



ECONOMY

Armenia's economy continues to perform strongly. Prudent fiscal and monetary policies, strong external inflows, and ongoing structural reforms have contributed to double-digit growth, low inflation, and declining poverty in 2005. The outlook is for continued robust growth in 2006, underpinned by buoyant investment and remittance inflows.

The authorities made good progress in structural reforms in 2005. They adopted a comprehensive two-year Tax Action Plan to improve tax and customs administrations. Two major amendments to tax legislation that reduce exemptions and loopholes have been submitted to parliament. Moreover, an operational review of customs is currently under way. Steps have also been taken to strengthen banking supervision and improve corporate governance of the financial sector. The financial performance of the energy, water, and irrigation sector has continued to improve.

The thrust of the authorities' economic program for 2006 is to maintain macroeconomic stability and keep inflation below 3 %. The Central Bank of Armenia will continue to focus on maintaining price stability, and to limit intervention in the foreign exchange market to smoothing out volatility in the exchange rate.

The government will also continue to pursue reforms aimed at enhancing growth prospects and alleviating poverty. In particular, structural reforms in the fiscal area focus on improving tax and customs administration to mobilize domestic revenues to finance capital, and social expenditures. As part of the efforts to improve the business climate, the government will continue with the implementation of its anti-corruption action plan. Financial sector reforms should boost financial intermediation and reforms in the public utility sector will emphasize improving its services and financial viability.

Source: Augustin Carsten, International Monetary Fund

MAIN INDUSTRY SECTORS

Diamond-processing and jewellery appears to be a very attractive field for investment in Armenia based on the existence of expert diamond cutters with competitive pay rates, modern equipment and tax privileges (no taxes on the import of raw materials and on the export of finished products) in Armenia. Moreover, the country is rich with semiprecious and ornamental stones, such as agate, amethyst, turquoise, jasper, and different types of marble onyx.

With joining of the RA to the Kimberley Process Certification Scheme (in 2002), Armenia has declared the readiness to carry out rough diamond trade only with the countries which are the Members of Kimberley process. The purpose of this is the prevention of an illegal turnover of conflict diamonds.

Electronics, IT and telecommunication in Armenia are developing from a long industrial tradition. Armenia was the most technologically developed republic of the former Soviet Union with a special emphasis on the development of IT and software. With annual growth of more than 20 % since 1999, software and IT companies now account for approximately 2 % of Armenia's GDP — a proportion comparable to that of India, the world's leading offshore IT destination.

Today, majority of Armenian manufacturers utilize only 10 to 15 % of their production capacity and are open to take additional orders from abroad. Some of the products with the highest production turnover are digital instruments and spare parts, computer control systems, equipment connected with automation facilities, components for laser systems, electric measuring instruments, and devices to automate, control, and regulate technological operations.

Food processing and agriculture in Armenia contribute to the country's GDP by up to 50 %. The industry was the first priority in the process of structural reform after the collapse of the Soviet Union. This resulted in better management and production standards leading to greater international competitiveness as it is today. Even though Armenia is not rich in land resources, most of the available 46.6 % of operational land is effectively utilized. The warm climate, fruitful soil and workers with competitive wage rates are the main opportunities for the industry.

Agricultural production is mainly driven by private firms that grow grains, potatoes, vegetables and fruits (grapes, melons). Further on, this is set off for production of canned fruits and vegetables, flour and bread, wine and brandy, soft drinks and mineral water together with dairy products and meats.

Engineering and metalworking in Armenia are still recovering from the earthquake in 1988 that destroyed a number of main production plants. Even though much of the infrastructure is still in the recovery phase, the highly skilled labour in combination with foreign direct investments is rising the standards of the industry with elevated speed. Even today, part of the industry is idle or operating at a fraction of its capacity that is awaiting to be employed by new orders, outsourcing projects or mergers.

Main export products are metal-cutting machine tools, forging-pressing machines, trucks, electric motors, tires, electronics and instruments.

INFRASTRUCTURE

Armenia has a relatively well-developed road network, serving all areas of its economy with a road density of 257.6 kilometres per 1.000 square kilometres. The road network consists of 7.700 kilometres of interstate roads, regional roads and local roads. Government's Interim Poverty Reduction Strategy emphasized improving the quality of infrastructure, particularly road, rail and air transportation and strengthening regulatory capacity to support privately-owned operators in energy and infrastructure as a precondition for the improvement of the business environment.

Much work and progress has taken place in liberalizing the transport market and in adjusting to the market economy and just as much remains to be done regionally and in Armenia to bring transport infrastructure and services to the level of those in the rest of Europe.

Source: The World Bank Group