

Armenia 2016



Total: 53.58

Quick facts

Population:	2.999 million
Unemployment rate:	17.8 %
GDP:	9.866 billion EMU
GDP growth rate:	3.0 %
GDP per capita:	3300 EMU

Political Freedom

Free and Fair Elections : 4.29

Political parties in Armenia are free to organize, to some extent operate and participate in elections. However, elections are ranked as partly free and fair because President Serzh Sargsyan and Armenian government often practice intimidation, abuse of state resources and fraudulent activities in order to remain in power. Announced transformation of the electoral system fueled discussion throughout the 2015 and it was put to voting on referendum in December. Constitutional reforms that referred to shift from presidential democracy to a parliamentary republic, reducing power of the president and empowering parliament and prime minister, was adopted and should be implemented during the second half of 2016. Although opposition proposed similar reforms few years earlier, they have been extremely critical on this proposal, accusing government for tendency to abuse weak political system and tighten its power in Armenia. Observers of the December constitutional referendum noticed among others violations vote buying, ballot box stuffing, intimidation of voters and abuse of authorities.

Absence of Unconstitutional Veto Players : 3.33

Dominant executive power in Armenia is concentrated in the hands of democratically elected president and some of the wealthiest businesspeople, who are also part of the government. They have full control over the country, so there are no veto players which can question their decision making process. However, they are constantly abusing their position and therefore they are also the biggest threat to democratic processes in Armenia. The Armenian Apostolic Church is one of

the most trusted institutions in the country and therefore has certain influence on public opinion. They involve in politics from time to time, not to criticize decisions made by government but to support them on some key societal issues. Anticorruption measures achieved some progress in 2015 as several important officials were arrested.

Freedom of Press : 3.7

Printed, television and radio media outlets are considered as not free. Armenian media scene is pluralistic, but it lacks independence and diversity of opinion. Outlets almost always report in line with political affiliations of their owners and financiers who have tight connections with the government. Beside pressure on independence of journalist reporting, acts of violence against them occurred several times during the year. In June, police attacked and arrested 13 journalists while covering a protest in Yerevan against the proposed electricity price hike. Charges against an editor of the news portal Ilur.am, Kristine Khanumyan, who refused to disclose her source, of a report on abuse of power by the chief of regional police, were dropped off. Several months later, constitutional court ruled that media outlets didn't need to disclose their sources, unless protection of individual was at stake, or over another issue of great importance.

Rule of Law

Independence of the Judiciary : 3.58

As Freedom House remarked in 2015, "the functioning of the justice system is one of the weakest links of Armenian governance". In 2016, the assessment did not differ. Citizens' trust in the system is low indeed. Of all areas of life, they perceive judiciary as the most corrupt. Political control is also widely present. The new Constitution, adopted at the referendum in December 2015, might bring considerable improvements if implemented in good faith. Much more independence and immovability of judges is stipulated. The role of the Parliament in appointing judges (by three-fifths majority) will increase. As for Constitutional Court, the Parliament will elect it upon proposals (one third of the composition each) by the President, The Government and the General Assembly of Judges. Supreme Judicial Council will be in charge of dismissing judges. Prosecutor General shall also be appointed by the Parliament (by qualified majority), no more than for two terms.

Corruption : 3.5

After advancing in 2012-2014, Armenia fell in the Transparency International's Corruption Perception Index 2015, now ranking as 95 of 168 countries, with the score 35, equal to ones of Mali, Mexico and Philippines. Relatively recent government anti-graft strategies mainly dealt with petty corruption (such as in police, education or health care), but failed to properly address corruption in judiciary, big business's ties to politics, major custom and revenue fraud or other high level illegalities. As Freedom House noticed, anti-bribery measures brought some fruit in easing the illicit administrative burden on businesses and decreasing the direct bribery. But, much bigger problem rests with crony businessmen who hold informal import quotas and thereby enjoy tax breaks. Some of those are still MPs. According to World Bank, some improvements in functioning of custom services and regarding construction permits were notable during 2015-2016.

Protection of Human Rights : 5.72

The awareness of Armenian ruling politicians on the importance of the respect for human rights is low. In many respect their attitude, even though not the final results, is similar to the one in Russia. Throughout 2015, there were mass protests on various occasions and the police several times used excessive force. Police officers enjoy de facto impunity in cases of torture, despite initial investigation. Opposition or civil society activists are attacked by rival groups with no subsequent legal conclusion. Despite this, civil society, including Internet-based groups, is still lively. The position of women is burdened by traditional societal norms and stereotypes on their role in family, which especially hurts women with disabilities. Measures against sex trafficking are insufficient. In the IPU world classification, regarding participation of women in lower houses of parliaments, Armenia (with just 10.7%) is placed as 151 of 193 countries of the world. Of all 30 countries included in the Freedom Barometer, only Hungary is worse. There is no anti-discrimination shield for LGBT persons.

Economic Freedom

Security of Property Rights : 5.68

Property rights in Armenia are sufficiently well protected. Courts are neither efficient nor independent from strong out of court groups that can sway their verdicts. Corruptive practices make up another major problem within the judiciary. Necessary court expertise in some cases postpones litigation for unusually long time periods. Slow court procedures lead to property rights uncertainty, and out of court settlement mechanisms such as mediation or arbitration are not well established. One of the problems in judiciary is the fact that there are no special courts dealing with commercial activities, but these cases are litigated in courts of general jurisdiction. These courts are usually overwhelmed by the number of cases. Enforcement of contracts is ineffective, due to long procedures. Insolvency procedures are long, and lead to low recovery rates. Registration of property is easy, fast and inexpensive. A new law stipulating that court cases should be assigned to judges randomly is under implementation, leading to a higher level of accountability in court management. Armenia joined 2012 version of WTO's Government Procurement Agreement (GPA) in June 2015, eliminating privileges that domestic companies had over the foreign ones in the field of public procurement.

Size of Government: Expenditures, Taxes, and Enterprises : 8.23

Government consumption is low in international comparison, standing at 26.4% of GDP in 2015. Economic growth is moderate, in spite of worsening external conditions, such as decrease in remittances and consequent lower demand as well as dim growth prospects in main trade partners from CIS. Continuing and high public deficits have tripled public debt levels since 2008, which is expected to stand at 50% of GDP in 2016. Fiscal consolidation therefore remains one of key issues, in order to make public finances sustainable. Overall low government consumption has led to low level of taxation: tax on corporate profit is 20%, as well as the VAT. Income tax is progressive, with rather high rates of 24.4%, 26% and 36% above set threshold. The privatization process has limited the scope and influence of the government in the economy. State owned enterprises are still active in some specific areas, mostly utilities and infrastructure. These companies do not operate efficiently, and pose a significant fiscal risk to the government. High dollarization of the financial system remains an obstacle to a more effective monetary policy, due to the hyperinflation background of the national currency. A new tax that would increase public revenues through elimination of different exemptions is under discussion.

Regulation of Credit, Labour, and Business : 6.99

Regulation in the country is mostly business friendly. However, major areas of Armenian economy are controlled by business people who are well connected to the ruling elite, enjoying government protected market position, evident in accruing rents through restriction of competition. Unfair tender procedures and preferential treatment of certain companies remain present. On the other hand, starting a business is easy and cheap, and there are no required minimum paid-in capital. Getting electricity is a lengthy procedure incurring high costs, mostly due to inefficiencies within the company of Electrical Networks of Armenia. Obtaining a construction permit involves unnecessarily high number of procedures, but is not expensive. The process has been made easier by exemption of lower risk projects from having approval of architectural drawing by an independent expert. Furthermore, compliance with tax procedures, although not burdened with a high number of annual payments, still is among the most perceived problems in the economy. Labour regulation is mostly flexible, with little restrictions in working hours and low costs of worker

dismissal. However almost half of the working force works without contracts or in the informal economy. Centralized collective bargaining is mostly concentrated within the public sector, and trade unions are closely connected to the government. Long obligatory military service proves to be burdensome for individuals and private enterprises alike. Labour code amendments that took place in October 2015 clarified procedures of making changes in labour contracts, including the requirement to reflect information on vacation leave and probation period. These changes also regulated child labour in line with international standards.

Freedom to Trade Internationally : 8.56

Freedom of international trade is generally respected in Armenia. The country has been a member of the World Trade Organization (WTO) since 2003 and there are no major trade disputes under its mechanism. Overall, tariffs are low, standing at 3,7% on average - however tariff rates can be significant in the field of agriculture products covering a wide range of products. Non-trade barriers still pose an obstacle to free trade. Recently, there has been improvements in the work of customs office and reduction in the use of reference prices during custom clearance. However, custom procedures are not transparent and corruption remain a problem. Documentary compliance cost for both export and import are necessarily elevated. Since 2015, Armenia has been a member of the Eurasian Economic Union (EEU). This led to easier access of Armenia goods to EEU markets and vice versa. However, this also entailed changes in trade policy, by increases in tariff rates and new regulatory requirements for imported goods. Other member countries include the Russian Federation, Kazakhstan, Belarus and the Kyrgyz Republic. However, Armenian membership secured continued supply of imported oil and gas from the Russian Federation by preferential prices, as well as more fiscal revenues from the common EEU customs pool. Armenian foreign workers in other EEU countries face preferential treatment compared to other CIS nationals. Main problem in increasing Armenian inclusion to the global market are geographical and political. Due to the mountainous terrain, there is only a limited number of routes that could be 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. Furthermore, some Georgian routes towards Russia are also closed (via South Ossetia and Abkhazia), which significantly burdens international trade with high freight costs.