

Armenia 2018



Total: 52.93

Political Freedom

Free and Fair Elections : 3.93

A year after parliamentary elections in Armenia, peaceful revolution led to the transition of power and appointment of Nikol Pashinyan as the new Prime Minister, marking an end of the longstanding political domination of the former President Serzh Sargsyan. This came as a result of country's transformation from a semi-presidential to parliamentary republic, a process started in 2015 and finished with an end of Sargsyan's second presidential term. First, parliamentary elections, through the complex party list proportional representation, took place in the mid of 2017 with Republican Party of Armenia (HKK) winning the majority of seats and only one opposition political party entering the parliament. On the 2nd of March 2018, presidential elections were held, when for the first time president was elected by the parliament. Armen Sarkissyan, HKK backed candidate, became the new president of Armenia. After that, Serzh Sargsyan intended to formalize his power by becoming a PM of Armenia, which he did, but that event triggered intensive protests in the whole country, led by an opposition MP Nikol Pashinyan. Few weeks later, Sargsyan resigned, while Pashinyan was given mandate to govern the country. Freedom and fairness of electoral process in Armenia is limited. Elections abound with irregularities and fraudulent practices. Prior to revolution, ruling HKK haven't constraint itself from taking leverage of the ruling position and abusing power, thus highly undermining political pluralism in the country. It is expected that most recent developments make political life in Armenia more vibrant and pluralistic.

Absence of Unconstitutional Veto Players : 3.33

There are no unconstitutional veto-players in Armenia, however democratic institutions and rule of law are often undermined by politicians in power themselves. Executive branch was dominating over legislative and judiciary ones for years, paralyzing the system of check and balances. Exactly that extensive control over all institutions and abuse of power triggered massive protests, which ultimately led to the shift of government in May 2018. Decision making process in the country is often influenced by close ties between political and business elites, mutually manipulated to serve their own personal benefits. There is a widespread practice of having businessmen in politics, to be used as a tool for meeting business interests. Significant influence in society is imposed by war veterans' formal or informal associations, and by the Armenian Apostolic Church, who are able to put informal pressure on the decision making process. PM Nikol Pashinyan, although previously a successful leader of protests, has got very weak representation in the parliament by his own party, which made his position prone to future changes and turbulences on the political scene.

Freedom of Press : 3.7

Mechanisms for protection of media freedom and independence in Armenia are very weak, as democratic institutions and the system of checks and balances in the country are dominated by the executive. Journalists are facing political and economic pressure, attacks, threats and legal suits. Reporting on abuse of power by HKK during parliamentary elections in 2017 led to 30 defamation charges towards an online platform in an allegedly orchestrated action. All charges were dropped the same day. Impartiality in many institutions, even regarding physical or verbal harassment of journalists, was dubious, creating a climate of fear in media. Broadcast media outlets in Armenia are mostly owned by the businessmen with close ties to politicians in power, influencing editorial independence to a large scale. In a search for objective information citizens are rather turning to online sources than to traditional media outlets which are often expressing bias toward ruling HKK and government.

* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

Rule of Law

Independence of the Judiciary : 4.08

Judiciary in Armenia is not independent from the executive branch of power or other outside interests. The situation is hardly better than several years ago. In politically sensitive human rights cases, courts have several times submitted to the government expectations. In commercial cases, courts often lacked expertise, effectiveness and/or efficiency, or were bribed or politically influenced to favor one or another company. Constitutional changes as of late 2015 have too slowly translated into laws and by-laws. The establishment of the Supreme Judicial Council in 2017 was welcomed by the Venice Commission and relevant domestic NGOs, but it also had in-built shortcomings. After the Velvet Revolution in spring 2018, many judges felt obliged to respect the wishes of the new government, so a balance of power between various branches is yet to be made.

Corruption : 3.5

In 2017, the situation regarding corruption slightly improved according to Transparency International's CPI (from 33 to 35/100 points), while it slightly worsened according to Freedom House's NiT evaluation (from – negative - 5.25 to 5.50/7.00 points). Armenia is thus better than Azerbaijan or Iran, worse than Turkey and far worse than Georgia. There are many clues that high level corruption, rather than petty one, poses a bigger challenge. GAN portal reported about close relationship between oligarchs, political and business circles, which impeded other companies' business planning and operation. Corruption risk has also been high in judiciary, police, customs and tax administration. In spite of a number of government promises, new programs, etc., Freedom House noted that until the end of 2017 "very little progress was made". Even exposed

corrupt public officials managed to escape prosecution. Anti-oligarchy sentiments and desire for fairer economic and societal conditions led in April-May 2018 to a thorough change of government in the “Velvet Revolution” and subsequent elections. Although not the main ones, the motives of pushing back corruption and nepotism, while affirming the need for more accountability and responsibility of politicians, played a considerable role. It’s to be seen if or how civic activism as of spring 2018 might translate into an enduring civic watch over transparency in Armenian politics and public life.

Protection of Human Rights : 5.61

Described by Freedom House as “semi-consolidated authoritarian regime”, Armenia had for most of its post-Soviet period been neglecting human rights. With a very bad situation in Iran, deteriorating one in Turkey and Azerbaijan and just slow improvements in Georgia, it had few role models in the neighborhood. Besides, there is a constant influence from Russia with its laws and practices that openly reject the very idea of rule of law and consequently demean human rights. April-May 2018 Velvet Revolution might be a game changer with its strong orientation on values, instead of oligarchy interests, as a guideline for policies. Meanwhile, civil society organizations grew, also owing to the law as of 2016, and have provided solid framework for citizen activism. For that, there might be a lot of need in the current state of human rights in the country, from lack of civil liberties and protection of citizens under the law, and a need to limit law enforcement services to a constitutional and legal framework, via issues of gender inequality, domestic violence, LGBT discrimination and homophobia, to the need for more religious and ethnic inclusion.

Economic Freedom

Security of Property Rights : 5.25

Property rights in Armenia are not sufficiently well protected. Powerful external interested parties sway a significant power over the courts, their procedures and rulings, and corruption within the judiciary is still present. Judicial procedures are slow and inefficient, and there is a high number of backlog cases. A case on averages lasts longer than a year and a 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. Besides, out-of-court settlement mechanisms such as mediation or arbitration are not well established. Recent changes that provided financial incentives for mediation mechanism and established mediation framework have not yet decreased the number of new court cases. There are no specialized commercial courts, and all commercial cases are resolved in general jurisdictions courts. Lack of expertise of judges in commercial areas can be a negative factor in court dealings. Unpredictability in verdicts, which can vary from court to court in similar cases, is another problem. The big improvement was the recent law that stipulated that court cases should be assigned to judges randomly, so this procedure is done automatically, alleviating some of the pressure on courts. 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. Insolvency procedures are also slow and complicated, lasting on average almost two years, and resulting in

low recovery rates, below two fifths of the claim, mostly through piecemeal sale of the business at stake. Foreign nationals cannot own land, unless they acquire a residence permit, but they can lease it freely.

Size of Government: Expenditures, Taxes, and Enterprises :

8.24

Government expenditures in Armenia are very low as compared to other European countries, even those from the CIS region, standing at 26% of GDP in 2017. General government deficit is high, reaching -4.8% of GDP in 2017 but is expected to subside significantly this year, due to high economic growth rates and rising tax receipts. Public debt is elevated compared to previous years, reaching 53% of GDP in 2017, which is relatively high for a country on this level of economic development. Economic growth rebounded after the 2016 slowdown, due to rising consumption supported by higher remittances from Russia and due to a strong increase in the price of the number one export commodity, copper, but these one-off effects are probably not going to last beyond 2018. Since the debt level passed the 50% of GDP threshold, the unofficial fiscal rule is now binding the government, calling for a strong deficit reduction. There are positive efforts to enact a new PPP law, as a safeguard from fiscal risks stemming from these arrangements. Majority of former state owned companies has been privatized since the beginning of the transition in the country; the 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. Overall low government consumption has led to moderate tax rates: VAT and corporate profit tax rates are set at 20%. Income tax is progressive, with rather high rates of 23%, 28% and 36% above the set threshold. Social tax is 5% of the gross wage, which coupled with the income tax leads to a moderate labour tax wedge of 27% on the average wage.

Regulation of Credit, Labour, and Business : 7.29

Regulation in the country is mostly business friendly. However, major fields of the Armenian economy are controlled by business people whose close political affiliation with the government provides them with protection from the competition on the market. Informal entry barriers in these fields serve as a deterrent to companies that would try to enter the market, while tax authorities and different inspections are used to harass possible competitors. Accusations of unfair tender procedures are still present. Government institutions can give preferential treatment to certain companies with good political liaisons. The level of corruption in the country is high. On the other hand, there is no minimum paid-in capital requirement, and starting a business is easy and cheap, as is also the process of obtaining a construction permit, however being burdened with as much as 19 different procedures. This process was eased through exemption of lower-risk projects from the need of having approval of architectural drawing by an independent expert. The process of connecting to electricity grid has been recently improved and expedited by imposing new, shorter deadlines for connection procedures and setting up a new GIS system within the public utility company, the Electrical Networks of Armenia. Although there are not many annual tax payments, compliance with tax procedures involves lengthy and complicated procedures. Access to finance, tax rates and tax regulations are perceived as the most problematic factors in doing business in the country. Labour regulation is flexible. Although fixed term contracts are prohibited for permanent tasks their length 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, so they incur low costs. However, almost half of the working force works without contracts, or in the informal economy. Centralized collective bargaining is mostly restricted to public sector, whereby trade unions are closely connected to the government. Long mandatory military service proves to be burdensome for individuals and private enterprises alike.

Freedom to Trade Internationally : 8

Freedom of trade in Armenia is generally respected. Tariffs are not high, with the Most Favoured Nation (MFN) average applied rate of 6%, 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. The use of reference prices during custom clearance was recently reduced, but custom procedures remain non-transparent and prone to corruption, while custom clearance and inspections take a lot of time. Those procedures have recently been improved through a reduction in use of reference pricing, but manipulation with 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 EEU markets and vice versa, as well as more opportunities for Armenian migrant workers through their preferential treatment. However, this also entailed changes in trade policy, by increases in tariff rates and new regulatory requirements for imported goods, in order to comply with the existing regulation of the EEU. In November 2017, Armenia signed a Comprehensive and Enhanced Partnership Agreement with the European Union. This treaty will not affect customs or tariffs rates, however, but it will, over time, align Armenian regulatory system and standards with 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, and most of them are closed because of the political confrontations with Azerbaijan and Turkey. The only open borders are those with Georgia and Iran, but they lack good infrastructure. That significantly burdens international trade, by imposing high freight costs. Main Armenian trade partners are the Russian Federation and the European Union, which combined cover one half of its international trade.