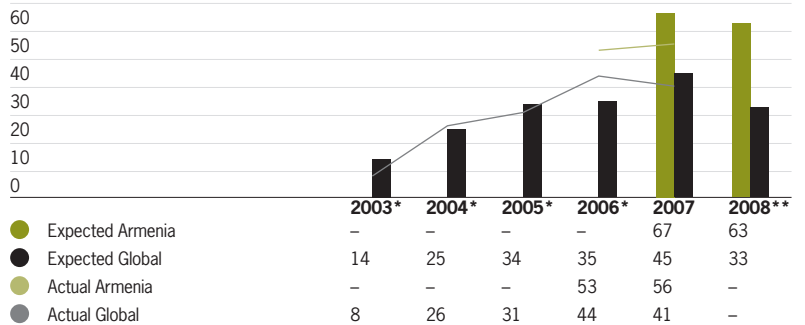
Percentage balance of businesses indicating optimism against those indicating pessimism



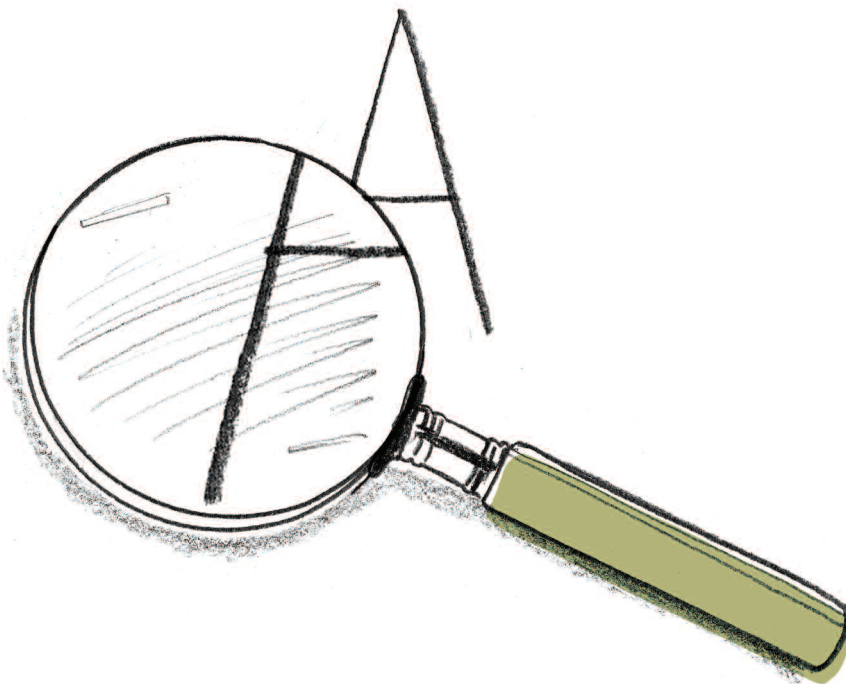
*no data available for Armenia
Source: Grant Thornton IBR 2008

Figure 2: Employment history of Armenia and the global average 2003-2008

Percentage balance of businesses indicating optimism against those indicating pessimism



*no data available for Armenia
**2008 data will be documented in IBR 2009
Source: Grant Thornton IBR 2008



Constraints

- The shortage of long-term finance is the constraint restricting expansion cited most by businesses in Armenia (35 per cent).
- Shortage of orders/reduced demand is cited by 31 per cent of businesses globally, but by just 14 per cent of PHBs in Armenia.
- The greatest constraint for businesses globally is the availability of a skilled workforce (35 per cent), but this is cited by just 19 per cent of Armenian businesses.

Emerging markets

- The most important factor for Armenian businesses when determining whether to invest internationally, as is the case for businesses globally, is market size and growth potential (77 per cent).
- The number of Armenian businesses which export (34 per cent) is below the global average (39 per cent) and is down from 36 per cent in 2007.
- 72 per cent of Armenian businesses import, above the global average (39 per cent).
- Two-thirds of Armenian businesses see their main competition coming locally. This is almost double the global businesses average.

Figure 3: Largest constraint on growth for Armenian businesses compared to the global average

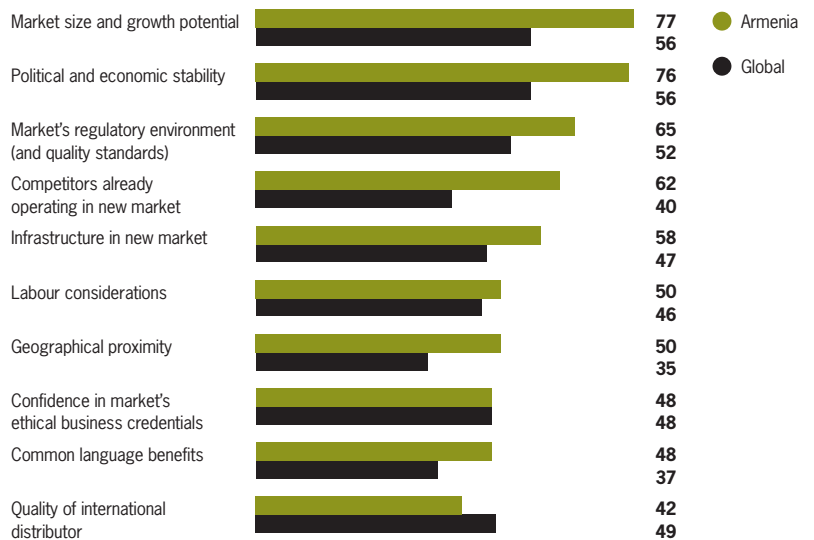
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment

Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

Competitiveness

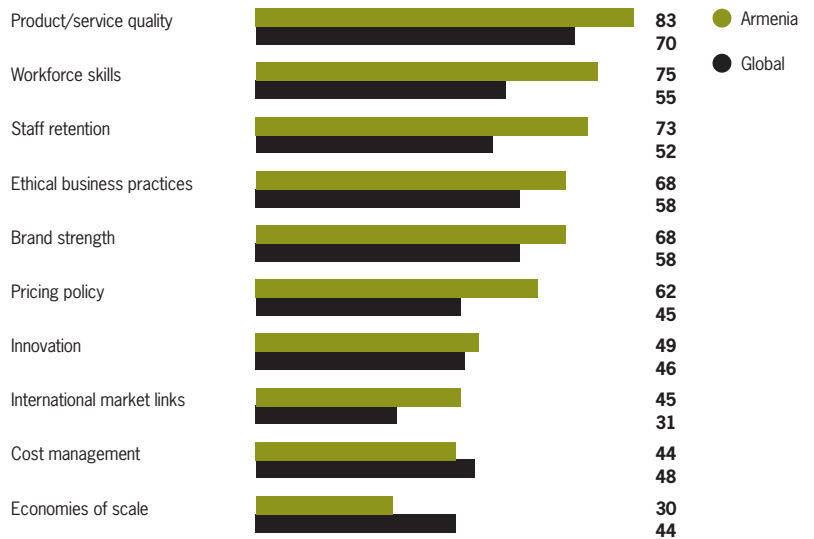
- PHBs in Armenia see their greatest source of competitive advantage as product/service quality (83 per cent), as is true of businesses globally.
- 75 per cent of PHBs in Armenian see workforce skills as a source of competitive advantage, compared to 55 per cent of all businesses.
- Economies of scale are cited by 44 per cent of businesses globally but by just 30 per cent of PHBs in Armenia.

Corporate social responsibility (CSR)

- Recruitment/retention of staff is viewed as the greatest driver towards more ethical practices by PHBs in Armenia (78 per cent). This is higher than the global average (65 per cent).
- 84 per cent of Armenian businesses provided internships/apprenticeships/work experience in the past year, compared to 67 per cent of all businesses.
- 41 per cent of Armenian businesses have incorporated their policies in to a written CSR document, which is below the global average of 56 per cent.

Figure 5: Main sources of competitive advantage for Armenian businesses compared to the global average

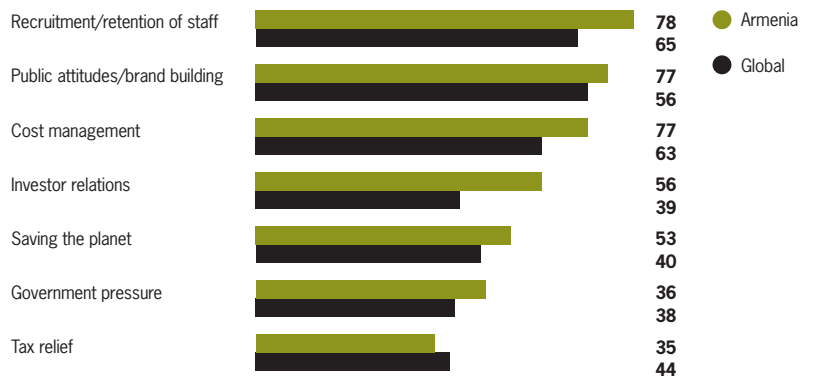
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for Armenian businesses compared to the global average

Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



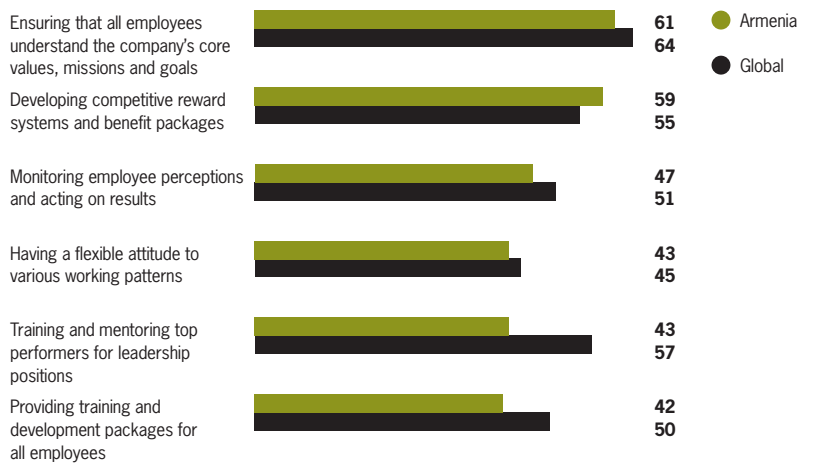
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of PHBs in Armenia more focused on retention than one year ago is +72 per cent. This is above the global business average (+59 per cent).
- 61 per cent of Armenian businesses ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention. This is slightly below the global average of 64 per cent.
- Cited by 21 per cent of Armenian businesses, increased operating costs and an increased workload for remaining staff are viewed as the major problems staff retention issues have caused.
- It is costing 57 per cent of Armenian businesses significantly more to pay their staff than it was 12 months ago, although this is below the global average (63 per cent).

Figure 7: Usage of recruitment and retention tools for Armenian businesses compared to the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the Armenian economy

Armenia appears to be set for double-digit real GDP growth of around ten per cent in 2008, driven by the ongoing boom in the construction sector, slowing slightly to eight per cent in 2009.

High food import prices and international oil prices coupled with strong domestic demand mean end-year CPI inflation is expected to be close to seven per cent, exceeding the announced inflation target (four per cent). However, this is lower than in neighbouring countries and is expected to fall back within its target range in 2009.

The fiscal deficit is projected to be around 1.2 per cent of GDP – less than half budgeted – which will limit the fiscal impulse and help contain real exchange rate appreciation.

The trade deficit widened further in the first four months of 2008 on the heels of surging imports. Although private transfer inflows are expected to grow at a robust pace, the external current account deficit is projected to widen to around 8.6 per cent in 2008.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

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



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