

# Armenia 2015



**Total: 54.19**

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## Political Freedom

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### **Free and Fair Elections : 4.29**

In 2014, local elections took place in Armenia. The ruling Republican Party of Armenia confirmed its domination by winning in 87 out of 121 communities. Despite some improvements of the electoral process, elections were only partly free and fair. Still, some violations in the form of abuse of the administrative resources or of vote buying are presently practiced by the incumbents in the Armenian elections. At the end of 2014, president Serzh Sargsyan proposed a transformation of the political system, from a presidential democracy to a parliamentary republic, whereby a referendum on the issue is expected by the end of 2015. People are free to organize political parties in Armenia, but government is often accused for abusing the administration to limit their activities. During the year, opposition united to address a list of demands to the government, which led to a series of rallies across the country.

### **Absence of Unconstitutional Veto Players : 3.33**

Authorities in Armenia have constitutional, effective and unchallenged power to govern. However, this is mainly due to the highly concentrated power in the hands of the political elites and lack of the system of checks and balances. Together with the widespread corruption among the officials, this represents the biggest threat to democracy in Armenia. Security forces are controlled by the president who appoints the heads of these organizations. Although, formally, the church is separated from the state, during the recent years it has been much more involved in everyday politics, helping government to deal with some sensitive issues in the society.

### **Freedom of Press : 3.9**

Armenian press is not free. According to the Freedom House, broadcast media, which remain the main source of information for the citizens, are under control by the political and business elite. Thus, these media outlets are increasingly partisan in favor of their owners, unlike online outlets which are becoming the center of independent journalism. However, government had tried to influence that through a draft amendment which would hold online outlets responsible for defamatory or insulting comments on the internet. After the criticism from the media watchdogs, most importantly by Reporters without Borders and by OSCE/ODIHR, the amendment was dropped. Defamation is not punishable by imprisonment but it is subject to huge fines. Due to that, as well as because of frequent verbal or physical violence against journalists, self-censorship is often exercised by media workers.

## Rule of Law

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### **Independence of the Judiciary : 3.72**

Armenia's judiciary remains the least independent in the Caucasus region. As Freedom House remarked, "the functioning of the justice system is one of the weakest links of Armenian governance". Citizens' trust in the system is low indeed - only 15 percent. Of all areas of life, they perceive judiciary as the most corrupt. Political control is also present. Judicial reforms launched in 2012 are to be completed in 2016. Amendments to the Judicial Code were carried, strengthening the role of autonomous judicial bodies in appointment, evaluation and promoting of judges. European Commission, in its report on ENP in Armenia in 2014, wrote that there was a progress in access to justice, but no improvements on impunity or regarding the right to a free trial. World Bank reckoned that, overall, there were small improvements. FH tells that the situation in Armenian prisons has improved. Following a general amnesty in late 2013 and opening up of a new prison facility in late 2014, the overcrowding became a lesser problem. Internal prison regulation was relaxed. But sanitary conditions are still worrisome.

### **Corruption : 3.7**

Since 2011, Armenia has slowly but steadily advanced in fighting corruption. In 2014, it ranked 94 (of 175) in the Transparency International's Corruption Perception Index. In its latest strategic paper on corruption, as of April 2014, the government put emphasis on fighting it in education, state revenue, police and health care. Judiciary, even though majority of citizens and many international observers perceived it as the most corrupt, was not of the highest priority. True, tax and customs, or other revenue offices deserved to be among priorities. But even in that field, the illicit secret ties that link those having political and those having economic power, as a powerful generator of corruption, might not on the longer run be easily dismantled without further, simultaneous, democratization of politics and liberalization of economy.

### **Protection of Human Rights : 5.56**

As EU has complained in its ENP on Armenia in 2014 progress report, the awareness of the international regulation on human rights and of their obligations stemming from it was low among Armenia's national institutions. Even if there were strategies, action plans and subsequently laws,

proper implementation was lacking, due to the absence of by-laws or to their being in variance with European standards. Moreover, as many observers noticed, contemporary Russia is increasingly a role model for many in Armenia, even regarding the ways some human rights issues are dealt with. Albeit there is no “foreign agent bill”, the treatment of NGOs, if their activities disturb government policies, has recently worsened, occasionally being violent or prohibitive. Lawmakers and government officers on the ground are ever more giving way to traditionalists, be it on the terrain of domestic violence, or gender equality, or protection of LGBTs against discrimination. So far so good there are only a few overtly extremist organizations in Armenia, according to Freedom House’s report Nations in Transit 2015. Sex trafficking continues to be a huge problem. The figures in the Maplecroft’s Human Risk Atlas also show that deterioration was the worst regarding government’s attitude towards “human rights defenders” (from 6.02 to 4.43 on the 0-10 scale). The relative success stories in 2014 were freedom of thought and the rights of international migrant workers.

## Economic Freedom

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### **Security of Property Rights : 5.78**

Property rights in Armenia need more sufficient security. Weak administration of justice is a result of court partiality and of the influence of external factors on court proceedings, leading to low integrity of the legal system. Privatization process, although almost complete, has been heavily politicized and conducted in a non-transparent way, both in first waves of market liberalization and more recently. Rules and regulations are implemented in a non-consistent way, allowing for widespread favouritism and corruption. One of the major problems is weak and ineffective enforcement of contracts due to high number of necessary legal procedures which are time consuming. Slow court procedures lead to uncertainty of property rights, while out-of-court settlement mechanism is not well established.

### **Size of Government: Expenditures, Taxes, and Enterprises : 8.5**

A strong recession in 2009, coupled with sluggish economic recovery, led to the fact that Armenian GDP reached its pre-crisis level only in 2013. Government consumption is low by international comparison. It reached 25.6% of GDP in 2014, with fiscal deficits lower than the projected growth. The growth prospects are dim, taken the economic downturn in the Russian Federation, which is one of the main Armenian economic partners. Expected decrease in remittance from workers in Russia would also lead to lower domestic consumption. Public investment in infrastructure could boost growth, both in the short run via increased investment and in the long run by eliminating infrastructure bottlenecks that burden exports. However, current level of public debt, which has tripled since 2008 to 44.2% of GDP, leaves little room for such action and calls for necessary fiscal adjustments in order to make it sustainable. Overall low government consumption has led to low level of taxation: tax on corporate profit is 20%, the same as VAT, while income tax is slightly progressive and is set at 10% and 20%. Social contributions are regressive, being higher at lower income and lower at higher earnings. Armenian government has, through privatization process,

walked out of the economy, but some companies (mostly in the utility sector) remain in its property. Reforms in the pension fund, e.g. involving the second pillar (mandatory contributions into private-owned funds), are expected to continue in order to make it more sustainable. The efficiency of the tax system is low and there is a high level of shadow economy in the country, while tax authorities are perceived as corrupt. High dollarization of the financial system remains an obstacle to more effective monetary policy, due to the hyperinflation background of the national currency.

## **Regulation of Credit, Labour, and Business : 8.07**

The regulation of business activities is not always in favour of businesses, which increases their operational costs. However, starting a business is easy and cheap, and there are few licensing restrictions. Administrative requirements for conducting business remain high, with unnecessary or complicated procedures, while the process of reform by cutting the red tape has not been implemented yet. These requirements serve as a fuel for corruptive practices due to non-coordination of government bodies and their different interpretations of the rules. Furthermore, paying taxes and compliance with all the tax procedures is very lengthy and incurs cost. The same is with the process of getting electricity. Reforms that liberalized civilian air transportation ("open sky" policy) have given good results through increase in flights and lower prices. Competition policy remains an issue, due to the fact that many industries in the country are faced with high concentration ratios. Labour regulation is mostly flexible, with little restrictions in the working-hours regulation and low costs of worker dismissal. Minimum wage is not high as compared to the average wage. However, almost half of the working force works without contracts. Centralized collective bargaining is mostly concentrated within the public sector.

## **Freedom to Trade Internationally : 7.34**

Armenia signed the accession treaty to the Eurasian Economic Union (EEU) in October 2014. It became effective in January 2015. Other member countries include the Russian Federation, Kazakhstan, Belarus and the Kyrgyz Republic. Applied tariff rates in Armenia are low for manufacturing products but are significant in the field of agriculture products (and extensive, since almost all agriculture products are protected by tariffs). Membership in the EEU entails also a customs union, which is envisaged to increase Armenian overall tariff rate, leading to higher prices for imported goods and commodities. On the other hand, this move has secured continuation of privileged prices on imported oil and gas from the Russian Federation, as well as more fiscal revenues from the common EEU customs pool. Standardization procedures pose significant problems in international trade: regulations are costly, time consuming and complicated, while their implementation can be evaded by the well-connected, although export and import documents are usually easy to compile and quick to obtain. However, main problems of further Armenia's connection to the world economy lie in the field of politics, infrastructure and geography. Due to the mountainous terrain, only a limited number of routes are used for transportation, and most of them are closed because of the political confrontation with Azerbaijan and Turkey, while open borders of Iran and Georgia lack good infrastructure. All these significantly burden international trade with high freight costs.