

# ARMENIA: A PART OF THE WORLD INVESTMENT PUZZLE

## GENERAL INFORMATION

<b>Official name</b>	The Republic of Armenia
<b>Capital</b>	Yerevan. Yerevan has more than 2,700 years of history and is considered to be the oldest capital, which is even 29 years older than the eternal city of Rome.
<b>Territory</b>	29,800 km <sup>2</sup>
<b>Population</b>	Over 3, 2ml., 98% of which are Armenians. Another 6 ml. Armenians live abroad.
<b>Geography</b>	Armenia is located in the crossroads of Europe and Asia. The country is bordered by Turkey to the west, by Georgia to the north, by Azerbaijan to the east, by Nakhchivan to the south-west, and by Iran to the south. The terrain is mostly mountainous with numerous fast flowing rivers and forests. Armenia is rich in certain natural resources, semi-precious stones and mineral water springs. Armenia is an open air museum with more than 5000 historical monuments.
<b>Climate</b>	In spite of small area the weather of different climatic zones can be observed in Armenia. The coldest month is January with the average daily temperature ranging between -13°C and 1°C and the hottest months are July and August with 30-35°C in average.
<b>Official language</b>	The state language is Armenian which forms a separate branch of the Indo-European language family and is considered to be the oldest one. Armenia has its own script, the Armenian alphabet created by Mesrop Mashtots back to 401-406 AD.
<b>Religion</b>	Christianity. Christianity was officially adopted as a state religion in 301 AD.
<b>Time zone</b>	GMT+4
<b>Government System</b>	Armenia is a Presidential Parliamentary Democratic Republic.
<b>Entrance to hospitable Armenia</b>	A simplified visa system for entry visas exists. It is possible also to acquire entry visa at the border crossing points of the Republic of Armenia (conventional visas) or electronically ( <a href="https://evisa.mfa.am">https://evisa.mfa.am</a> ). Usually entry visa is processed at the diplomatic missions and consular posts of the Republic of Armenia upon the completion of 3 working days.

## **Attractive Conditions for Investment**

Investment promotion is one of the priorities for Armenian economic policy and is based on “open-door” approach for foreign investments which is supported by Law on “Foreign Investments” and by the State Investment Policy Concept. The Republic of Armenia has the most open investment regimes among CIS countries.

The Government of Armenia is carrying out comprehensive reforms in the field of business assuring favourable opportunities for foreign investors and businessmen.

### ***ARMENIA IN THE EYES OF INTERNATIONAL ORGANIZATIONS:***

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Reforms affect the country's ranking scores. Thus, according to the Wall Street Journal and Heritage Foundation, Armenia's Index of Economic Freedom is 69,7 (“Moderately Free”), putting the country on the 36th place in the 2010 Index. Armenia is occupied 19th place among the 43 countries in Europe. According to the WB “Doing Business 2011”, Armenia is 48th among 183 countries. Another world-famous rating agency Fitch Rating has assigned the long-term "BB" rating to Armenia for the stability of foreign and national currencies.

### ***INSTANT REGISTRATION OF ENTERPRISES:***

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"One-stop-shop" newly introduced system for registration of enterprises allows a company to be registered in 15 minutes by visiting a registry office, or by online regime ([www.e-registry.am](http://www.e-registry.am)), with electronic signature.

### ***SIMPLIFIED CONSTRUCTION PERMITS:***

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Administrative barriers for construction are significantly reduced. In particular, 137 days for obtaining construction permit have been replaced by only 27 days.

### ***SIMPLIFIED LICENSING PROCEDURES:***

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169 types of activities that were subject to licensing have been reduced or merged to 96, 12 out of which are subject to simple licensing, and the rest 84 are subject to complex licensing. A new electronic system to obtain licenses has been introduced ([www.e-gov.am](http://www.e-gov.am)). At the same time, a number of the documents required for licensing has been also reduced.

### ***GROWING ECONOMY AND STABLE MACROECONOMIC ENVIRONMENT:***

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Before world financial crises, Armenia has been referred by the international organizations as “the Caucasian Tiger”, due to its double-digit economic growth rates. Being an open market economy, Armenia has overcome the consequences of the global economic crisis and has recorded growth in all sectors of economy.

### ***STABLE BANKING SYSTEM:***

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The banking system is growing rapidly; it is stable and is in line with the best international standards. Stock market is represented by “NASDAQ OMX Armenia” OJSC, which is part of the NASDAQ OMX Group, Inc. international group. NASDAQ OMX Armenia is the member of the Federation of Euro-Asian Stock Exchanges (FEAS) and International Association of Exchanges of the Commonwealth of Independent States.

The Central Bank of the Republic of Armenia has joined the Basel-2 international standards on banking regulation, which have been already introduced and is successfully applied in national banking system.

### ***PREFERENTIAL TRADE REGIMES:***

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The Government has adopted a policy aimed at integration into the global economy and as a result a number of the following international agreements has been signed:

1. Membership to the World Trade Organization (since 2003)
1. Free trade agreements have been signed with majority of CIS countries;
2. Armenia benefits from the Generalized System of Preferences (GSP) of certain developed countries.

Since December 9, 2008 Armenia is included in the list of countries enjoying "Generalized system of preferences" (GSP+) trade regime provided by the EU. It allows exporting over 6,400 products with zero or reduced customs duties to the EU market. In addition, Armenia currently enjoys "Generalized system of preferences" of the USA, Canada, Switzerland, Japan, and Norway.

Both free trade agreements and generalized systems of preferences allow exporting goods to the markets of CIS, the EU, the USA, Canada, Switzerland, Japan, and Norway without customs duties and trade barriers.

Bilateral Treaties on Investment Promotion and Protection have been concluded with over 39 countries; 37 out of which are already ratified.

Armenia is a member of the International Centre for Settlement of Investment Disputes and has signed the convention on "Settlement of Investment Disputes Among States and Nationals of other States", and "CIS multilateral convention on the protection of investor rights".

#### ***FREE ECONOMIC ZONES:***

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Tax legislation as well as the Law on "Free economic zones" grant companies acting in free economic zones certain exemptions on profit, income and property taxes, on VAT and customs duty obligations.

#### ***IMPORT AND EXPORT REGULATIONS:***

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**Import regulations:** Armenia uses the Harmonized Commodity Description and Coding System. 0% of customs duties are defined for import of capital goods and 0 and 10% for consumer products. There are no quotas, licensing requirements and quantitative restrictions on import.

**Export regulations:** Armenia does not have any licensing requirement for export. There are neither export duties nor VAT payment obligations and limitations.

#### ***TAX POLICY AND SIMPLIFIED ADMINISTRATION:***

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The concept of "non-taxable threshold for VAT" (58.35 million AMD/156 thousand US dollars) has been invested, and more simplified and preferential taxation mechanisms and profit tax (income tax) simplified calculations have been defined for the taxpayers, who haven't exceeded this threshold.

The VAT payments for import of some goods are postponed:

- (a) for one-year period, if the customs value of imported goods is less than 70 million AMD,
- (b) for two-year period, if the customs value of imported goods is 70 million AMD and more,
- (c) for three-year period, if the customs value of imported goods exceeds 300 million AMD.

The tax administration has been improved. In particular:

- The electronic reporting system is applied;
- The number of documents submitted to the tax authority is reduced;
- The mechanisms of registration of penalties in favor of the taxpayer in case of not returning the amounts of tax overpayments and amounts differing from overpayments to the state budget collected by the tax authority during the period prescribed by the law are introduced;
- The choice of verification of taxpayers is based on risk criteria;

- The return of overpayments (the difference from overpayment amounts) of VAT and excise tax for non-risky VAT taxpayers is done via automatic system;
- A two-level appeal system is formed in order to discuss and resolve the disputes that occur during the implementation of tax legislation.

#### ***EMPLOYMENT RELATIONS:***

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Armenia is a full member of International Labor Organization. The Labor Code corresponds to the international criteria and assures the protection of employer and employee rights, and is constantly updated reflecting the dynamic developments in the world.

#### ***HIGHLY QUALIFIED, SKILLED AND EDUCATED WORKFORCE:***

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The majority of Armenian workforce has professional education. Literacy rate of the population is 99%. The workforce is considered to be creative, with ambitions to obtain innovative knowledge modern skills, is easily trained and adaptive to new conditions. Many Armenians are fluent in foreign languages. The labor cost is highly competitive in comparison with other transition countries.

#### ***STRONG DIASPORA:***

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Although two third of Armenians live abroad they do play a significant role in the socioeconomic, educational and cultural life of Armenia.

Being actively involved in the economic life of Armenia, the Diaspora is a key source for transfer of knowledge and innovations, establishment of trade relations and promotion of Armenian organizations into trade networks.

#### ***QUALITATIVE INFRASTRUCTURE AND TELECOMMUNICATIONS:***

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Armenia is located at the crossroads of Asia and Europe and is bridge between these two continents. Due to implementation of large-scale infrastructure projects, Armenia serves as a link among Asian, Arabian, and European countries.

Armenia enjoys a high quality road network which is constantly (yearly 300-400 km) repaired and provides with secure and high-level connections with the neighbors. The construction of the highway connecting the north with the south will provide safe and quick movement of goods from the Persian Gulf countries to Europe and vice versa.

Railroad network provides access to Black Sea ports (mainly to Batumi and Poti). In addition, Armenia-Iran railway is planned to be built.

Telecommunication industry is marked by the presence of well-known mobile operators, which ensure high quality connection corresponding to the international standards.

The whole area of the Republic of Armenia has an access to the internet; the internet is available via DialUp, DSL, radio and fiber-optic technologies, WiMAX communications and prepaid cards. Mobile operators provide fast and wireless internet connection opportunity via 3G and 4G systems. At present, the mentioned systems are available almost in all the regions of Armenia.

The whole country is supplied with water, electricity, and gas. Stable energy and gas prices are competitive throughout the region (except oil producing countries).

#### ***CURRENCY AND PAYMENTS:***

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The national currency of Armenia is Armenian Dram (known by ISO standards as AMD). It was introduced on November 22, 1993 by the Central Bank of Armenia. The CBA runs a liberal monetary policy allowing floating exchange rates and free transfer of currency.

Both the residents and non-residents may freely import and export foreign currency without restrictions, almost all the Armenian commercial banks have ATMs that accept MasterCard, Visa, ArCa, eDram and other plastic cards.

There is no limitation for free movement of the capital.

#### ***FOREIGN INVESTMENT INCENTIVES:***

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The following investment benefits are in place:

1. **Ownership:** 100% ownership permitted.
2. **Admission:** There is no screening and no specific authorization for making an investment.
3. **Land ownership:** The companies registered by a foreigner in Armenia have the right to buy a land. Although foreign citizens are not allowed to own a land in Armenia, however they are offered a long-term lease contracts.
4. **Import:** The import of raw materials is tax free. In the framework of investment projects VAT payments for imported goods exceeding 300 ml. AMD are postponed for three years.
5. **Export duties and restrictions:** None.
6. **Export VAT.** Zero rating in Armenia applies to goods and services exported under “Free Turnover” and “Reexportation” customs regimes.
7. **Investment guarantees.** In case of any changes in the legislation, foreign investors can choose which Law to apply up to a five-year term (Five-year Grandfather Clause1)

1. Free Economic Zones. The companies acting in free economic zones are fully /for 100%/ relieved from income tax, VAT, and custom duties. While defining the taxable income of a taxpayer who is a free economic zone exploiter for a full year, the aggregate income is reduced by the amount of income received from activities carried in the free economic zone.
2. Exchange Control. There is free exchange of foreign currencies.
3. Remittance. No restrictions on remittances.
4. Staff Recruitment. No restrictions.
5. Location. No sectoral or geographical restrictions on investments.

There are also some income tax and VAT privileges defined for resident organizations that have listed ordinary nominal stocks in stock exchanges operating on the territory of Armenia. Particularly, the mentioned organizations have a privilege of income tax reduction by 50%; moreover, the organizations that have listed stocks are reimbursed VAT payments for several services received on the territory of the Republic of Armenia for listing purposes paid to the providers of those services.

It is also worth mentioning the statement made by the President of RA on granting privileges to the large-scale investment projects according to the relevant legal acts.

Appendix**TAX RATE OVERVIEW:**

In Armenia 4 out of 8 taxes are state (income tax, profit tax, value added tax, and excise tax); moreover, fixed and licensing payments can be prescribed by law to substitute the above-mentioned taxes.

The other 4 are local taxes (land tax, property tax, hotel tax, and parking tax); in addition, other local taxes can be prescribed by law, as well.

<b>Tax</b>	<b>Rate</b>
<b>Income tax</b>	10-20%
<b>Profit tax</b>	max. 20%
<b>Value added tax</b>	20%

In Armenia individual property growth, dividends, wills and inheritance or donation properties are not taxed. In addition, a simplified tax system is applied towards SMEs.