



Center for  
European  
Governance  
& Economy



10 YEARS   
EaP | Eastern  
Partnership

# Armenia Investment Brief

1<sup>st</sup> Eastern Partnership Investment Forum:  
10 Years after Prague

10-11 July 2019  
Batumi, Georgia

#strongertogether  
#eapinvest

## GENERAL INFORMATION FOR 2017



**Population**  
2.930 Millions



**Land area**  
(n) 28 470 km<sup>2</sup>



**GDP**  
11 537 Millions current US\$



**GDP growth**  
7.49 %

## INTERNATIONAL MERCHANDISE TRADE

### Total merchandise trade

(millions of US\$)

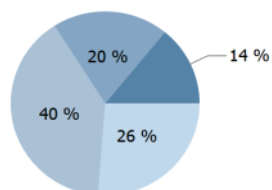
	2005	2010	2015	2017
Merchandise exports	974	1 011	1 485	2 245
Merchandise imports	1 802	3 783	3 239	4 189
Merchandise trade balance	-828	-2 771	-1 754	-1 944

**+25.3 %**

Merchandise exports  
growth rate in 2017

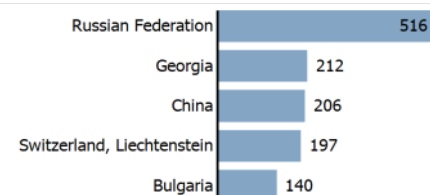
### Export structure by product group in 2017

(as % of total exports)



### Top 5 partners in 2017

(exports, millions of US\$)



## INTERNATIONAL TRADE IN SERVICES

### Total trade in services

(millions of US\$)

	2005	2010	2015	2017
Services exports	430	1 013	1 512	1 926
Services imports	578	1 274	1 608	1 962
Services trade balance	-148	-261	-95	-36

### Services exports by main category

(as % of total services)

	2005	2010	2015	2017
Transport	21.7	15.3	10.8	12
Travel	51.8	63.7	61.9	58.2
Other services	22.2	19.4	27.0	28.1

## ECONOMIC TRENDS

### Economic indicators

(millions of US\$ unless otherwise specified)

	2005	2010	2015	2017
GDP, current	5 226	9 875	10 553	11 537
GDP per capita, current US\$	1 753	3 432	3 618	3 937
Real GDP growth, y-on-y, %	13.87	2.22	3.24	7.49
Current account balance, % of GDP	-2.37	-12.77	-2.58	-2.84
Exchange rate (/US\$)	457.687	373.660	477.918	482.716

**+7.5 %**

Gross domestic product  
growth rate in 2017

## FDI AND EXTERNAL FINANCIAL RESOURCES

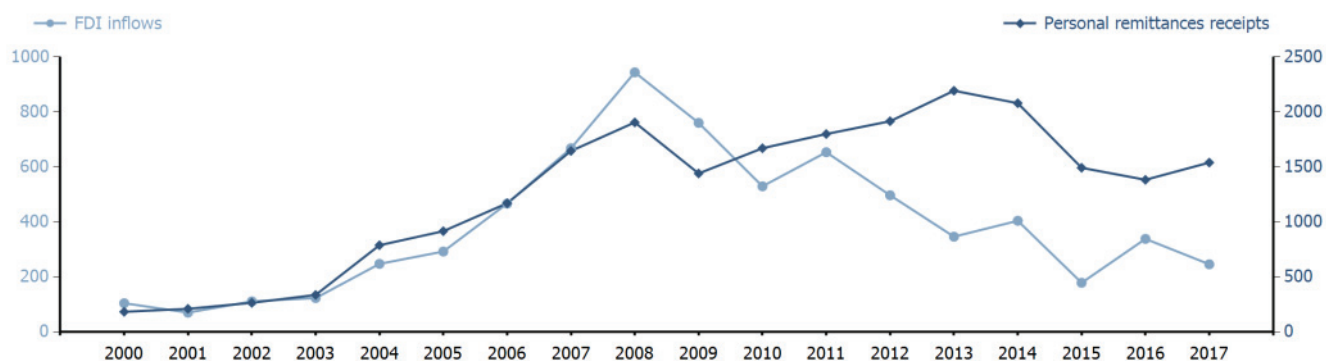
### Financial flows

(millions of US\$ unless otherwise specified)

	2005	2010	2015	2017
FDI inflows	292.10	529.30	184.10	250.90
FDI outflows	5.40	27.50	28.80	29.10
Personal remittances, % of GDP	17.51	16.90	14.13	13.32

### Financial flows trends

(millions of US\$)



## TRADE IN GOODS AND SERVICES

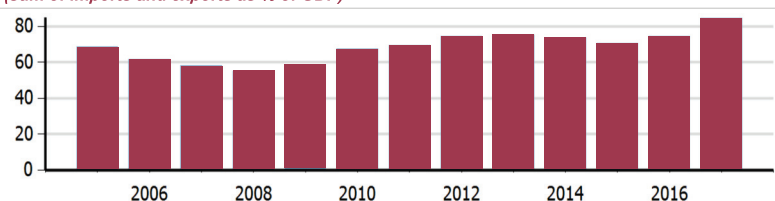
### Trade balance indicators

(as % and index)

	2005	2010	2015	2017
Balance, % of GDP	-14.25	-23.24	-12.84	-13.16
Balance, % of imports	-34.36	-51.26	-30.84	-26.87
Normalized balance	-0.207	-0.345	-0.182	-0.155

### Trade openness <sup>2</sup>

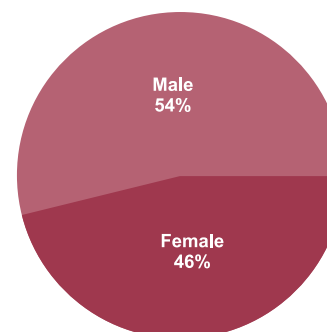
(sum of imports and exports as % of GDP)



## LABOUR FORCE

### Labour force by gender in 2017

(as % of total labour force, all sectors)



## AGRICULTURE

### Sector Highlights

Contribution to GDP: 14.9% (2017)

Exports: \$644 million (all food items, 26% of total exports) (2017)

Output: \$1.9 billion

Agriculture is the main source of economic activity in rural areas, accounting for 14.9 % of GDP and employing about 36.6 % (2017) of the working population ([www.fao.org](http://www.fao.org)). The share of agriculture in GDP has declined due to relative growth in other industries. Greater productivity in the agriculture sector could be achieved through the consolidation of smallholdings. According to 2014 census data, family farms account for 99% of all active holdings and 97% of total agriculture output. The current need for large-scale agribusiness presents an opportunity for foreign investors.



In 2017, the largest agricultural subsectors were plant products (\$969.7 million), livestock (\$907.6 million) and fisheries (\$60.1 million) ([armstat.am](http://armstat.am)). Livestock breeding accounts for nearly 40% of total agriculture production. Armenia has the capacity to export up to 200,000 head of sheep annually. The country's livestock sector is also in need of consolidation, as most livestock holdings are small and based on traditional husbandry methods ([fao.org](http://fao.org)).

Armenia participates in the European Neighbourhood

Programme for Agriculture and Rural Development (EN-PARD). Specific projects aim to reduce rural poverty by strengthening farmers' cooperation, skills, and access to resources ([minagro.am](http://minagro.am)).

### Incentives and Enabling Infrastructure

The government has put in place policies to support agribusiness. That includes a streamlined taxation system, a three-year VAT exemption on imported industrial equipment, a social security payment exemption, and profit tax reductions for exporters ([minagro.am](http://minagro.am)).

### Partnership Opportunities and PPPs

The government of Armenia is soliciting foreign investment in the agriculture sector. Specific sectors include grape and wine production, fruit production, greenhouse infrastructure, vegetables, and animal husbandry (including cattle, fish, and poultry).

## MANUFACTURING SECTOR

### Sector Highlights

Contribution to GDP: 17.9% (2017)

Output: \$2 billion (2017)

Manufacturing accounts for a sizeable portion of GDP and exports. Armenian manufacturers benefit from both membership in the EAEU and deepening ties with the EU. Moreover, the manufacturing sector is characterized by high productivity. The country's comparative advantage in precision engineering (PE) allows to produce high value-added products.

Computer, electronic and optical products represent a notable sub-sector. Recent notable investments include synthetic diamond production by ORION LLC (\$99.8 million); sapphire manufacturing by PURE LLC (\$44 million), production solid glass and thermal insulation materials by Karakert (\$27 million), and magnesium production by Ecoatom LLC (\$6 million) (KPMG Armenia).

Exports are dominated by the manufacturing sector, including machinery and appliances, chemicals, textiles, and transportation equipment, among others.



## Incentives and Enabling Infrastructure

The Industrial Policy Strategy adopted in 2011 emphasizes the following: attraction of transnational corporation; support for innovation; financial support for investment and export promotion; capacity building; sales promotion; and improved legal framework for foreign economic activity (eu4business.eu). Further to this strategy, Armenia has developed a tax and regulatory regime favorable to firms making investments in the manufacturing sector, especially for export-oriented investments. That includes VAT exemptions and eased procedures for firms importing machinery and equipment for manufacturing purposes (mineconomy.am).

The government supports manufacturing through the creation of Free Economic Zones (FEZs). Established in 2011, the FEZs are aimed at attracting FDI and advanced technologies and supporting export-oriented growth (mineconomy.am). Firms operating on FEZs are exempted from profit, VAT, income, and property taxes. The country currently has three operating FEZs devoted to manufacturing, telecommunications and information services, “Alliance,” “Meridian,” and “Meghri.”

## ENERGY SECTOR

### Sector Highlights

Contribution to GDP: 4.7% (2017)  
 Exports: \$61.8 million (2017)  
 Output: \$536 million (2017)

Armenia has no confirmed oil and gas reserves and is facing a growing need for electricity as the economy expands (in 2016, net imports accounted for 2.11 mtoe). The government has recently taken steps to strengthen energy supply reliability and enhance energy efficiency. In 2017, the government amended the Law on Energy to further liberalize the market (iea.org).

Armenia’s domestic energy production is dominated by electricity production via nuclear power plants, hydroelectric power (HPPs), thermal power plants. The Metsamor nuclear plant provides for 30% of the country’s total need for electricity. The Government is currently seeking to develop a replacement capacity for the thermal power plants and to increase the generation capacity (to cover the increasing electricity needs) with renewable energy sources: wind and solar.

The total capacity of all hydropower systems is 1,032 MW. Plants on the Hrazdan and Vorotan rivers generate most of Armenia’s hydroelectric power. The Sevan-Hrazdan cascade consists of six power plants with a total capacity of 560 MW. The Vorotan cascade consists of three power plants with a total capacity of 404 MW. In 2015 the Arme-



nian government approved the sale of the Vorotan Cascade Hydro Power Plant to U.S. company ContourGlobal and the deal was finalized in July 2015. The company will invest 70 million USD in upgrading and refurbishing the facilities over the next few years.

During the last two years Armenia gained significant result in solar energy. A detailed and accurate solar map has been developed. Armenian government initiated construction of utility scale solar power plant with 55MW capacity, as a result of international bidding process a low

tariff was proposed by winner 0.0419US per kWh (without VAT).

### Incentives and Enabling Infrastructure

Energy producers benefit from government regulations on setting energy tariffs. According to the Law on Energy, tariffs should cover costs and provide the operator with the opportunity to make a reasonable profit. Moreover, producers can apply to have their tariffs reviewed every six months (minenergy.am).

### Partnership Opportunities and PPPs

The Ministry of Territorial Administration and Infrastructure is currently soliciting private sector investments in sectors including hydroelectric, wind, solar, thermal, and nuclear, among others. Feasibility studies can be viewed at the Ministry of Territorial Administration and Infrastructure (minenergy.am).

## INFRASTRUCTURE AND TOURISM

### Sector Highlights

Armenia currently has international infrastructure connections with Georgia and Iran. In 2019, the government adopted a Government Strategy in 2019 that emphasizes “strengthening the reliability of and access to infrastructure” (worldbank.org). Armenia participates in both the EU-led Trans-European Networks-Transport (TEN-T) and the Chinese-led Belt and Road Initiative (BRI), both of which aim to strengthen regional infrastructure connections. Currently, major infrastructure includes roads (7,749 kilometers) and railways (707.4 kilometers) (investinarmenia.am).

Being a historical country, the holder of a rich culture, and having unlimited natural resources and huge human potential – Armenia opens various opportunities for tourism investments.

Tourism in Armenia develops dynamically. Armenia accepted 3.7 mln visitors in 2018, 1.6 mln of which tourists (showing an increase of 10.5% from the previous year). The indicators of the last several years show a sustainable 10% average annual growth in tourist visits which leads



to the growth of demand for tour services and prepares favorable ground for investments. Tourism accounted to \$478 million in revenue, equal to 4.4% of GDP, and supported 44,500 jobs.

EU infrastructure support is provided under the TEN-T framework. The EU is supporting six infrastructure projects in Armenia with a total long-term investment of €732 million (coming from public and private sources). Notable projects include the North-South Road Corridor, the Yerevan-Vanadzor highway, and the Meghri border crossing. EU funding for the initiatives is distributed by the EIB (ec.europa.eu).

## TRADE REGIMES

Armenia signed with the EU the Comprehensive and Enhanced Partnership Agreement (CEPA) in 2017, entering into force the following year. Trade with the EU currently accounts for 24.8% of Armenia’s total trade and 28.4% of its total exports.

Free trade: Eurasian Economic Union (EAEU) countries (Belarus, Russia, Kazakhstan, Kyrgyzstan), CIS Countries, Georgia, Ukraine, Serbia, Vietnam, Iran.

GSP+: EU, Norway

GSP: Canada, Japan, Switzerland, United States

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