

Armenia 2019



Total: 60.14

Quick facts

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| Population: | 2.969 million |
| Unemployment rate: | 18.2 % |
| GDP: | 12.433 billion \$ |
| GDP growth rate: | 5.2 % |
| GDP per capita: | 10 270 \$ PPP |

Political Freedom

Free and Fair Elections : 5.71

Considering the period under review, the biggest progress in political freedom section as measured by the Freedom Barometer 2019 index, was achieved in Armenia. Turbulent political activities that started in the midst of 2018 with a Velvet revolution, brought significant democratic improvements in the country. Those events marked an end of the era dominated by the former president Serzh Sargsyan and his Republican Party of Armenia (HKK) which constraint political freedom in the country, including institution of free and fair elections. Opposition and revolution leader Nikol Pashinyan was appointed as a new prime minister of Armenia – whereat he remained until resignation in October 2018, in the event which triggered early parliamentary elections in December. Although prior to elections, with weak parliamentary representation and majority of HKK MPs, he wasn't able to push through serious electoral changes, that didn't prevent his My Step Alliance (MSA) from winning 70% of the votes and ensuring the single party majority in the National Assembly (88 out of 132 MPs). Two more parties passed the threshold, while former ruling HKK party was not among them. Elections were marked by international observers as much more free and fair than all previous ones, with OSCE having had noted that "elections enjoyed a broad public trust" and that "absence of electoral malfeasance, including [...] vote-buying and pressure on voters, allowed for genuine competition". Prior to it, elections in Armenia abounded with irregularities and fraudulent practices, led by HKK. In 2019, MSA announced that proposed electoral changes from 2018 would again be "at the table", which included changes to voting by the party lists and lowering the threshold to 4%, or 6% for coalitions. Nikol Pashinyan was appointed as the PM once again.

Absence of Unconstitutional Veto Players : 3.33

Although the above score doesn't indicate annual improvement in the section of Absence of Unconstitutional Veto Players in Armenia, latest political developments showed some progress when it came to independence of democratic institutions in the country. Change of government, first through revolution and afterwards through democratic elections, has shaken long-standing ties between former political and business elites, which used to undermine decision making process for the sake of serving their personal interests. Problems of weak representation in the parliament by supporters of the PM Nikol Pashinyan prior to December 2018 elections are now replaced by the concerns about strong parliamentary majority after those elections. In the past, executive branch dominated the legislative and judiciary ones, undermining their role of control and prevention of abuse of power. Thus, it is still to be seen whether or not the ruling My Step Alliance will break away from such practices and ensure more reliable system of checks and balances. Significant influence in society is imposed by war veterans' formal or informal associations, and by the Armenian Apostolic Church, who both are able to put informal pressure on the decision-making process.

Freedom of Press : 7.1

Media scene in Armenia is diverse, with many traditional or online outlets which are rather partly free in their work. Situation of the media freedom improved somewhat after the Velvet Revolution, however problems like editorial and economic influence on journalists' reporting, widespread self-censorship and unclear ownership structures of the media outlets remained as concerns. This especially stands for traditional media and journalists employed at those outlets, whose reporting aligns with a political and economic interests of their owners. Lack of transparency of the media ownership is maintained with a Law on Television and Radio Broadcasting, which does not insist on full disclosure of their owners. On the other side, independent, objective and investigative reporting in Armenia can be found mostly online. Unlike before, media reporting on the electoral campaign provided citizens with diverse and more balanced coverage, allowing them to make informed decision on the election day. There were no cases of physical attacks on journalists in the period covered by this report.

Rule of Law

Independence of the Judiciary : 4.85

Judiciary in Armenia faces lots of challenges that jeopardize its independence. There is a strong influence by the executive branch of power in politically sensitive cases, as well as the influence by the interested parties in commercial cases through corruption or via political pressure. In criminal cases, judges often tend to follow prosecutors without much deliberation. A wide amnesty in autumn 2018, on the occasion of 100 years of the first Armenian republic, on one hand somewhat eased the situation in jails and relaxed it in society, but on the other hand was also criticized for alleged political bias in defining its beneficiaries.

Corruption : 3.5

As compared with neighbors, Armenia is less corruption-struck than Azerbaijan or Iran, yet worse than Georgia or Turkey. With 35/100 points and place 105/180, it's been stagnating in the Transparency International's CPI ranking. High level corruption, to do with over-involvement of oligarchs into political life, is a bigger problem than petty corruption. Political changes and „Velvet Revolution“ as of spring 2018 put many promises on cleaner and more transparent and accountable politics, yet many of the wealthiest businessmen are still directly politically involved, holding political offices notwithstanding conflict of interest. The government Cabinet has adopted a new, 2019-2022, anti-corruption strategy and action plan in February 2019, seemingly concentrated on improving transparency and professionalism among public administration and further curbing petty corruption and nepotism.

Protection of Human Rights : 6.1

After political changes in Armenia in 2018, steps were taken to improve the human rights situation. Past cases of police brutality or other attacks on civil liberties are investigated, although a thorough reform of the security sector is a matter of the future. Civil society organizations blossomed, on the waves of post-revolution euphoria and civic enthusiasm, but also enabled by the 2016 legal provisions that had eased their work. Even though more permissive or liberal legal provisions on the issues of gender inequality, domestic violence, LGBT discrimination and homophobia, or the position of religious or ethnic minorities, have been lacking, the social climate has thereby somewhat improved. But conservative backlash could already be detected, through activities of the alt-right groups, themselves accusing government of being a puppet of “Soros”, of selling out national interests and of subjugation to “pedophilia” and “religious sects” conspiracies. Advocating Russia-style laws on NGO gathering, or LGBT issues, or domestic violence, has been a constant among the conservatives in Armenia. Besides propaganda, unpunished physical attacks also occurred against alleged gay community members (thereby by a mob), as well as against critics of the main church in the country.

Economic Freedom

Security of Property Rights : 5.96

Property rights in Armenia are not sufficiently well protected. Powerful external interested parties can have a significant power over the courts on a case to case basis. Their procedures and rulings, and corruption within the judiciary, are still present. Judicial procedures are slow and inefficient, and there is a huge backlog of cases. A case on average lasts longer than a year and half; adjournment regulations do not stipulate their maximum number, and time standards are not reasonably upheld, so slow court procedures effectively lead to property rights uncertainty. The use of precedential authorities by the Court of Cassation of the European Court of Human Rights is not widespread, which can make court decisions unpredictable. Recent changes that provided financial incentives for mediation mechanism and established mediation framework have not yet decreased the number of new court cases and out-of-court settlement mechanisms such as mediation or arbitration remain underutilized and underdeveloped. Lack of expertise of judges in

commercial areas can be a negative factor in court dealings, since there are no specialized commercial courts and all these cases are dealt with in general jurisdictions courts. Unpredictability in verdicts, which can vary from court to court in similar cases, also makes significant problems in practice. Court cases are now assigned to judges randomly, but its effect on alleviating some of the pressure on courts is not yet clear. Simplified procedures for small claims have also been recently introduced. Insolvency procedures are also slow and complicated, and are mostly resolved through piecemeal sale of the business at stake. On average, this lasts almost two years, resulting in low recovery rates, below 40% of the value of the claim. Registration of property is easy, inexpensive and can be done in just a week, while majority of the land has a clear title. The land dispute resolution mechanism of the land administration was recently improved, which would have a positive impact on the property registration process. Foreign nationals are barred from owning land, but they could lease it freely. The political change stemming from the December 2018 parliamentary elections, which had ousted some important business people from the parliament, could lead to curbing important stakeholders involved in political rent seeking activities.

Size of Government: Expenditures, Taxes, and Enterprises :

8.19

Government expenditures in Armenia are very low as compared to other European countries, even those from the CIS region, standing at 24% of GDP in 2018. Public debt started to decrease, but is still elevated, reaching 51% of GDP in 2018, which is relatively high for a country on this level of economic development. The new government signed a new three-year stand-by arrangement with the IMF in May 2019, in order to support structural reforms and the fiscal consolidation that is under-way. New fiscal rules were introduced in January 2017, with a strict debt limit of 60% of GDP and an automatic corrective mechanism for deficits. Deficits have been subdued, but the low as of 2018 was also due to the fall in capital spending. Economic growth is robust, and manufacturing sector outperformed the fall in mining and manufacturing. A significant pension reform was introduced in July 2018, which made all people born after 1974 contribute 5% of the gross wage towards their private pension plan. Majority of former state-owned companies has been privatized since the beginning of the transition in the country. Privatization process is generally considered to have been neither transparent nor fair. SOEs are still active in specific areas, such as public utilities, infrastructure and energy. These companies do not operate efficiently, and their operations can pose fiscal risks to the government, especially those in the energy sector. The privatization program for the 2017-2020 period has recently been amended in order to take off the list the two biggest SOEs from the list: the wholesale electricity trade (Energoimpex) and the post (Haypost), which is a significant step back for privatization efforts. Overall low government consumption has led to moderate tax rates, with VAT and corporate profit tax rates set at 20%. Income tax is progressive, with rather high rates of 23%, 28% and 36% above the set threshold, with additional 2.5% of social security contributions. The government recently proposed a significant tax reform, which would include introduction of flat income tax of 23%, with a possibility of its eventual decrease to 20%, which would be offset mostly by a rise in excise duties.

Regulation of Credit, Labour, and Business : 7.32

Regulation in the country is mostly business-friendly. However, there is a high concentration of ownership in major fields of the Armenian economy by a small group of businesses, which can use

their resources and connections to gain protection from competition. Recent political changes saw to the fact that a number of these people lost their seat in the national parliament, which is expected to curb their informal political power. Lack of independence, capacities, or professionalism, by the key administrative institutions can also undermine the actual implementation of rules and regulations in practice. Informal entry barriers in these fields can serve as a deterrent to companies that would try to enter the market, and tax authorities and different inspections have a record of being used to harass possible competitors. Government procurement procedures are mostly deemed as unfair, with preferential treatment being given to companies with good political connections. In some cases, such as the gold mining project in Amulsar, the low quality of government regulatory capacities have led to widespread unrest, due to accusations of investment preferential treatment regarding the environmental regulations. On the other hand, starting a business is easy and cheap, and there is no minimum paid-in capital requirement, which was further made expedient by allowing voluntary VAT registration at the time of business incorporation. So is the process of obtaining a construction permit, although burdened with as many as 20 different procedures which on average can take 3 months. The process of connecting to electricity grid is also expedient and cheap - shorter deadlines for connection procedures have been introduced, as well as a new GIS system within the public utility company. Compliance with tax procedures involves lengthy and complicated procedures and is considered overly burdensome, even though some administrative changes in this regard have been recently introduced. Labour regulation is flexible, although fixed term contracts are prohibited for permanent tasks. The length of contracts is not restricted, Total number of working days is set at 6. There are retraining and reassignment obligations in case of redundancies. The length of notice periods and the level of severance pay do not increase with the years in tenure. However, almost half of the working force is active in the informal economy, working without written contracts. Centralized collective bargaining is mostly restricted to public sector, and trade unions are considered to be under the political influence of the government. Long mandatory military service proves to be burdensome for individuals and private enterprises alike.

Freedom to Trade Internationally : 8.08

Freedom of trade in Armenia is generally respected. Tariffs are not high, with the Most Favoured Nation (MFN) average applied rate of 6.5%, but tariffs are higher for agriculture goods and foodstuffs. Non-tariff barriers, such as technical, sanitary and phytosanitary standards, still pose obstacles to free trade. Custom procedures remain non-transparent and prone to corruption, while custom clearance and inspections are lengthy; this was recently somewhat improved by allowing online submission of customs declarations. These procedures have recently been improved through a reduction in use of reference pricing, but manipulation of goods' classification and demands for pre-payment of custom duties still prevail. Armenia has been a member of the World Trade Organization (WTO) since 2003. It has signed the Trade Facilitation Agreement, and requirements for categories A and B have been put in place. Armenia joined the Eurasian Economic Union (EEU) in 2015, which granted Armenian goods easier access to EAEU markets and vice versa, and more opportunities for Armenian migrant workers through their preferential treatment. In November 2017, Armenia signed a Comprehensive and Enhanced Partnership Agreement with the European Union. This treaty will not affect customs or tariffs rates, since these are set on the supranational level of the EAEU, but will over time align Armenian regulatory system and standards with those in the EU. Main problems facing Armenian involvement in foreign markets are geographical and political: the mountainous terrain provides only a limited number of routes suitable for transportation of goods, but the borders with Azerbaijan and Turkey are closed due to political confrontations. The only open borders are those with Georgia and Iran, and these lack good infrastructure, which significantly burdens international trade, through high freight costs.

Main Armenian trade partners are the Russian Federation and the European Union, which combined cover one half of its international trade. The Law on Free Economic Zones was amended in October 2018, in order to provide more opportunities for this kind of clusters, and a new FEZ focused on high tech and IT opened in Hrazdan.