This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2020. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries.

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Executive Summary

The year 2017 started off for Armenia with no prospect of change taking place either in politics or the economy. Parliamentary elections held in April 2017 that resulted in a sweeping victory for the ruling Republican Party of Armenia (RPA) were widely disputed with observers reporting instances of vote buying and voter intimidation. The new coalition government featuring a junior partner, the Armenian Revolutionary Federation-Dashnakstutyun (ARFD), appeared to be facing little resistance to its agenda as only a small opposition faction won representation in parliament and the public was widely perceived as being politically apathetic.

In November 2017, Armenia signed a Comprehensive and Enhanced Partnership Agreement (CEPA) with the European Union. The CEPA was the replacement for the Association Agreement that Armenia negotiated but then, in a last-minute move, dropped as it was compelled to join the Russian-led Eurasian Economic Union (EEU) instead. Marking a compromise between Armenia’s EEU accession and the desire to establish closer ties with the EU, the new agreement lacks the free trade component that the Association Agreement contained but still offers stimuli for political reform and modernization.

Despite his earlier promise not to seek the prime minister’s role after his second presidential term ended in 2018, President Serzh Sargsyan nonetheless moved into the prime minister’s office. This move proved that the constitutional changes instituted in 2015 stipulating the shift from a semi-presidential to a parliamentary system of governance was indeed meant to perpetuate Sargsyan’s and his party’s power. Sargsyan was elected by the parliamentary majority he controlled on April 17, 2018, only to resign six days later under the unprecedented pressure wielded by public protests.

The protests referred to as the Velvet Revolution started off with opposition leader Nikol Pashinyan and a small team of supporters walking a long distance from Armenia’s second largest city of Gyumri to the capital Yerevan and soon snowballed into a demonstration of 250,000 citizens demanding Sargsyan’s resignation. The protests spread throughout Armenia’s cities
peacefully and in a decentralized and self-organized manner. The protesters put pressure on the parliamentary majority to elect Pashinyan as prime minister days after Sargsyan resigned.

A new interim revolutionary government vowed to prepare the country for snap parliamentary elections within a year and initiated anti-corruption measures. Charges were filed against officials involved in public finance embezzlement and against businesses that had avoided paying taxes, while some others were allowed to return stolen money to the state budget and walk free. The interim government also removed the barriers protecting monopolies in areas such sugar and banana imports.

In addition, the government’s Special Investigative Service re-opened a case from 2008, the “case of March 1, 2008” that involved the administration’s use of violence against demonstrators protesting the outcome of the 2008 presidential elections and which left 10 people dead. In the summer of 2018, Armenia’s second president Robert Kocharyan and a number of former officials were charged with “undermining the constitutional order” for engaging the army against the demonstrators, which was in breach of the Armenian constitution.

The snap parliamentary elections of December 9, 2018 were free, fair and competitive, something that Armenia had long lacked. Nikol Pashinyan’s My Step Alliance swept the floor with 70.4% of the votes. Former coalition partners, the RPA and ARFD, both failed to clear the 5% threshold needed to enter parliament. The new parliamentary majority appointed Pashinyan as prime minister on January 14, 2019. Armenia has thus entered a new stage in its history with hope that it can weather the challenges ahead. The new government has to meet the demands and expectations of citizens who want to build a real democracy and improve their living conditions. Although the heady euphoria of has since waned, change continues as Armenia continues to undergo a risky transformation.

**History and Characteristics of Transformation**

Armenia’s transformation started in 1988 with the Karabakh movement that eventually resulted in Armenia’s independence in 1991. The breakup of the Soviet Union, coupled with the war in Nagorno-Karabakh, created considerable economic and social hardships for the new republic, spurring high levels of emigration and brain drain. The country’s political transformation started to lag as of 1995 to 1996: since then, presidential and parliamentary elections have been disputed by observers and the opposition, and many were accompanied by public protests.

In 1998, Armenia’s first president, Levon Ter-Petrosyan, resigned amid disagreements with the country’s other leaders over the Armenian strategy toward resolution of the Nagorno-Karabakh conflict. Robert Kocharyan from the hardline Karabakh faction replaced Ter-Petrosyan as the country’s president.

A terrorist attack on parliament on October 27, 1999 left the country’s key leaders, Prime Minister Vazgen Sargsyan and Speaker of Parliament Karen Demirchyan, along with a number of deputies
dead and the country devastated – an event that many believe changed the country’s course of development.

In the early 2000s, a boom in the construction sector triggered swift economic growth, making the World Bank dub Armenia the “Caucasian tiger.” The 2008 world economic crisis hit Armenia hard. Two of Armenia’s borders with Turkey and Azerbaijan continued to remain closed as a result of the Nagorno-Karabakh conflict and other historical grievances. In series of “equity for debt” swaps, Armenia gave away a number of strategic assets to Russia. Over time, Moscow’s growing grip on the country’s energy sector, the railroads and telecommunications resulted in Armenia’s overreliance on Russia in economic and security terms.

Armenia’s transition has been stalled by a deterioration in human rights and democratic credentials, while endemic corruption and nepotism have been a hindrance to the development of an efficient public administration sector. The merger of business and politics resulted in the concentration of too much power in the hands of a few and the domination of oligarchs and monopolies in the economy.

Armenia saw its biggest political crisis in 2008, when 10 people died during a government crackdown against protests disputing the results of the February 2008 presidential elections. Prosecution of opposition politicians ensued, resulting in over 100 political prisoners in the country.

Notwithstanding the constrained political space, a vibrant civil society has resisted repression and evolved over time. In 2010, in reaction to the devastation of the political opposition, civic activist groups started to emerge. Focusing on a wide variety of issues from environmental protection to transport and electricity price hikes, activists managed to achieve relative success and small victories every time they took to the streets. The protest culture has continued to evolve, each time employing more efficient tactics.

The 2015 constitutional changes stipulated a change from a semi-presidential to a parliamentary form of governance. Critics interpreted this change as an attempt by the ruling RPA and its leader Serzh Sargsyan to consolidate power and continue governing within the formal confines of the law. Sargsyan’s move to the prime minister’s office after his second presidential term ended in April 2018 backfired. Led by opposition leader Nikol Pashinyan, massive protests that were soon dubbed the Velvet Revolution deposed Sargsyan and his coalition government and introduced a new revolutionary government. With the December 2018 snap parliamentary elections, the first free and fair elections for a long while, Armenia entered a new phase of state-building and development.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Armenia’s traditional public protests have often been accompanied by disproportionate use of force against the protesters by the state. In 2008, a state crackdown on post-electoral protests left 10 people dead, triggering a deep political crisis in the country. In 2016, the belief that a change in administration was not possible by election led to the armed takeover of a police station and a hostage situation by an opposition political group called Daredevils of Sassoun.

But the massive public protests in April and May 2018 against President Serzh Sargsyan’s move into the prime minister’s office were remarkably peaceful, with protest leaders prioritizing the non-violence and calling the protests a Velvet Revolution. The protesters created solidarity with the police by holding their hands up in the air and chanting slogans like “The policeman is ours.” The aim was not to allow a repetition of the 2008 bloodshed. Prime Minister Serzh Sargsyan resigned and a transfer of power was made without a bullet shot. This event created public consensus that the era of violence should be over in Armenia.

New Prime Minister Nikol Pashinyan has taken intensive measures to strengthen state legitimacy and to eliminate local strongmen as well as neopatrimonial networks. In autumn 2018, he gave orders to the police and security services to round up and disarm the bodyguards of oligarchs that have illegal arms in their possession. A number of round-up operations followed.
With Armenia being a predominantly mono-ethnic country, there is consensus on issues of citizenship and the legitimacy of the nation-state. Ethnic minorities comprise barely 2% of the population. There is generally no ethnic division or discrimination against minorities. Changes to the constitution in 2015 introduced four reserved seats in the Armenian parliament for representatives from the largest ethnic minority groups – Yazidis, Kurds, Assyrians and Russians.

Since the war in Syria, many ethnic Armenians fled the war-torn state and sought refuge in Armenia. The latter has accepted around 22,000 Syrian Armenians, most of whom have been granted Armenian citizenship through simplified procedures.

In Armenia, there is a clear separation between church and state. However, the Armenian Apostolic Church holds considerable power over social discourse, often offering its own definition of what constitute family values, piety or Armenianness. The church’s reputation has been compromised in recent decades as a result of the perception of collusion with the non-democratic political regime.

Armenian law stipulates freedom of religion and conscience. Religious organizations need to register with the state only if they engage in legal transactions, such as acquiring property, opening a bank account, etc. For people whose religion does not allow them to engage in military service, the law allows them to carry out alternate civilian service instead. In practice, however, religious groups often face social discrimination and stigma.

Basic administration is fairly well developed in Armenia, with generally competent administrative structures operating at many levels of government. Administration of public services has improved slightly since the change of power in 2018. For example, some progress has been made in reducing bribes for alleged traffic violations. Public trust in the police and security services has improved as a result of a number of anti-corruption measures undertaken by these services.

During the 2018 parliamentary elections, only a few instances of abuse of administrative resources were recorded. Measures have been taken to free educational staff in schools and universities from the previous practice of having to engage in pre-electoral campaigning for the ruling party.

However, petty corruption across many sectors still remains a challenge. In parallel, employment in the public service remains non-competitive and hiring procedures are not entirely transparent, with nepotism dominating the field.
2 | Political Participation

On December 9, 2018, Armenia held its first free and fair elections in a very long time. Snap parliamentary elections that would result in the formation of a legitimate parliament were the demand of the Velvet Revolution that swept through Armenia in spring 2018.

Running in the elections were 11 parties and blocs, of which three made it into parliament. The revolutionary My Step Alliance received 70.4% of the votes, businessman Gagik Tsarukyan’s Prosperous Armenia party came in a distant second with 8.3% of the votes and Bright Armenia received 6.4% of the votes.

There was competition during the electoral campaign with an unprecedented number of televised debates, including one live debate involving the heads of all competing party lists. Local and international observers, including the OSCE/ODIHR, praised the elections for being democratic and enjoying the trust of the public.

This is a remarkable progress for Armenia, considering that just a year earlier, in 2017, parliamentary elections were marked by vote buying, voter intimidation and serious irregularities. However, this breakthrough is not necessarily irreversible and Armenia will need to prove its progress during future electoral cycles. There is still a need to amend the Electoral Code to eliminate a number of deficiencies and improve the legal environment.

In the past, Armenia’s hybrid regime was in and of itself a veto power to democratic governance. Election results did not reflect the will of the people, and the presence of vote-buying and grave irregularities in elections constituted a form of interference in the political process.

The situation changed with the Velvet Revolution in spring 2018, when direct democracy was at work. Serzh Sargsyan resigned under massive public pressure, and an interim government was installed by the will of the people. The December 2018 snap parliamentary elections legitimized and institutionalized the results of the revolution by installing a new parliament in democratic elections.

However, the ancient regime still holds some influence over the media and the judiciary, which has not yet been reformed. Even if the judiciary no longer receives orders from the government, there is no evidence it does not represent special interests or engage in corruption.

In summer and autumn of 2018, secret recordings of a telephone conversation between the head of the National Security Service, the prime minister and the head of the Special Investigation Service of Armenia were released. The conversations dealt with the re-opened “case of 1 March 2008,” in which charges of “overthrowing the constitutional order” were filed against ex-President Robert Kocharyan and
several other former officials. The wiretapping of high-level officials showed that there are powers that can operate in parallel to the security services, which is a grave challenge to the national security of the country.

The Armenian constitution guarantees freedom of association and assembly. Armenian citizens have used that right throughout the history of independent Armenia to register their grievances with consecutive administrations that they thought did not represent democracy. In the past, most public protests were accompanied by varying degrees of police interference and detentions, including a disproportionate use of force. A government crackdown on an opposition protest in 2008 resulted in 10 deaths.

Massive protests rocked Armenia in spring 2018 in what turned into a peaceful, non-violent revolution. Over 180 protesters were detained and later released during these demonstrations. After the police detained the leaders of the protests, even larger numbers of people flooded the streets – eventually achieving the resignation of President-turned-Prime Minister Serzh Sargsyan on April 23, 2018. Sporadic protests continued unhindered afterwards throughout the rest of 2018 and in early 2019, as supporters of arrested ex-President Robert Kocharyan assembled to protest against his trial or when opponents of former army General Manvel Sargsyan protested against the court’s decision to release him on bail.

Although freedom of expression is guaranteed by the constitution, Armenia’s former hybrid regime controlled major media outlets, manipulated public opinion and pressured critics. Space for free speech was provided by online media and social networks that were harder to control.

In the run-up to parliamentary elections in March 2017, a fact-checking website Sut.am published results of an investigation including recordings that proved that public school principals were pressured by the ruling party RPA to collect the names of potential voters from among the parents of schoolchildren. Following the publication, 30 libel cases were filed against the website and its founder Daniel Ioannisyan by school principals. The cases were dropped all at once in July 2017.

Social media and smartphone apps played a crucial role in public mobilization during the Velvet Revolution in spring 2018. Following the change of power, space for free expression opened up. At the time of this assessment, no restrictions were imposed by the government on the media or free speech. However, primarily due to lack of financial independence and sustainability, Armenian media are still controlled by various interest groups, including former officials. In summer 2018, reports surfaced that ex-President Robert Kocharyan, who is facing charges of “overthrowing the constitutional order” had acquired several media outlets. Most TV broadcasters are associated with different political parties. Manipulation of information is abundant.
The sudden opening up of space has resulted in an upsurge in hate speech in social media. Supporters of different political groups, as well as fake accounts, engage in political debate. Lawyers representing ex-officials now facing various criminal charges (ex-President Kocharyan, General Manvel Grigoryan) have complained that they receive threats from individuals on social media.

3 | Rule of Law

As the shift in the system of governance from semi-presidential to parliamentary finalized in April 2018, the executive power shifted to the prime minister. Critics believe that the constitutional changes of 2015 were made to suit the political career of former President-turned-Prime Minister Serzh Sargsyan. Along with an obedient legislature, the prime minister acquired excessive powers. Currently, Armenian citizens have a democratic government, but these excessive powers may need to be balanced not to allow a democratic slide-downslide in future.

It will take some time to see how the separation of powers stipulated by the new constitution and under the new system of governance will be realized in practice. The judiciary, formerly known to be de facto fully dependent on the executive, has not been reformed. It is too early to assess its role in the division of powers.

Officially, the judiciary is independent in Armenia. However, in the past, it has taken orders from the executive. Its effectiveness has also been undermined by widespread corruption and incompetence.

The new Armenian government claims it does not control the judiciary. However, the latter is not necessarily free from interference of various interest groups. A number of high-profile cases, including one against former President Robert Kocharyan and other former officials, constitute a test case for the judiciary. Because these cases inevitably have political connotations, it is crucial that the rule of law is fully observed throughout the process.

The new government has announced it is going to adopt a transitional justice approach to restore the lost sense of justice in Armenia. A number of political prisoners, as well as members of Daredevils of Sassoun that stormed a police station and took hostages back in 2016 who were on trial in 2017, were released on bail. Among promised reforms to the judiciary are improvements in judicial legislation and administration, the development of restorative justice, proper protection of prisoners’ rights and ease of access through e-governance tools. The judiciary still needs to undergo critical reforms to ensure it is truly independent and free from corruption before it can enjoy the Armenian public’s trust and a higher score from BTI.
Abuse of office is punishable by law. Depending on the gravity of the violation, punishment can take the form of fines, dismissal or criminal charges. In the past, alleged abuses were rarely investigated or punished. Oversight over asset declarations remains insufficient: formerly, officials with unexplained wealth never faced scrutiny and responsibility.

With the new government, the former top-down state pyramid of corruption has been dissolved and fighting against grand corruption has become a priority. A number of prominent cases of corruption and public finance embezzlement have emerged and those involved are facing charges. This includes cases involving actors in the area of defense.

While the new Armenian government has demonstrated the political will to fight corruption, abusive practices in public office have not yet been eliminated.

In addition, a number of officials in political office that were believed to have abused power were fired or resigned. The new government’s anti-corruption strategy is still in the process of formulation, and preventing systemic corruption in public office still remains a challenge.

Civil rights have improved as a result of the expression and success of direct democracy during the spring 2018 demonstrations and subsequent changes in the political and social environment of the country. The unreformed judiciary system is still thought to have a corruption problem, however, and has made no announcements regarding proper implementation of the rule of law to ensure the civil rights of all segments of society at all times.

LGBTI rights continued to be unprotected in 2017 to 2018. In August 2018, nine LGBTI rights activists were attacked and severely beaten by a group of 30 people in a village in southern Armenia. The police opened an investigation into the case but no progress was reported as of January 2019. The Armenian legislature does not stipulate any regulations of LGBTI rights. Homophobic language is often used in social media, as well as by opposition politicians, to excite populist sentiments against the new government, whose representatives do not use such language.
The constitutional changes of 2015 fully enacted as of April 2018 have turned Armenia into a parliamentary republic. Executive power has thus been transferred from the president to the prime minister. Armenian institutions are still adapting to the new system of governance.

Parliament is now the basis on which the government is formed. Currently the prime minister and his government are supported by an absolute majority in parliament. Although the presidential office now has only limited, formal powers, President Armen Sargsyan managed to act as a constructive arbiter when power was being transferred from the old guard to the new revolutionary government in 2018.

Armenia has prioritized local government reform aimed at decentralization and recently enlarging communities to increase local governance efficiency. The enlargement process reduced the number of communities from 915 to 502 by the end of 2018. In the past client-patron relationships existed among local community heads and governors that, in turn, provided clientelistic support to Armenia’s hybrid regime. Most governors involved in electoral fraud and other types of abuse of public office were removed after the change in power, but truly efficient and self-sufficient local governance is still in the process of development.

In the aftermath of the revolution, government structures have undergone optimization and further reform is expected, including of the judiciary. It will take some time before a clear picture of the interactions between democratic institutions emerges, allowing for a proper assessment.

Prior to the Velvet Revolution in spring 2018, the hybrid regime existing in Armenia was formally committed to democratic institutions, while in practice it single-handedly controlled all those institutions. The revolution swept out this regime and installed a new parliament (and subsequently a new government) through free and fair elections held in December 2018. The success of the revolution has set a crucial precedent in Armenia. It is perceived that power belongs to the people and any government that fails to deliver on its democratic commitments will face the same fate as the former regime.

The country’s new leadership has demonstrated the political will to create truly transparent and democratic institutions. Armenia’s vibrant civil society, which was the backbone of the revolution, is committed to both helping the government succeed and acting as a government watchdog.
5 | Political and Social Integration

Armenia’s party system continues to remain underdeveloped and largely unsuited to parliamentarianism. Under the previous regime, the country had de facto one-party rule, even if there was a pretense of multiparty representation in parliament. In the past decade, the coalitions in place were a façade for the RPA’s single-handed rule. Only a small fraction of the opposition would manage to slip into parliament.

Armenian political parties have traditionally been personalistic and clientelistic in nature and lacked programmatic platforms. Political parties had long been highly polarized and fragmented. Over time, public trust in political parties eroded, resulting in the emergence of vibrant civic activist groups that, between 2010 and 2018, replaced traditional parties in spearheading most public protests.

The success of the Velvet Revolution has created considerable symbolic capital in the form of public trust in Prime Minister Nikol Pashinyan and his My Step Alliance. The parliamentary elections were free, fair and competitive but competition still was between persons rather than programs. The election campaign was marked by a lack of ideological content and a poverty of political culture. The main political ideology was preventing the previous regime from being represented in parliament. The former coalition partners, RPA and ARFD, both failed to clear the 5% threshold necessary to be seated in parliament.

Apart from Pashinyan’s My Step Alliance, two other parties, Prosperous Armenia and Bright Armenia, are now in parliament. Although these parties may have regained voters’ trust, they are still far from qualifying as full-fledged institutions with social roots and will need to learn to work with each other in a new parliamentary system where they will play a larger role than previously. Polarization and fragmentation are low at the moment as the revolution established a broad public consensus. The old guard is marginalized and has depleted all the political capital it once had, although it is still able to challenge the new government through vast control over the media.

Because civil society groups played a crucial role in the revolution and many civil society actors moved into government after the change in power, it can be said that interest groups have increased the links between society and the political system. The revolution itself was an exercise in direct democracy so the connection between the public and the country’s leadership, which enjoys unprecedented public support, is strong at the moment. The new government also seems open to engaging with civil society and seeks ways to institutionalize these interactions.

There are still some inherent frictions such as between grassroots and leftist civil activist groups and institutionalized CSOs – the so-called “NGO-crazy” that are thought to have lost their social roots. Professionalized trade unions are either
nonexistent or very weak and have only recently shown signs of development. Women continue to be underrepresented in politics and decision-making. The current parliament has 24% women representatives, whereas women comprise half of Armenia’s population.

In addition, the old guard still holds considerable power in the form of broadcast, print and online media outlets that attempt to undermine the democracy-building process through information manipulation.

The latest available polls that assess approval of democracy in Armenia are from 2017, before the revolution. According to the 2017 Caucasus Barometer poll from the Caucasus Research Resource Center (CRRC), 48% of Armenians prefer democracy to any other form of government, 31% find the form of government unimportant and only 10% think that, in some cases, a non-democratic government could be preferable. In addition, 37% of respondents stated in 2017 that Armenia was a democracy with major problems, while 33% thought it was not a democracy. The highest degree of trust in institutions was enjoyed by the army (54%), while most other institutions were “fully distrusted” instead of “trusted.” For example, 45% of respondents fully distrusted the president, with only 5% trusting him. Parliament was fully distrusted by 41% and fully trusted by 3%. The court system was fully distrusted by 32% of the population as opposed to 3% who fully trusted it. Other respondents expressed levels of trust in institutions that were between full distrust and full trust. Political parties and the police were more distrusted than trusted.

Social attitudes certainly shifted after the Velvet Revolution. New polls would be necessary to assess these changes.

Armenian society is usually characterized by high levels of social capital “bonding” and low levels of “bridging,” which means that most social capital remains “locked” within family and close social groups. However, the Velvet Revolution managed to yield unprecedented public mobilization with those on the left and on the right, liberals and conservatives, nationalists and LGBTI activists all coming together in solidarity to protest against a regime that had outstayed its welcome. These groups demonstrated ability to work in a decentralized and self-organized manner. They also managed to bond with and attract sympathy of the police forces, which in the past had protected the interests of the hybrid regime.
II. Economic Transformation

6 | Level of Socioeconomic Development

Armenia has long had a considerable disparity in income and wealth distribution. The latest available World Bank data (2016) puts Armenia’s poverty rate at 11.4% (percentage of the population living on less than $3.20 a day). However, according to the Armenian National Statistical Service, which employs roughly the same criteria, the poverty rate has long stood at around 30%. For the first time in a long while, Armenia saw a 3.7% drop in the poverty rate, from 29.4% in 2016 to 25.7% in 2017. Poverty rates are higher in rural areas and in multi-member families, with the result that children are the most affected by multidimensional poverty. In terms of income distribution equality, Armenia is ranked 32.5 in the World Bank’s Gini Index (2016).

According to the Human Development Index (HDI), Armenia has a high human development rates with an index of 0.755 and a ranking 83 out of 189 countries in 2017. Yet, Armenia recorded a 10% overall HDI loss because of inequality in 2017. The country ranked 55 out of 160 countries in the UNDP’s Gender Inequality Index with a value of 0.262 in 2017. Although gender equality rates have been improving over years, the pace may not be fast enough for a country where more women than men have a higher education. Women are also underrepresented in politics, although the December 2018 elections resulted in 24% female representation in parliament, compared to 18% in 2017.

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Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Over the years, Armenia has considerably improved its business environment through regulatory and tax reforms. Armenia is praised for its positive trade and investment policies as well as its lack of restrictions on capital. According to the World Bank’s 2019 Doing Business report, Armenia is ranked 8 out of 190 in “starting a business.” On average, it takes 3.5 days and three procedures to start a business in Armenia. However, a major impediment to the market economy has been the existence of monopolies and corruption. Significant gaps and inconsistencies remain in the regulatory framework. Another obstacle is the overall small size of the market. Accordingly, the most critical challenge the government faces is lowering current barriers to entry for all market participants. A dominant position is held by a small group of well-connected businessmen on the import and sale of a range of critical products. Conducting business might also improve by abolishing burdensome regulatory regimes and inadequate intellectual property rights.

According to a 2018 IMF report, Armenia’s shadow economy was estimated at around 36% of GDP in 2015. The International Labor Organization estimates the employment rate in the informal sector at approximately 50%. The primary cause is corruption. Businesses bypass laws and regulations with the knowledge of the authorities. The shadow economy also takes the form of unregistered economic
activity, whereby businesses partially hide revenue flows and employ an unregistered workforce. After the 2008 economic crisis, many enterprises engaged in shadow activities to remain afloat.

The new Armenian government has vowed to reduce the size of the shadow economy by fighting corruption and reforming the tax system. It has removed most informal economic barriers that existed under the former regime and which served clientelistic interests. The government encourages entrepreneurship – with both local and foreign investment – in its bid to implement what it calls an “economic revolution.” The state protects local producers through tax reductions.

Lucrative sectors of the Armenian economy, such as fuel, wheat and sugar imports, have been dominated by de facto monopolies. A World Bank survey from 2013 suggests that 68% of the country’s economic activity is run by oligarchs. The merger of business and politics has also ensured that major anti-trust regulations factor in interests of wealthy entrepreneurs associated with the ruling RPA party. The country’s competition authority, the State Commission for the Protection of Economic Competition, has been criticized for its inability to remove barriers to economic competition.

In 2018, after the change in power, the government vowed to do away with monopolies. Major oligarchs associated with the RPA, who were also members of parliament, lost their authority and left politics. Some monopolistic barriers were removed. This resulted in a slight diversification of imports of sugar and bananas. The change was reflected in reduced prices in the market.

Other sectors, such as the fuel and petroleum market, dominated by three or four large corporations, proved harder to diversify because of the infrastructural advantages these businesses had accumulated.

According to an assessment in the World Economic Forum’s Global Competitiveness Report, Armenia improved its position by 9 points in 2018 and now ranks 19 out of 140 countries up from 28 in 2017. This significant achievement is connected to an active economic policy, with a focus on improving the business environment, an active investment policy and the (partial) elimination of obstacles, such as monopolies.

Armenia has been a WTO member since 2003. Its simple average most-favored nation (MFN) applied total tariff was 6% in 2017. The average tariff stood at 12% for agricultural products and 24% for non-agricultural products that same year.

Armenia’s trade is constrained by two closed borders and limited trade with Iran. Most of the country’s trade goes through Georgia. In 2015 Armenia became a member of the Eurasian Economic Union (EEU) in which the Eurasian Economic Commission is responsible for common trade policy, including tariffs and technical regulations. Upon accession, Armenia received temporary tariff exemptions for
around 800 tariff lines that will phase out with full harmonization in 2022. As EEU tariffs are applied, Armenia is renegotiating over 6,500 tariff lines with other WTO members. Armenia does not have a common border with any EEU countries, and goods must pass via Georgia to other EEU countries. This causes complications, which have yet to be solved.

Most imports are free of prohibitions or licensing requirements, except for some restrictions connected with health, security or environmental considerations. Some natural monopolies in gas, electricity and water sector remain. In some other cases, the state has transferred special rights in the form of concessions. The new government claims it has removed informal barriers to trade in the form of monopolies.

Armenia has three Free Trade Zones, including one near the border with Iran. In 2017, Armenia signed a new agreement (CEPA) with the EU, which regulates Armenia’s trade with the EU. Armenia benefits from the EU’s General Scheme of Preferences plus (GSP+) arrangement.

Armenia’s financial market is dominated by the banking sector, which accounts for roughly 90% of financial assets. As of December 31, 2017, 17 commercial banks were operating in Armenia. The regulatory environment is based on international standards (Basel standards, IFRS) and is well developed, undergoing a continuous process of reform. Laws ensure strict controls and the licensing of banking activity and are also market-friendly and favorable to doing business. Banking assets have high liquidity and offer favorable conditions for transferring investments to other markets.

The system is well protected by the Central Bank of Armenia (CBA), which is responsible for the supervision and regulation of the sector, independently of state authorities. In early 2017, the CBA increased minimum capital requirements from AMD 5 billion to AMD 30 billion. This resulted in an increase in the capital adequacy ratio to 18.6% by the end of 2017. Non-performing loans decreased from 10% of gross loans to about 5.5% at the end of 2017 year-on-year (WTO data). The 2017 World Bank data puts Armenia’s bank capital to assets ratio at 15.7%, while bank non-performing loans stand at 5.4%.

The Armenian banking system remains heavily dollarized and thus is exposed to foreign-exchange related credit and liquidity risks: 63% of deposits and 64% of loans are denominated in U.S. dollars. An amended law from 2017 gave the CBA greater authority to regulate systemically important banks. As a result, a Risk-Based Supervision framework was adopted by the CBA.

The banking system is privately owned. Laws put no restrictions on foreign investment, ownership or participation. Non-residents account for over 65% of shares in the banking sector. Ongoing globalization and fierce competition made banks shift
to a new business model – the digital bank model – enabling their clients to perform transactions using remote channels, such as the internet and mobile devices.

However, banks have had little time to transform their activities so as to adapt to new financial developments and they face competition from other non-bank institutions, in particular, payment systems and telecommunication companies which have begun to provide financial services.

Further reforms are necessary to address the high level of dollarization, and to improve bankruptcy and insolvency regulations.

**8 | Monetary and fiscal stability**

The CBA is the independent authority, de jure and de facto, carrying out the country’s monetary policy; financial and price stability are its priority. The Board of the CBA adopts macroprudential policies based on proposals introduced by Armenia’s Financial Stability and Special Regulation Committee.

The CBA has adopted an inflation-targeting framework (currently 4% +/-1.5%) and a free float exchange rate regime. Inflation rate was 1% in 2017, according to the World Bank. The IMF projected 3%, while the CBA projected a 1.8% inflation for 2018. The real effective exchange rate has been relatively stable over years: it stood at 100.7 in 2017 compared to 103.6 in 2016.

The CBA managed to significantly contain the depreciation of the Armenian dram in 2015 to 2016 amid domino effect devaluations throughout the post-Soviet region connected to the under-performance of the Russian ruble. The Armenian dram was devalued by 14% in 2015, compared to the Kazakh tenge’s 23.74%, the Georgian lari’s 26% and the Russian ruble’s 59.77%, all against the U.S. dollar.

Before the country could recover fully from the global financial crisis, Armenia was hit by a second wave of external shock in 2014 to 2016, emanating from Russia’s economic decline and currency devaluation, triggering Armenia’s debt brake mechanisms since 2016.

Armenian public debt has grown, reaching 55.8% of GDP in 2017 compared to 14.2% in 2007. So has the external debt, which reached $9.953 billion in 2016. The law put a 60% ceiling on public debt, but was amended in late 2017 to allow for more flexibility. The budget deficit grew in 2015 to 2016, forcing the government to enact fiscal consolidation from 2017 onwards. Tax revenue saw over-performance by 7% due to higher-than-planned GDP growth and improved tax collection the same year. The budget deficit shrunk from 5.2% of GDP in 2016 to 3.3% in 2017.
The World Bank’s latest available data indicate a -5.5% of GDP figure for net lending/borrowing for 2016.

Tax revenue continued to overperform in 2018, chiefly due to the new government’s anti-corruption measures. GDP continued to grow in 2018. The CBA projected the budget deficit to further decline to 2% of GDP.

Government consumption is low, comprising 14.2% of GDP in 2017. Government restructuring will optimize the work of ministries and is expected to save on government spending. A planned tax reform is meant to take businesses out of the shadow and encourage them to pay rather than evade taxes.

9 | Private Property

Armenian property rights and property acquisition regulations are adequately defined by law and overall defended. This stems from a strong focus on privatization from 1996 to 2005. However, corruption and special interests have consistently undermined the integrity of the sector, allowing rules to be broken or bypassed. For property rights to be fully consolidated and protected in Armenia, a strong and competent judicial system needs to be in place.

Armenia has a flourishing private sector that has continued to expand over the last two years. Especially the IT sector has grown rapidly to face a shortage of IT professionals. The business environment has improved and many regulations have been eased. However, tax rates remained unfavorable for small and medium enterprises, and many businesses continued to hide part of their economic activity from the tax authorities.

Monopolies and corrupt practices have been yet another hurdle for private sector development. For example, big supermarkets have consistently pushed small shops out of the market. There is a lack of cohesion and coordination among different SME-support programs, inefficient steering mechanisms for their development, as well as inefficient public-private dialog to enable informed decision-making processes.

As per the World Bank’s Doing Business 2018 report, Armenia is 13 out of 190 countries on the ease of registering property. The country has made considerable progress in curtailing state interference in the formation of businesses. Armenian law provides a proper framework for secured lending, collateral and pledges, as well as mechanisms to support lending practices and property transfers.

The new Armenian government has encouraged entrepreneurship and plans to introduce tax reform and attract investments to help business to develop. It is expected that family businesses will be free from taxation.
10 | Welfare Regime

Armenia introduced a pension reform amendment as law in 2010 that envisages contributions via payroll deduction to individually funded pension accounts for all employees born after 1973. Voluntary enrollment in the system began in 2011, and because of long-lasting public resistance, became mandatory for all employees only as of 2018. Employers do not make any additional contributions to the system.

Various schemes ensure pensions for unemployed, poor, ill or handicapped people; however, these pensions are low and often insufficient to meet basic needs. Public kindergartens and schools are free of charge. State universities have quotas for tuition fee waivers. Basic medical services – limited in scope – are covered by the state, while treatment of several medical conditions is either subsidized or free of charge in select hospitals.

Public servants have access to additional funds which they can use either for health or vacation purposes. The health insurance sector is privately owned and insufficiently developed: it has followed monetization rather than public health interests. Following the 2018 transition of power, the new government began plan to slowly roll out mandatory medical insurance for all, starting with vulnerable social groups.

Life expectancy stands at 74.6 years as of 2016. Public expenditure on health remains below 2% of GDP.

A number of legal acts include anti-discriminatory provisions, but Armenia does not have a separate anti-discrimination law. In 2017, the Armenian parliament adopted a law on domestic violence, which previously was not legally addressed.

Armenia has high literacy rates, above 99%, that are equal between men and women. Women make up 46.6% of the labor force, according to World Bank 2017 data, but women usually work low-paid jobs. They remain heavily underrepresented in politics. Party electoral lists are required to have a minimum of 30% women, but only 24% of deputies are women in the current parliament, and only one minister is female. Ethnic minorities enjoy quota-based representation in parliament. The ratio of female to male enrollment in primary and secondary schools is 102%, according to UNICEF data.

There is also a geographic aspect to the socioeconomic divide along urban-rural lines, which is marked by an over-concentration of economic activity and opportunity in urban centers and the capital. This division has fostered more pronounced regional and rural income inequalities and is exacerbated by a wide variance in the quality and accessibility of essential public services, such as health care and education.
11 | Economic Performance

In 2017, Armenia’s economy recorded its highest growth rate in a decade. GDP reached $11.54 billion, with a per capita growth of 7.3%, as per World Bank data. GDP per capita (PPP) stood at $9,647 in 2017 compared to $8,833 in 2016. Favorable macroeconomic trends continued in 2018: GDP registered an 8.3% growth year-on-year in the first half of the year. Inflation remained low (2.4% as of July 2018) and below the inflation target set by the CBA. There was a significant increase in exports, by 20%, coupled with higher transfers and a 10% growth in tourism. Yet, import growth rates exceeded export growth rates, resulting in a bigger current account deficit.

On the production side, services grew by 10% year-on-year in 2018, while industry growth was 8%, partly because of construction sector recovery.

Unemployment levels remained more or less the same in 2017, at 18.2%. Public debt was 55.8% of GDP. A fiscal tightening has been underway since 2017. World Bank data show that FDI made up 2.2% of GDP, a decrease from 3.2% in 2016. FDI in Armenia increased by $75.50 million in the third quarter of 2018. FDI is expected to grow further due to the new government’s efforts to attract more investment.

Armenia’s annual inflation rate fell to 0.6% in January 2019 compared to 1.8% in the previous month. It was the lowest inflation rate since March 2017.

Overall public debt stood at $6.922 billion at the end of 2018 – a 2.2% rise year-on-year, while the national debt increased by 2.3% or $157.4 million, as per Ministry of Finance data. In December 2018, government debt stood at $6.372 billion (an increase of $199.8 million year-on-year), including $4.982 billion in external debt (an increase of $89.5 million).

12 | Sustainability

Armenia ranked 63 out of 180 countries, with a score of 62.07 out of 100, in the Environmental Performance Index in 2018. Major environmental and public health concerns are connected with the country’s mining sector. Environmental protection frequently falls prey to the economic interests of business elites. Both legislation and the enforcement of law and international standards are weak. Since 2010, suspicions of non-compliance of major mining businesses to environmental standards have triggered strong waves of civic protests with an environmental focus. Protests were held against expansion of mining companies and opening of new big mines (such as the Teghut Copper Mine and Amulsar Gold Mine). Many communities have opposed the construction of small hydropower plants.
Environmental considerations have been increasingly taken into account as part of the government’s overall reform program. The new government has even launched inquiries into mining companies’ compliance with international standards.

Armenia has a large number of rivers that provide good opportunities for developing hydropower in the country. However, construction of hydroelectric stations has neglected legal requirements and standards, resulting in the depletion of river flows. A number of local communities are no longer able to use the water for irrigation and drinking.

Renewable and clean energy are receiving more attention of late. Armenia relies on Russia for its gas supplies, while generating electricity through its nuclear power plant and hydropower plants. Energy diversification remains a challenge. The country has huge potential for developing solar and wind energy and has been trying to attract investment in this sector. Households are allowed to generate tax-free solar and wind energy for their own consumption, as well as to sell to the distribution network.

Armenia has succeeded in maintaining a good quality system of universal basic and secondary schooling. Enrollment rates at both levels remain high, and over 99% of the population is literate. Armenia has an index of 0.749 (from 0 to 1, the highest) in the UN Education Index. This figure has remained unchanged in 2015 to 2017.

However, inadequate levels of investment and state spending, aging education facilities, and brain drain have eaten away at the country’s educational and R&D potential. In 2016, state spending on education was 2.8% of GDP, while R&D expenditure made up only 0.3% of GDP in 2015. The decline of state investment in education has predictably led to a decline in the quality of education.

The Law on Education (1999) and the Law on Higher and Postgraduate Professional Education (2004) regulate Armenia’s higher education. The latter defines the structure, main principles of organization, funding mechanisms and basis for systematic reform of higher education. A range of by-laws covers areas such as the degree system, quality assurance, the National Qualifications Framework, academic credits and their transfer, student mobility, etc. A new draft Law on Higher Education has been under discussion for some time. It aims to adapt to the current trends and challenges of higher education and determine the country’s priorities in this sphere.

The government has created a strategic plan for research and innovation focusing on the following sectors: information and communications technologies (ICT), life sciences, food security and quality, environment and energy and nanotechnology. The IT sector has been booming, accounting for 4% of GDP. In 2016, the French We Demain magazine published a list of the top 10 innovative schools in the world: the Tumo Center for Creative Technologies, an innovative IT education school in Armenia, ranked #1.
Governance

I. Level of Difficulty

Armenia suffers from a number of structural constraints: a landlocked country with two of its four borders blockaded by Azerbaijan and Turkey, due to the unresolved conflict over Nagorno-Karabakh. Decades of international sanctions against its southern neighbor, Iran, have left Armenia heavily reliant on its northern neighbor, Georgia, for overland access to the rest of the world.

In economic and security terms, Armenia is overly reliant on its nominal ally, Russia, which also controls most of the country’s strategic assets, including the entire gas distribution network, railroads and telecommunications and enjoys a near-monopoly on the gas market.

Since independence, economic hardship and the war over Nagorno-Karabakh have spurred high levels of emigration and brain drain, exacerbated by a lack of political will by consecutive Armenian administrations to work toward democratic reform and a market economy. Both grand and petty corruption, as well as economic monopolies, have been major obstacles to development.

Officially, the poverty rate is at around 30%. The consequences of the devastating earthquake of 1988 in Spitak have still not been overcome. Many people in the area continue to live in temporary shelters.

Armenian civil society has had a curious mix of achievements and failures. It has reached a relatively strong level of organization, with low civic engagement and weak impact. Because of donor-dependency, many NGOs have lost their social roots and the public’s trust. Membership in various associations remains dismally small because of a negative public attitude toward NGOs. The civic activism that has emerged since 2010 has challenged the monopoly of the traditional NGOs, and has made it possible for grassroots voices to also be heard in mainstream sociopolitical discourses and activities.

Over the course of a decade of social and political street struggle, many civil society groups have grown into effective agents of change, acting as the backbone and the locomotive of public mobilization during the Velvet Revolution. The formerly shrinking civil society space has now opened up and there is more room for civil society to participate in the country’s reforms.
Armenia does not have any domestic ethnic or religious conflicts (except for the conflict on and around Nagorno-Karabakh that has become a territorial issue). It is also considered one of the safest countries in the world for travelers. However, political polarization was high under previous administrations and the oligarchic and extractive economy has led to huge gaps in wealth distribution. The growing rift between the government and the governed was exacerbated by disproportionate use of force by the authorities against periodic surges of public protests.

The Velvet Revolution broke the cycle of political violence, as people marched into the streets in peaceful, non-violent protest and reached a change in power without a bullet being shot. Armenian society suffers from domestic violence against women, which in most cases remains underreported. In addition to domestic violence, there are horizontal and vertical segregation against women in the workplace, a lack of women in senior management, lack of access to medical services and other cases of discrimination against women. The existence of such cases is evidence of the need for continuous and coordinated action aimed at protecting women’s rights in order to change stereotypes regarding women’s role in society and women’s educational, economic, social and political abilities. LGBTI people occasionally face harassment and attacks.

II. Governance Performance

14 | Steering Capability

After snap parliamentary elections in December 2018, the new Armenian government was still in the making as of January 2019. Some more time will be needed to assess the new government’s capacity for prioritization and policy planning. Some trends can be drawn from the period between May and December 2018, when the interim government led by Nikol Pashinyan was steering the country toward the elections.

During this time, the government focused on creating the necessary prerequisites for free and fair elections. For example, the criminal code of Armenia was amended to set stricter punishments for electoral vote buying (a widely used form of fraud in past elections), which now stipulates imprisonment for up to six years. The government also planned to amend the electoral code in the run-up to elections, but this was thwarted by the old parliamentary majority.

Some critical changes have been made in the defense field. After the change in power, Armenia began to prioritize the development of its own defense industry and reform of its defense infrastructure. Further changes have been made in defense procurement,
aimed at overcoming entrenched corruption in defense and increasing spending efficiency.

The structure of the government was supposed to undergo optimization too. The government suggestion in January 2019 was to merge a number of ministries. For example, the Ministry of Culture and the Ministry of Youth Affairs were to be incorporated into a single ministry under the umbrella of the Ministry of Education.

The new leadership has also announced the adoption of a transitional justice approach to restore the lost sense of justice in the country. Plans to reform the tax code and reduce the size of the shadow economy have also been voiced. These instances point to the emergence of policies and strategies that will merit evaluation at a later stage.

The interim government’s human resources management and key appointments have drawn some criticism, indicating a lack of professionals in the revolutionary team and at times a preference for loyalists. This could undermine the government’s capacity to deliver change.

The biggest achievement in implementation recorded by the interim government between May and December 2018 was the administration of free and fair elections. With an over 70% public approval rating, the new government is now in a position to conduct political, economic and social reforms and thereby meet the heightened expectations of the Armenian public.

The government has removed (some) monopolistic barriers in the economy. It has also largely tackled the separation of money and politics. Oligarchs associated with the ruling party RPA were forced to return money stolen from the state and to leave politics to focus on their businesses, in accordance with new rules. A number of former officials were charged with embezzlement of budget resources and tax evasion.

These instances amount to a removal of old corrupt and clientelistic power structures, which is necessary for new legitimate structures to be built. However, further steps can only be assessed once truly new policies and more systemic reforms are in place.

The revolution in Armenia has introduced a new generation of politicians into the government. Most are very young, have long been involved in civic activism and do not have experience in governance. This has raised concerns among the public and experts, although there is also the realization that politics and public administration had been stripped of its best cadres over years under past practices of nepotism and corruption. There is an expectation that the new government will need to go through a long learning curve.

At the same time, the revolution has allowed many professionals from the vibrant civil society move into governmental positions and parliament, thereby putting their expertise at the service of the state. The government also seems to be open to
cooperation with civil society groups that have field-specific expertise and can provide input on legislative reform and the formulation of public policies.

As an effect of the revolution, public opinion is of high importance to the current government, and to a degree, it tries to factor public and expert opinions and feedback into its decision-making process.

The signing of the Comprehensive and Enhanced Partnership Agreement with the EU in November 2017 gave Armenia the opportunity to make use of EU financial and technical assistance to spearhead reforms. As of January 2019, around 80% of the agreement has come into force.

15 | Resource Efficiency

In 2017, the budget deficit stood at 2.8%. The 2018 budget deficit is expected to be 1.3% of GDP, down from an earlier projected rate of 2%. Tax revenues increased by 11.5% in 2018, as a result of the reduction of the shadow economy.

The Armenian public sector is broadly thought to have low-level resource efficiency. An inflated civil servant sector, as well as corruption in the public sector, have resulted in inefficient management of human, financial and organizational resources. The issue has been in the spotlight, especially following the political changes in 2018.

The need to increase resource efficiency has been the main driver of the planned government restructuring. The position of first deputy prime minister has been abolished. Armenia has two deputy prime ministers as of January 2019. The merger of the Ministry of Education with the Ministry of Culture and the Ministry of Youth Affairs is aimed at removing overlapping functions. A number of foundations and centers adjacent to state structures were closed down to improve efficiency.

In another example, in 2018, more efficient budgetary management has allowed the Ministry of Health to increase the salaries of staff providing primary medical services by 15%.

The lack of merit-based appointments and career opportunities in the public service remains an issue. A step toward overcoming this problem was made in the diplomatic service. A number of political appointees were replaced by career diplomats in 2018.
Armenia is in the process of adapting to the new parliamentary system of governance and to the shift of executive power from the president to the prime minister. After an initial phase of what looked like a competition between the prime minister’s office and presidential administration in foreign policy in 2018, it now appears the two offices have reached a tacit understanding that the president’s foreign policy engagements are complementary to the executive power of the prime minister.

Restructuring the government to optimize operations is expected to improve policy coordination across different sectors.

Corruption was a major trigger of the massive public protests that eventually turned into the Velvet Revolution and change in power in Armenia in 2018. Past anti-corruption policies were not comprehensive and existed only on paper. The new Armenian government seems to demonstrate the political will to eradicate corruption. The former top-down state pyramid of corruption has been dissolved. A number of prominent cases of corruption and public finance embezzlement have been made public and those involved are facing charges. As a result of anti-corruption measures undertaken in May to November 2018, around AMD10.5 million (€19 million) was returned to the state budget.

But while the government has prioritized fighting grand corruption, it still needs to set clear strategies for handling systemic corruption. The government’s new draft Anti-Corruption Strategy for 2019 to 2022, which was released in December 2018, was criticized by civil society organizations for having been drafted in a haphazard and nontransparent manner. In January 2019, the government had agreed to extend the period for collecting feedback and factor in civil society suggestions.

Oversight measures over asset declarations have remained insufficient: formerly, officials with unexplained wealth never faced scrutiny or responsibility. The lack of transparency in political party financing has not been addressed. Most recently, the financial transparency of the media has come to the fore of public attention, as many media outlets have engaged in manipulation and information distortion while allegedly promoting political loyalties. There is a need to regulate this field to increase accountability to the public.
16 | Consensus-Building

The Velvet Revolution rejected the former non-democratic regime and its oligarchic, non-competitive economy. There is now a strong consensus and a huge public demand to move toward a consolidated democracy and market economy. There is consensus on the democratic idea that no Armenian elections will ever again be falsified, and that the will of the people – exercised through the ballot box – is to be respected. Absent from this consensus is the old guard which has lost power and has been pushed to the margins of politics, having failed to receive enough votes to enter parliament.

Among those who share in the consensus regarding economic reform, friction may emerge regarding the nature of Armenia’s economic policy. The government started off with centrist approaches to economic development but is increasingly becoming neo-liberal. The latter is rejected by Armenia’s civic activist base, which holds social-democratic and leftist views.

Because political parties from the old coalition government failed to enter parliament during the snap elections in December 2018, they currently do not have serious veto powers with regard to the reform process. Moreover, Prime Minister Nikol Pashinayan’s Civil Contract holds the absolute majority of votes in parliament and hence control over the legislature. Prime Minister Pashinyan holds extensive executive powers, as the security apparatus directly reports to him.

Resistance to reform might come from old bureaucratic structures, which benefited from the previous entrenched networks and corruption. A case in point is the judiciary system. Under the previous regime, courts were not independent and would often take orders from the executive. It is believed that the old guard still holds some power through judges loyal to the previous regime and/or judges susceptible to corruption.

In addition, the RPA and ex-President Robert Kocharyan hold considerable power in the media and are believed to engage in information manipulation through a number of TV stations and online media outlets that they own. Moreover, the old entrenched networks still hold considerable economic power.

Under the previous regime, the Prosperous Armenia Party, now the second largest in parliament, provided indirect support to the ruling elite, although not part of the government. It remains to be seen whether the party is eager to play by the new rules and commit to a democratic direction.
Throughout 2017 and early 2018, Armenia remained highly politically and socially polarized because of the rift between the authorities, on the one side, and the opposition and public, on the other. The Velvet Revolution achieved unprecedented public mobilization, and its success has, for the time being, brought an end to the government-society gap.

Conflict continues between the old guard and the new government, with the old guard engaging in information manipulation that may affect broad segments of society.

At present, there are no visible structural conflicts, but the public has high expectations that the authorities will deliver on economic reforms and eliminate the high poverty rates in the country.

After the change in power in Armenia, civil society should to be able to have a greater say in policy formulation and decision-making. Because many civil society representatives have moved into government or entered parliament, they now serve as links between civil society and the government. The current political leadership also shares a history of “street struggles” and protests with civil society representatives, and hence personal relations.

In the run-up to the snap parliamentary elections, a commission working on electoral code amendments was established. Civil society organizations were involved in this and spearheaded an updated code that was meant to ensure better administration of elections. Although the bill was thwarted by the old parliamentary majority, it set a precedent for cooperation between civil society and the government. How this will occur is yet to be seen; a formal institutionalization of cooperation may be necessary to ensure civil society’s sustainable engagement in policy formulation.

Armenia fell into a deep political crisis following the government crackdown on public protests after presidential elections in 2008 that resulted in the deaths of 10 people. Under the previous administration, criminal investigation into what is known as the “March 1 case” was fictional. No one was held responsible for the deaths.

The case was re-opened in 2018. Ex-President Robert Kocharyan and a number of other officials are now charged with “overthrow of the constitutional order,” for supposedly using army units against protesters in breach of the Armenian constitution. There has been pushback from Kocharyan’s supporters since.

The government has announced it will employ a transitional justice approach to dealing with past crimes. The modes and principles of this approach still remain vague, but transitional justice has already been employed in small-scale economic crimes, such as tax evasion. For example, several former officials and oligarchs were allowed to return stolen money to the state budget and walk free. A number of prominent officials have been arrested. The case of Manvel Grigoryan, a retired general and hero of the Karabakh War, was the subject of public attention in Armenia.
and the diaspora in July 2018. Grigoryan was suspected of illegal arms possession and embezzlement of army supplies.

Political prisoners were freed. Members of the opposition group, Daredevils of Sassoun, who had been on trial for a 2016 attack on a police station, were released on bail as part of the transitional justice scheme. It is expected that people who suffered injustice under the former regime will receive financial or moral compensation.

17 | International Cooperation

International support has been crucial to Armenia’s development and modernization, although its use has not always been efficient. Consecutive Armenian administrations have sometimes used international assistance to implement only pro forma reforms. Throughout 2018, the new Armenian government tried to build on the success of the revolution and attract international support – technical, financial and also FDI. The Russian government negatively views what it considers a “regime change” detrimental to its interests. So far, Moscow has not made any formal announcements, but that may change as soon as the reform process gathers pace.

Most government policies are still in the process of inception. Modes of international cooperation are still being redefined. There may be an expectation-reality gap, given the fact that the revolution was unexpected by Armenia’s international partners, which are consequently unable to respond immediately to the new government’s expectations. International partners, in turn, may expect concrete policies and roadmaps before they are able to meet the increased needs of the Armenian government. Moscow still holds levers that influence Armenian politics – not least with regard to its precarious security situation.

The EU has been a key partner of Armenia in fostering institutional and legal reforms. The signing of the Comprehensive and Enhanced Partnership Agreement (CEPA) with the European Union in 2017 opened a new page in Armenia-EU relations. The effective implementation of the CEPA will strengthen democracy and human rights, while also creating better investment environment.

For the moment, the Armenian authorities enjoy high international credibility. The Velvet Revolution brought them to power through street protests. Free and fair parliamentary elections in December 2018 further strengthened their legitimacy.

Since the revolution, there is increased space for Armenia’s cooperation with various international donors and partners. For example, the U.S.-sponsored National Democratic Institute returned to Armenia in 2018 after years of absence.

Armenia made a sudden U-turn in 2013, away from a long-negotiated Association Agreement with the EU when it announced its intention to join the Russian-led
Eurasian Economic Union. This announcement came out of the blue and was a serious blow to the credibility of the former administration. In 2017, Armenia signed a new Comprehensive and Enhanced Partnership Agreement with the EU. Although this was meant to balance Armenia’s membership in the EEU with forging a closer partnership with the EU, some inherent frictions and competition between the European and Eurasian projects remain.

Because of the long-standing conflict between Armenia and Turkey and the Armenian-Azerbaijani conflict over Nagorno-Karabakh, regional cooperation remains limited. Nevertheless, Armenia has expressed a willingness to normalize relations with Turkey without preconditions and engage in a peaceful resolution of the Nagorno-Karabakh conflict.

There were some tacit moves on the part of the new government in the long-stagnant Armenia–Azerbaijan peace process. The January 16, 2019 meeting in Paris between foreign ministers Elmar Mammadyarov and Zohrab Mnatsakanyan was the fourth in nine months. It followed recent measures that have defused the considerable tension of the last few years. These include the establishment of an “operative channel” between the armed forces deployed along the line of contact and a sustained reduction in the number of ceasefire violations.

As of 2018, Armenia began to prioritize relations with its two other neighbors – Georgia and Iran. Armenia is interested in land communication through the unrecognized entities of Abkhazia and South Ossetia being restored so that it no longer has to rely on a single passage in Upper Lars between Georgia and Russia for transporting goods between Armenia and Russia. Negotiations on a possible deblockage of routes are ongoing between Georgia and Russia.

Since the Iran nuclear deal, prospects for Armenia-Iran cooperation have increased, but suffered a blow again after the United States unilaterally withdrew from the deal and reinstated sanctions against Iran.

Lacking efficient cooperation remains a major issue for Armenia in its membership in the Eurasian Economic Union (EEU) and Collective Security Treaty Organization (CSTO). Although Armenia has vowed to address this issue, it is unclear whether, for example, an essentially geopolitical project such as the EEU can turn into a viable economic organization.
Strategic Outlook

The Velvet Revolution of 2018 has opened unique opportunities for Armenia to overcome stagnation in its democratic transformation and unlock the country’s potential for development. The public has placed high expectations on the new government to carry out reforms and deliver immediate results. The government faces many challenges, having to reform multiple sectors simultaneously. Low salaries in the public sector mean the government is not always able to attract the best professionals to spearhead change and reform.

The newly fledged democratic government in Armenia has many allies in reform and should use all the help it may be offered. The country’s civil society, vibrant even after losing many professionals to the government administration, has great potential and can participate in informed policy-making, while also acting as a watchdog. The government should in turn be ready to engage with civil society and create institutionalized channels of cooperation.

This is the point in time when Armenia needs financial and technical assistance from its international partners, including the EU. The new Armenia-EU agreement, the CEPA, offers valuable tools that will help consolidate the reform process overall.

The government has promised an “economic revolution” as its next phase, but more specific strategies and roadmaps are needed if it is to attract more support from the EU and other partners. The public expects clearly articulated strategies. The government needs to approach tackling corruption more seriously than it has. It must focus not only on eliminating grand corruption, but also institute systemic solutions designed to prevent and educate government employees and the public on issues of corruption. Government transparency, especially in public finances, should increase.

The judicial system needs urgent reforms to develop public trust in it and strengthen its role as a power balancer. The government-suggested “transitional justice” is a welcome approach to address past injustices and pave the road for a just social contract. Meritocracy should dominate in the public service, not least to compensate for low salaries and motivate qualified professionals to work for the government.

Renewable energy deserves more government attention and support than it receives currently, given Armenia’s comparative advantages in generating solar, wind and hydro power and lack of other resources. Improvements in the business climate should work toward attracting more FDI. Tax reform is needed to trigger small- and medium-sized entrepreneurship.

With the sudden opening of space for free speech, Armenia faces challenges with regard to information and media manipulation. The government needs to increase overall media literacy, improve government communication strategies and reform the public TV broadcast network.