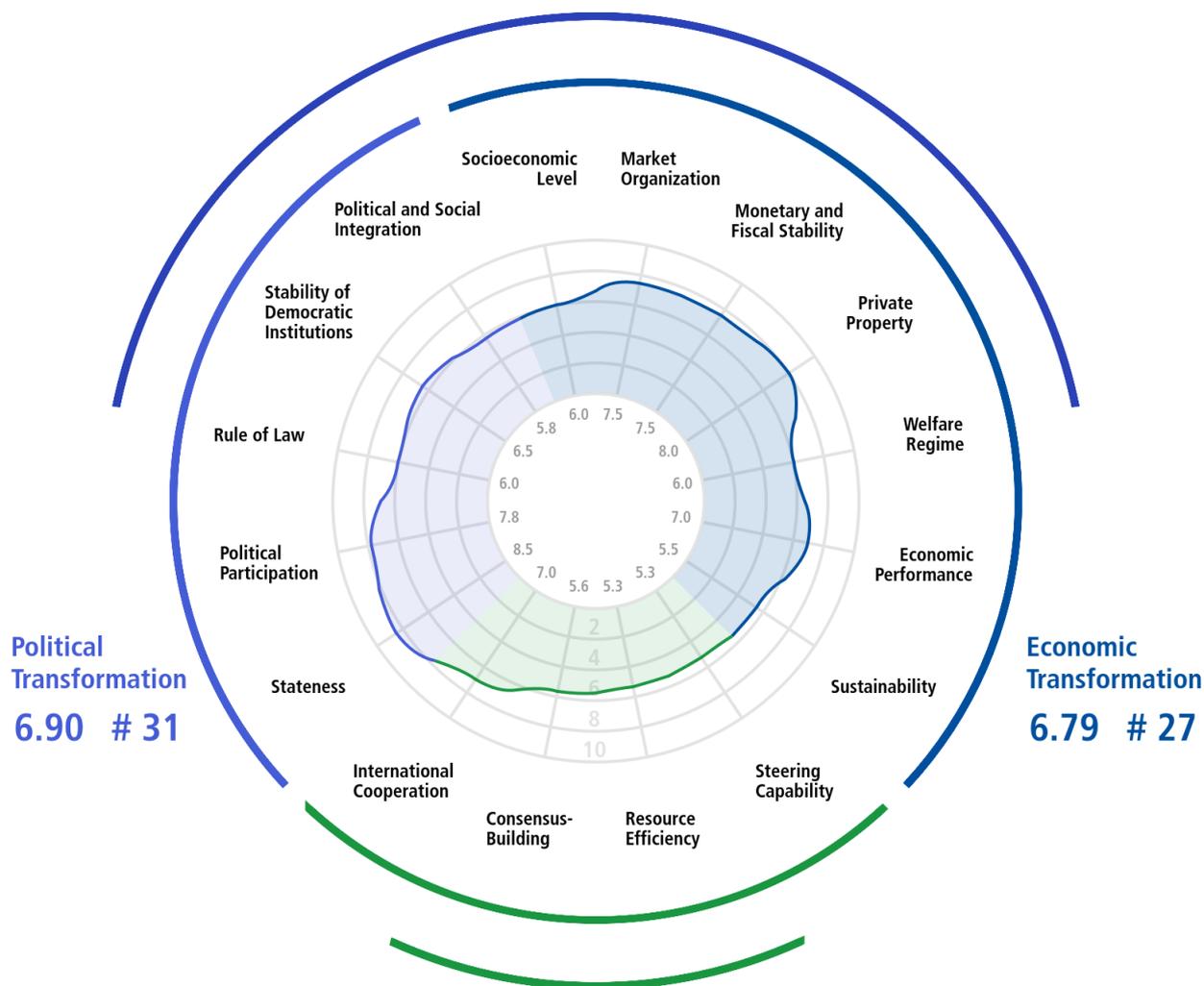


Armenia

Status Index

6.84 # 26

on 1-10 scale out of 137



Political Transformation
6.90 # 31

Economic Transformation
6.79 # 27

Governance Index

5.10 # 46

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	3.0	HDI	0.811	GDP p.c., PPP \$	22823
Pop. growth ¹	% p.a.	2.3	HDI rank of 193	69	Gini Index	27.2
Life expectancy	years	77.5	UN Education Index	0.778	Poverty ³	% 10.0
Urban population	%	63.9	Gender inequality ²	0.180	Aid per capita \$	69.2

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

While Armenia's democracy advanced over the review period, it continued to rest on fragile foundations. The aftermath of the 2020 Nagorno-Karabakh war continued to cast a shadow over the country's political landscape and deepened societal polarization. The divide between pro- and anti-government factions widened further, particularly over security policy, border delimitation with Azerbaijan and the ethnic cleansing of Armenians in Nagorno-Karabakh.

The government faced criticism for inconsistently upholding democratic norms. Anti-government protests in 2024, largely driven by concerns over border agreements with Azerbaijan, tested the authorities' tolerance for dissent. While demonstrations were generally permitted, sporadic crackdowns revealed persistent weaknesses in democratic governance. The politically motivated targeting of opposition-aligned yet democratically elected local officials further underscored these vulnerabilities.

Over the past year, Armenia's democratic development became increasingly linked to its expanding international partnerships. While maintaining pragmatic relations with Russia, the country deepened its engagement with Western democracies. The Comprehensive and Enhanced Partnership Agreement (CEPA) with the European Union served as a key framework for closer cooperation with the bloc. This delicate balance among multiple partners – though difficult to sustain – opened new avenues for democratic reform and institution-building, even if progress remained slower than anticipated.

On the economic front, Armenia demonstrated resilience and faced some structural challenges. Economic growth was driven by the construction and technology sectors and by strengthened ties with international partners. However, geopolitical instability, limited diversification and persistent weaknesses in key sectors continued to constrain long-term transformation.

The government prioritized infrastructure development and modernization to bolster economic resilience. Projects under the European Union's Economic and Investment Plan for Armenia, along with bilateral cooperation with the United States and Germany, supported investment in infrastructure, renewable energy and technological innovation. Yet Armenia's continued reliance on the Russia-led Eurasian Economic Union (EAEU) – particularly for trade and energy – continued to shape its economic landscape, raising concerns about overdependence on a single partner amid broader global realignments.

The continued closure of borders with Türkiye and Azerbaijan, which restricts trade routes and hinders Armenia's full integration into regional markets, remains a major obstacle.

History and Characteristics of Transformation

Armenia's path since independence in 1991 has been shaped by political upheaval, economic challenges and regional conflict. The collapse of the Soviet Union, followed by the first Nagorno-Karabakh War with Azerbaijan in the 1990s, created major obstacles to state-building, including severe energy shortages and economic collapse. Under its first president, Levon Ter-Petrosyan (1991 – 1998), Armenia launched market reforms aimed at liberalization and privatization, but these efforts stalled amid internal political strife. Facing an economic blockade by Türkiye and Azerbaijan, Armenia surrendered strategic assets to Russia through “equity for debt” swaps, giving Moscow control over key sectors such as energy, railways and telecommunications.

During Robert Kocharyan's presidency (1998 – 2008), Armenia experienced period of economic expansion – particularly in construction – that proved unsustainable and collapsed with the 2008 global financial crisis. This era also entrenched oligarchic control, democratic backsliding and the fusion of political and business elites. Corruption, nepotism and monopolistic practices became systemic, undermining democratic development, weakening public administration and eroding trust in institutions.

Amid these challenges, Armenia's civil society emerged as a potent force for change. By 2010, as traditional opposition parties weakened, grassroots movements began mobilizing around environmental protection, public transportation and utility costs. Each successive movement built on the experiences and strategies of its predecessors, creating a dynamic civic space marked by vibrant public engagement and debate.

Growing economic and political dependence on Russia pushed Armenia to join the Eurasian Economic Union (EAEU) in 2015, narrowing its scope for trade and foreign policy diversification. That same year, constitutional amendments transformed Armenia from a semi-presidential to a parliamentary system, creating mechanisms that allowed single-party dominance over the executive and judiciary through the legislature – widely seen as consolidating the ruling Republican party's control. When Serzh Sargsyan sought to retain power by moving from president to prime minister in 2018, mass protests erupted. The “Velvet Revolution,” led by Nikol Pashinyan, marked a democratic breakthrough and ushered in a government committed to anti-corruption measures, judicial reform and democratization.

Pashinyan's government achieved early successes in dismantling oligarchic monopolies and promoting transparency but soon faced unprecedented challenges. The COVID-19 pandemic strained public services and exposed the vulnerability of state institutions, while Armenia's defeat in the 2020 second Karabakh War led to widespread political disillusionment. The 2023 loss of Nagorno-Karabakh – following Azerbaijan's military takeover and the forced exodus of more than 100,000 Armenian refugees – deepened polarization and further weakened confidence in the government.

Economically, Armenia has maintained a liberal trade regime and implemented key structural reforms. While membership in the EAEU aligns it with Russian-led integration, the Comprehensive and Enhanced Partnership Agreement (CEPA) with the European Union, ratified in 2021, highlights efforts to balance relations. Recent funding from the European Union and the United States underscores Western recognition that Armenia must diversify its economy and modernize infrastructure.

Recent regional developments have compelled Armenia to reassess its foreign and security policies. Azerbaijani incursions into Armenian territory in 2022 and the loss of Nagorno-Karabakh exposed critical security vulnerabilities, prompting efforts to diversify partnerships. The deployment of an EU Monitoring Mission along Armenia's borders in 2023 signaled a decisive shift toward deeper cooperation with Europe and a gradual move away from exclusive reliance on Russia.

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

The state maintains an almost total monopoly on the use of force throughout its territory (except for smaller parts at the border seized by Azerbaijan, notably in September 2022 in a brief incursion). The border delimitation between Armenia and Azerbaijan is still ongoing. While volunteer paramilitary groups provide civilians with basic tactical training, these groups operate under the Ministry of Defense's supervision. If Armenia faces an armed attack, these groups can be mobilized only under the ministry's authority. Participants must register with their passports and are subject to military law, which includes penalties for desertion similar to those for regular soldiers. Although individuals may legally own firearms, recent changes have eased the licensing process, likely reflecting growing concerns about the need for civilian self-defense in the face of potential Azerbaijani aggression.

The nation-state enjoys near-universal legitimacy among the population, and all individuals and groups have the right to acquire citizenship without discrimination. However, as a largely mono-ethnic state – with less than 2% of the population identifying as non-Armenian – minorities often face both social discrimination and administrative challenges. The dominant conception of Armenian national identity, which is closely tied to ethnic and religious belonging, has shaped state policies and societal attitudes in ways that disadvantage minority groups.

Armenia's ongoing case against Sashik Sultanyan, a human rights activist advocating for the Yazidi minority, demonstrates systemic issues such as limitations on freedom of expression, the state's handling of minority advocacy and gaps in ensuring equality and protection for non-Armenian communities. While Armenia has made progress in strengthening legal protections, minority perspectives remain largely absent from national narratives, reinforcing their marginalization.

Armenia has implemented a streamlined citizenship process for individuals of Armenian descent who can verify their Armenian heritage. However, the verification requirements have proved problematic. The current system often relies on

Question
Score

Monopoly on the
use of force

8



1

State identity

10



1

documentation from the Armenian Apostolic Church when a country does not record ethnic background in official documents, as seen in places like Lebanon. This creates challenges because religious affiliation does not necessarily correspond to ethnic identity. Moreover, some applicants report that their citizenship requests have been rejected on questionable grounds, such as family names being deemed insufficiently Armenian.

Following Armenia's independence in the 1990s, the Armenian Apostolic Church received special recognition under Article 8 of the constitution. This provision acknowledges the church's unique historical role in preserving Armenian spirituality, culture and national identity. However, its constitutional designation as a "national church" has created ambiguity about whether this compromises Armenia's secular status and the separation of religious and state institutions.

While Armenia's constitution defines the country as a secular state with clear separation between religion and government, the Armenian Apostolic Church is widely perceived as a de facto state church. This perception endures despite the absence of direct financial support or tax exemptions for religious institutions – including the Armenian Apostolic Church – and despite broad public support for secular governance. For many Armenians, the church represents not only a religious body but also a cornerstone of ethnic and national identity, reinforcing its symbolic status as a state institution.

The church's political influence remains limited, yet its alignment with different political actors over time has blurred the line between religious and political spheres. After supporting the former regime and later siding with the opposition, the church has openly criticized Prime Minister Nikol Pashinyan's government, contributing to tensions between the state and the clergy.

In recent years, Pashinyan's rhetoric has undergone a marked transformation. Once a conventional political leader, he has increasingly adopted the tone of a moral or spiritual figure, at times comparing himself to God or Jesus. Critics and media outlets have accused him of using state resources to reinforce this quasi-religious narrative while simultaneously seeking to curtail the influence of the Armenian Apostolic Church through policy and institutional measures.

Armenia's administrative structures provide basic public services nationwide, though some shortcomings remain. Recent reforms have enhanced digital services, banking access, public transport in Yerevan and government digitalization.

Since the 2018 Velvet Revolution, the government has emphasized territorial and administrative reforms through the Ministry of Territorial Administration and Infrastructure. Despite this commitment, significant challenges remain. Although municipalities have improved operational efficiency, they primarily act as implementers of central government policies rather than responding to local needs. The decentralization process has stalled, particularly in policy implementation and resource allocation, with little apparent political will to address these issues.

No interference of religious dogmas



1

Basic administration



1

Local governance has shown progress in service delivery and economic support. However, critical areas for improvement include strategically reinvesting resources from consolidated municipalities, fostering economic development beyond Yerevan and increasing citizen participation in local governance. Municipalities with active women and youth councils demonstrate greater community engagement, offering a promising model for improving civic participation more broadly.

According to Armenia's 2019 Ombudsman's report, Armenian schools face severe water and sanitation infrastructure problems, with 86% of schools and 56% of kindergartens lacking hot water and 76% lacking basic hygiene supplies such as toilet paper and soap. A 2022 UNICEF and WHO report revealed that 12,500 students and 1,580 teachers at 135 public schools lack sewage systems, with many schools also struggling to provide drinking water and handwashing access. These conditions force many students to avoid using toilets, risking various health issues including digestive and urinary problems and affecting their academic performance.

While Armenia has a relative abundance of water resources and is classified as a moderately secured country with freshwater assets, equitable access to drinking water and sanitation remains an issue for many rural communities within Armenia. About 579 out of 1,002 rural settlements lack centralized water supply and sanitation services, falling outside the coverage of water supply companies. The provision of water supply in these settlements is overseen by local village administrations.

Access to electricity in the country is at 100%.

2 | Political Participation

Armenia holds regular national elections, ensuring universal suffrage with secret ballots. Multiple political parties participate, and political positions are filled according to election results.

The Central Electoral Commission (CEC) is responsible for overseeing elections. Although the CEC operates under a legal framework intended to ensure impartiality, evaluations of its effectiveness are mixed, including occasional allegations of politically motivated actions.

Voter, candidate and party registration processes are outlined in the electoral code, but implementation challenges have affected transparency and fairness. For instance, most polling stations remain inaccessible to people with disabilities or those with mobility difficulties, and rural areas suffer from uneven access to polling stations. Parliamentary hearings are underway to propose new electoral code regulations aimed at addressing these and other systemic issues.

The 2021 parliamentary elections were competitive and generally well managed within a short timeframe. However, they were marked by intense polarization and inflammatory rhetoric among key contestants – a trend that has worsened, particularly following the ethnic cleansing of Nagorno-Karabakh in 2023. This heightened polarization is expected to influence future elections.

Free and fair elections

8



1

In Yerevan's 2023 local elections, Pashinyan's Civil Contract party won 33% of the vote but lost its majority in the municipal assembly. Voter turnout reached a historically low 28.5% of eligible voters.

Fair and equal media access for all candidates and parties remains a concern. Reports highlight disparities in coverage, particularly by the ostensibly independent Public TV, which has been accused of favoring narratives aligned with the administration and potentially influencing voter perceptions.

In Armenia, democratically elected political representatives generally hold effective governing power, but challenges to fully consolidating this authority remain due to the influence of certain political enclaves.

Certain entrenched political networks, often connected to the former ruling party, maintain control over some media outlets. Their influence intensifies during security crises, as they transform criticism of Prime Minister Pashinyan's government's security capabilities into broader attempts to delegitimize the entire democratic system rather than engage in constructive political debate.

While business elites historically wielded significant influence over political processes, their power has declined substantially since 2018 and is now primarily associated with opposition factions.

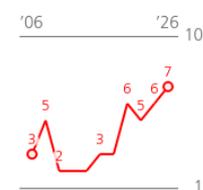
Pashinyan's government has consolidated power to a significant degree, leaving no visible political alternatives. The opposition remains largely discredited among the public, with no democratically minded forces emerging to challenge the status quo.

Armenia's geopolitical dependence on Russia – particularly in the areas of trade and energy – allows for external constraints on government autonomy. While some progress has been made in reducing informal veto powers, lingering external and domestic influences still hinder the full consolidation of democratic governance. Addressing these challenges requires sustained institutional reform and greater transparency.

Prime Minister Pashinyan has consolidated political control, effectively mobilizing all available levers of power. Decision-making within parliament is dominated by the ruling party, and there are currently no significant veto players capable of constraining executive authority.

Effective power to govern

7



While Armenia's constitution guarantees freedom of association and assembly, and these rights were generally protected in the past, there have been notable instances of suppression of these freedoms since the 2020 Nagorno-Karabakh war. This shift occurred in the context of regional geopolitical tensions and territorial disputes with Azerbaijan, which have strained Armenia's domestic political environment.

There have been several instances in which authorities have limited citizens' rights to association and assembly, especially during protests about territorial issues and foreign policy decisions. Some opposition movements and demonstrations have faced restrictions from law enforcement.

Multiple protests occurred in Armenia during 2023/2024 in response to territorial changes. Following Azerbaijan's takeover of Nagorno-Karabakh in September 2023, demonstrations erupted in Yerevan, where authorities deployed crowd control devices against citizens calling for leadership changes, resulting in dozens of injuries. In May 2024, law enforcement forcefully intervened during protests over territorial concessions in the Tavush region, where demonstrators had established roadblocks. These incidents raised concerns about restrictions on citizens' constitutional right to peaceful assembly.

The government has displayed limited tolerance toward civil society actors and political elites from Nagorno-Karabakh who have relocated to Armenia, often treating collective expressions of discontent over the region's loss as a political threat.

Armenia has a vibrant culture of political expression, and constitutional guarantees for freedom of expression are generally upheld. Independent and investigative journalists operate freely alongside small outlets that challenge state narratives, while larger media organizations are often aligned with political or business interests.

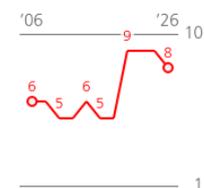
Reporters Without Borders notes a mixed media environment in Armenia, marked by political divisions and financial and legal challenges. Many traditional outlets struggle to maintain editorial independence because of inadequate legal protections and financial pressures. Harassment of journalists and restrictions on press freedom have increased since 2021. In April 2024, for example, a Civil Contract party member of parliament insulted a journalist investigating potential misconduct, illustrating broader challenges to media freedom.

Political polarization further complicates the media landscape, with major outlets often tied to political factions. In September 2023, a Yerevan court imposed a \$2,500 lien on the Union of Informed Citizens after it published allegations against the ruling party – highlighting potential legal pressures on critical media. Despite these issues, Armenia maintains a dynamic culture of political expression.

There have been a number of incidents targeting media critical of the government. At least six reporters and cameramen were injured when Armenian police fired stun grenades in their direction as they covered a protest outside parliament in Yerevan,

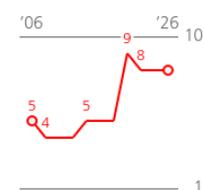
Association / assembly rights

8



Freedom of expression

8



the capital, on June 12, 2024. At the same time, security guards were taking similar actions with reporters in the press gallery inside. Prominent Armenian journalist and political analyst Abraham Gasparyan was isolated and brutally beaten by about 20 special police forces.

A number of regressive legislative initiatives related to the media caused serious concern among journalists. One such law was a package of bills, based on the draft of the new Republic of Armenia Law on State Secrets, which included an addition to the Law On Freedom of Information. This addition gives government bodies the right to reject requests for official comments if the request contains “official information for limited distribution.” This vague wording intentionally leaves room for misinterpretation and abuse, as almost any official document can fall under this provision.

3 | Rule of Law

In Armenia, although the separation of powers is formally enshrined in the constitution and legal framework, its practical implementation faces significant challenges, resulting in an inconsistent and often ineffective system of checks and balances.

The ruling Civil Contract party, led by Prime Minister Nikol Pashinyan, has maintained a strong parliamentary majority since 2018, substantially limiting the legislature’s ability to serve as an effective check on executive power. While the National Assembly nominally engages in debate and oversight activities, its capacity for meaningful scrutiny is severely constrained by several factors: the overwhelming dominance of the ruling party, chronically weak opposition forces, an increasingly polarized political environment and a notable absence of substantive policy and platform debates.

The judiciary’s independence remains a serious concern. Despite reforms aimed at reducing political interference, the judiciary continues to be widely perceived as susceptible to executive influence and suffers from persistently low public trust. Numerous high-profile cases involving political figures and widespread allegations of selective justice have intensified concerns about the judiciary’s impartiality and its effectiveness as a check on executive and legislative powers. This is exemplified by the case of Alexander Sirunyan, a nominee for Armenia’s Supreme Judicial Council, whose past record of attacking political opponents and publicly defending Prime Minister Nikol Pashinyan has raised significant questions about judicial neutrality.

Separation of powers

6

'06 '26 10



1

Armenia's judiciary continues to struggle with achieving full independence and functionality despite earlier reform efforts. Although foundational institutional and legislative frameworks were established prior to the 2018 Velvet Revolution, they have proved insufficient to ensure genuine judicial autonomy. The Supreme Judicial Council, tasked with safeguarding judicial independence, remains hampered by systemic shortcomings, including opaque selection procedures and inadequate qualification criteria for its members. These weaknesses have left the judiciary vulnerable to political influence and undermined its overall credibility.

Political interference and corruption continue to pose serious challenges. Courts maintain persistently low acquittal rates, and judges face pressure to align with prosecutors. Despite the adoption of a judicial reform strategy in 2019, implementation has been slow – only about one-third of planned actions were completed on time. The situation has been further complicated by controversies within the Supreme Judicial Council, including resignations following leaked threats and politically motivated appointments. These developments have deepened concerns about judicial independence, particularly after several judges were suspended in 2023.

Reform initiatives, such as the introduction of integrity checks for judicial candidates in March 2020, have failed to deliver comprehensive vetting. High-profile controversies, such as the prime minister's call to block court proceedings in politically sensitive cases, highlight the judiciary's vulnerability to external pressure and the lingering influence of former authorities. Structural issues within the judiciary continue to erode public trust and hinder meaningful reform. Comprehensive vetting of judges remains a crucial step to rebuild public confidence and address systemic weaknesses.

A report by the Protection of Rights Without Borders NGO found problems with disciplinary actions against judges in 2022, including unclear justifications and inadequate penalties. Civil society groups highlighted the need for better judicial vetting, noting that current integrity checks are limited to new candidates and promotions, while sitting judges face minimal asset scrutiny.

Public trust in the judiciary is closely linked to the quality of legal reasoning and procedural fairness, yet significant deficiencies remain, particularly at the admissibility stage of the Court of Cassation. Discussions on implementing judicial vetting have revealed the need for constitutional amendments or alternative solutions such as establishing an independent commission to work with the Supreme Judicial Council. Addressing these structural issues is vital to ensuring judicial independence, fostering public confidence, and creating a legal system capable of delivering impartial and effective justice.

The Constitutional Court, while theoretically positioned as the ultimate guardian of constitutional order, has faced serious challenges to its independence. This was particularly evident during a controversial episode in 2020 when the government

Independent
judiciary

5



pressured sitting justices to resign and subsequently amended laws to facilitate the replacement of several judges. These actions have substantially undermined public confidence in the court's impartiality and its ability to function as an independent arbiter of constitutional matters.

Armenia made significant legislative progress in 2018 by adopting new versions of the Law on Civil Service and the Law on Public Service, which improved the conflict-of-interest framework for public officials. However, implementation faces several challenges, including limited methods for resolving conflicts of interest and insufficient staffing at the Corruption Prevention Commission (CPC). Despite the CPC's efforts to address allegations concerning high-level officials' conflicts of interest, no significant sanctions have been applied due to legislative loopholes.

The country has strengthened its asset and interest disclosure mechanisms for public officials through the 2018 Law on Public Service and the related 2020 decision by the Administrative Court. This system covers various officials including ministers, MPs, judges and prosecutors, requiring declarations of property, income, interests and expenses. However, there are notable gaps, such as excluding certain officials from the declarations regime. The CPC, responsible for analyzing and publishing these declarations, faces operational challenges including lack of technical staff and automated risk analysis capabilities.

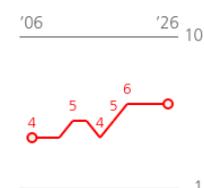
Armenia's whistleblower protection system demonstrates significant weaknesses. Although an e-platform exists for anonymous reporting of corruption crimes, the current law on the system of whistleblowing lacks specific protections against retaliation. Internal reporting channels in ministries are ineffective, and whistleblowers cannot report to media or external channels. Notably, no protection has ever been provided to whistleblowers in Armenia, and there is no central authority overseeing the law's implementation, though the government plans to reform the system.

In Armenia, civil rights are guaranteed by the 1995 constitution (amended in 2015), which provides for fundamental rights and freedoms including personal liberty, equality before the law and protection against discrimination. The constitution and various laws establish mechanisms for citizens to seek redress for rights violations through the courts, the Human Rights Defender's Office (Ombudsman) and international bodies like the European Court of Human Rights (ECHR).

The practical implementation of these protections, however, faces several challenges. While Armenia has made progress in judicial reform and anti-corruption efforts, problems remain in areas such as police accountability, pretrial detention conditions and equal access to justice. The judicial system, though formally independent, sometimes shows signs of political influence, and court decisions are not always effectively enforced. Marginalized groups, including LGBTQ+ individuals and people with disabilities, continue to face discrimination despite legal protection.

Prosecution of office abuse

6



1

Civil rights

7



1

Mechanisms for seeking redress have shown mixed effectiveness. The Human Rights Defender's Office has been increasingly active in investigating complaints and advocating for citizens' rights, though its recommendations are not legally binding. Armenia's membership in the Council of Europe provides citizens with access to the ECHR, which has issued numerous judgments concerning Armenia, particularly regarding property rights, fair trial and freedom of expression. However, lengthy court proceedings, high legal costs and bureaucratic obstacles limit people's ability to effectively pursue justice through domestic channels.

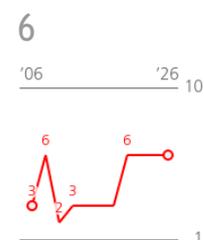
4 | Stability of Democratic Institutions

Armenia's democratic institutions have changed significantly since the 2018 Velvet Revolution. The parliament serves as the primary legislative body, though it is dominated by the ruling Civil Contract party and opposition parties face challenges in effectively participating in governance. The judiciary remains one of the weakest democratic institutions, with ongoing reform efforts aimed at increasing its independence and reducing corruption, though progress has been slow and inconsistent. Local governments have gained more autonomy but still struggle with limited resources and limited capacity for effective governance.

While democratic institutions exist formally, their effectiveness is mixed and marked by institutional growing pains. The executive branch maintains considerable influence over other branches of government, potentially constraining institutional checks and balances. For example, in November 2024, Prime Minister Pashinyan requested the resignations of six high-level officials, including two ministers and four chairpersons. The most controversial was the resignation of Karen Andreasyan, chairman of the Supreme Judicial Council, which legal experts argue violates constitutional principles regarding separation of powers.

Public administration has seen improvements in transparency and digital governance, but bureaucratic inefficiencies and outdated practices continue to affect operational effectiveness. Despite these challenges, there are positive indicators, including improved electoral processes and greater media freedom, though these gains remain fragile and require continued strengthening.

Performance of democratic institutions



In Armenia, formal democratic institutions exist, including regular elections, a multiparty system and civil society organizations. However, their legitimacy has been challenged by different political actors. The 2018 Velvet Revolution marked a significant shift in institutional legitimacy, as mass peaceful protests led to a change in government through largely democratic means. After the loss of the 2020 Nagorno-Karabakh war, however, distrust in certain state institutions – in particular the executive branch – intensified.

The relationship between key political actors and democratic institutions remains complex. While mainstream political parties formally acknowledge democratic processes, they have at times contested election results and institutional decisions. Civil society organizations broadly support democratic institutions, though their oversight capacity is limited because many former members now hold state positions. The military has largely stayed out of politics, with one notable exception: the 2021 alleged coup attempt led by the Chief of the General Staff of the Armenian Armed Forces Onik Gasparyan. Pashinyan defused this crisis by rallying his supporters and calling for snap elections. The Armenian Apostolic Church, while sometimes challenging the executive branch, maintains minimal political influence over the public.

There is no concrete data available regarding the legitimacy of political institutions. However, it is evident that many key actors fear questioning this legitimacy. If any officials dare to challenge it, they will likely face repercussions, including intervention by the public prosecutor. The judiciary closely monitors not only civil servants but also civil society activists, ensuring that any dissent or criticism remains under tight scrutiny.

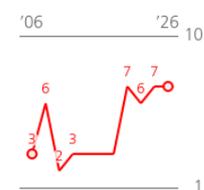
5 | Political and Social Integration

Armenia's party system shows significant weaknesses in its ability to articulate and aggregate societal interests. The system is characterized by underdevelopment and institutional deficiencies, particularly evident in parties' lack of defined platforms and issue-based follow-through.

A key problem is the heavy personalization of political parties, where parties are identified primarily with their leaders rather than their policy agendas. This personalization creates instability, as electoral defeats often lead to both the delegitimization of party leaders and the effective dissolution of their parties. Although Armenian society, media and politics exhibit polarization, this is not effectively channeled through the party system. The result is a highly volatile and unstable party landscape that struggles to fulfill its role in representing societal interests. The system's instability is further compounded by the fact that parties are weakly socially rooted and poorly institutionalized, leading to a fragmented and constantly shifting political environment.

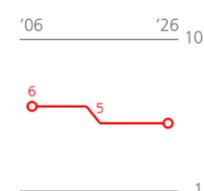
Commitment to democratic institutions

7



Party system

5



The network of cooperative associations and interest groups in Armenia is weak but developing. While social movements have historically maintained a strong presence and achieved significant victories – like extending maternal leave and preventing transportation fare and electricity price increases – their influence has significantly declined, particularly after the 2018 revolution when many civil society activists transitioned into government roles. As most members of the ruling party came from the civil society scene, this shift has negatively impacted the relationship between society and civil society actors. The vast majority of the population no longer trust civil society organizations and have labeled them as “Soros agents.”

This decline worsened after the 2020 Nagorno-Karabakh war. Although some development of media and business associations has occurred, with efforts to establish sector standards and engage in lobbying activities, this system remains underdeveloped and ineffective in mediating between society and the political system.

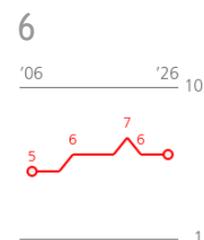
Public opinion surveys indicate mixed attitudes toward democratic norms and procedures. According to recent data from the Caucasus Barometer, there is generally strong approval of democracy as a system of government. In 2019, 63% of Armenians reported that democracy is preferable to any other type of governance. However, this theoretical support for democracy is lessened by practical concerns about its implementation.

Regarding democratic performance and institutional trust, the picture is more complex. Satisfaction with democracy in practice shows considerable variation, with periods of both increased and decreased approval often correlating with major political events and reforms. Trust in democratic institutions remains a challenge – while there has been improved confidence in some institutions following the 2018 Velvet Revolution, trust levels in parliament, political parties and the judiciary remain relatively modest. The military and police are generally more trusted compared to other state institutions, though these levels have fluctuated in recent years with regional security challenges.

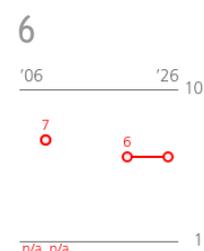
While public opinion surveys generally indicate moderate levels of generalized social trust beyond immediate family and community circles, there are positive indicators. The 2021 Caucasus Barometer survey shows relatively high levels of interpersonal trust, with 48% of respondents saying there are “many people I can trust completely” and another 32% indicating this was “more or less” true.

In Armenia, social self-organization and the construction of social capital have been significantly shaped by traditional networks and post-Soviet civic development. Strong family and community bonds form the foundation of Armenian social capital, with informal networks of mutual support colloquially called “KhTsB” – an acronym for “in-laws, acquaintances and relatives” – signifying one’s network of reliable support, which plays a crucial role in daily life. These traditional support systems have proven particularly resilient during times of economic hardship and have helped maintain social cohesion.

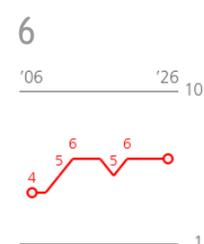
Interest groups



Approval of democracy



Social capital



After the 2020 Nagorno-Karabakh war, grassroots civil society activity declined significantly. However, their social networks remain intact and maintain high levels of trust, though they are currently dormant. Since the war over Nagorno-Karabakh, society has become dangerously divided. Sympathy for particular political actors has had a very negative impact on social capital and social cohesion. The question of the Nagorno-Karabakh Armenians continues to polarize society. The ruling party and its supporters openly demonstrate ignorance and a lack of sympathy for their concerns.

II. Economic Transformation

6 | Level of Socioeconomic Development

Recent years have brought significant challenges to Armenia, including the COVID-19 pandemic, renewed conflict and the influx of displaced Armenians from Nagorno-Karabakh, all amid persistent regional geopolitical tensions. Nevertheless, Armenia's economic framework has demonstrated notable resilience, supported by sound fiscal management and consistent policy implementation.

According to the UNDP, Armenia's 2022 Human Development Index stands at 0.811, placing the country in the "very high" human development category and ranking 69th out of 193 countries and territories. This represents a 22.3% improvement since 1990.

While the Gini coefficient remains relatively low – and thus favorable – at 27.9 in 2022, Armenia's socioeconomic landscape still reflects significant structural inequalities that constrain market participation. Addressing income disparities requires more effective redistributive fiscal and social policies. Persistent informality in the labor market also limits inclusive growth and should be a central focus of future policy efforts.

According to the Asian Development Bank, overall poverty declined from 26.5% in 2018 to 23.7% in 2023, while extreme poverty fell only slightly from 1.4% to 1.1%. The combined effects of the pandemic, conflict and refugee influx from Nagorno-Karabakh have exacerbated these socioeconomic pressures.

In the World Economic Forum's 2022 Global Gender Gap Index, Armenia ranked 89th overall – slightly above the global average – with subindex scores of 84th in economic participation, 28th in education, 139th in health and survival, and 89th in political empowerment. Despite incremental gains, substantial challenges persist in achieving gender equality across key sectors.

Question
Score

Socioeconomic
barriers

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Economic indicators		2021	2022	2023	2024
GDP	\$ M	13878.9	19513.5	24085.7	25786.6
GDP growth	%	5.8	12.6	8.3	5.9
Inflation (CPI)	%	7.2	8.6	2.0	0.3
Unemployment	%	15.5	13.4	13.2	13.3
Foreign direct investment	% of GDP	2.6	5.0	2.4	0.5
Export growth	%	18.6	59.9	30.7	35.6
Import growth	%	12.9	35.0	30.2	31.4
Current account balance	\$ M	-471.4	144.0	-670.0	-1194.5
Public debt	% of GDP	63.6	49.3	50.4	50.0
External debt	\$ M	14039.6	15931.2	15838.8	-
Total debt service	\$ M	1904.0	1990.7	2773.5	-
Net lending/borrowing	% of GDP	-4.4	-2.0	-1.9	-
Tax revenue	% of GDP	22.0	21.8	22.5	-
Government consumption	% of GDP	13.6	11.7	14.1	10.7
Public education spending	% of GDP	2.8	2.5	2.4	-
Public health spending	% of GDP	2.2	1.7	-	-
R&D expenditure	% of GDP	0.2	0.2	0.2	-
Military expenditure	% of GDP	4.5	4.1	5.5	-

Sources (as of December 2025): 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

Armenia's market economy has developed substantially but still faces institutional and structural challenges that constrain free and fair competition. Although the legal framework supports unrestricted market participation, practical barriers create a somewhat unequal playing field for participants.

Armenia faces challenges with market competition, in part because significant economic sectors are dominated by a few large players, which restricts opportunities for new entrants. The informal economy also plays a substantial role in Armenia's economic landscape, accounting for a significant share of employment and business activity. According to the International Labour Organization (ILO), the share of informal employment in Armenia was 49.8% in 2022. Many small businesses and self-employed individuals operate outside formal regulatory oversight, often to avoid high taxes and bureaucratic inefficiencies. While this provides economic opportunities for those who might otherwise struggle to access formal employment, it also distorts competition by placing legally registered businesses at a disadvantage and limiting tax revenue for public services.

In terms of regulatory and bureaucratic challenges, the country offers a generally favorable legal environment for foreign investment and business creation, with minimal restrictions on foreign control and private ownership rights. Business registration procedures are typically straightforward. However, businesses often face bureaucratic hurdles, including complex import licensing and customs processes. Moreover, the lack of independence, capacity and professionalism in key institutions – especially the judiciary – further hampers market fairness. While Armenian legislation provides intellectual property rights (IPR) protection, enforcement efforts and legal recourse remain weak, deterring innovation and investment. Corporate governance and transparency standards also lag behind those of more developed markets.

The Law on Protection of Economic Competition establishes the legal framework for competition regulation in Armenia, with the State Commission for Protection of Economic Competition (SCPEC) serving as the primary regulatory authority.

The SCPEC oversees business transactions, including mergers and acquisitions, to evaluate their impact on market competition and has the authority to block or modify deals that may harm competition or result in market dominance. Recent amendments to Armenia's competition laws have aligned the regulatory framework with international standards, enhancing the commission's investigative capabilities through better access to databases and collaboration with other state institutions. The SCPEC now provides preemptive guidance on market concentration and has adopted digital tools such as an e-filing system and a public state aid registry to streamline operations. While these reforms signal progress, SCPEC decisions remain subject to judicial review.

Market organization

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Competition policy

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The commission has taken steps to address monopolistic practices, particularly in sectors like telecommunications and imports. However, enforcement is selective and major business groups with political connections often evade scrutiny, undermining fair competition. Armenia's small market size also contributes to high concentration in many sectors.

Armenia has aligned some competition regulations with EU standards through the Comprehensive and Enhanced Partnership Agreement (CEPA), but enforcement capacity remains weak. State subsidies and preferential treatment continue to distort competition, often benefiting politically connected firms. To make the competition framework fully effective, stronger institutional independence and consistent enforcement are necessary.

Armenia is also a member of the International Competition Network, reflecting its commitment to align with global competition practices.

Armenia's government has developed policies to attract foreign direct investment, liberalize trade regimes and reform customs processes to facilitate trade. Key initiatives include introducing an online customs declaration system (e-declaration), a traffic light inspection system for goods entering the country and reducing the required number of import documents from nine to three.

The country currently offers a liberal trade and investment framework. With an average applied tariff of 2.7%, Armenia has one of the lowest rates among WTO members. The 2023 simple average most-favored-nation tariff rate for Armenia was 6.3%. As a member of the WTO, Armenia benefits from most-favored-nation treatment and extends most-favored-nation and national treatment regimes to foreign investors who are active across nearly all economic sectors. The State Revenue Committee oversees customs policy and administration.

While the government recognizes the importance of fostering market competition and has committed to reforms aimed at ensuring a more level playing field, consistent implementation remains challenging.

Armenia's trade environment faces unique constraints due to its landlocked geography, blockaded borders with Türkiye and Azerbaijan and its membership in the Eurasian Economic Union (EAEU). These factors, combined with Western sanctions on neighboring Iran, limit competition for Russian goods and services in the Armenian market, contributing to a heavy reliance on Russia for trade. Higher transport costs from potential alternative trade partners in Europe and the Middle East further compound the issue, making Armenia's trade diversification efforts particularly difficult.

Armenia's structural dependence on Russia is unlikely to change in the near term. Addressing this challenge will require diversifying suppliers and investing in domestic resource development. However, achieving meaningful diversification remains a significant hurdle for small landlocked nations like Armenia.

Liberalization of
foreign trade

8



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Armenia's economy remains largely cash-based but is rapidly transitioning with digital transformation reforms aimed at fostering an open finance ecosystem that offers competitive, personalized financial services. The use of debit and credit cards is rising alongside the expansion of automated teller machines (ATMs) and point-of-sale terminals. Armenian banks provide a wide range of services, including bank transfers, lending programs, corporate deposit accounts, plastic card operations, trade finance such as letters of credit, collections and guarantees, trust operations and brokerage services.

As of June 30, 2023, banking system assets grew by 16% year-over-year, reaching AMD 8,481 billion. The return on assets (ROA) stood at 3.93%, marking a 2.08 percentage point increase from the previous year. The banking sector's total assets-to-GDP ratio is 108% – comparable to the average for Black Sea Trade and Development Bank (BSTDB) member countries.

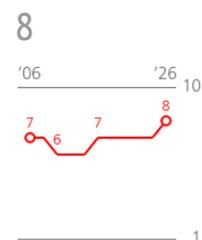
Armenia's banking sector is well capitalized, with a bank capital-to-assets ratio of 13.7% in 2022 and a capital adequacy ratio of 20.5% as of October 2024, both exceeding Basel III minimum requirements. These robust capital buffers place Armenian banks in a moderately conservative range – enabling them to absorb potential losses and sustain operations.

Armenia's capital markets have seen notable improvements, including regulatory reforms and infrastructure upgrades, highlighted by Warsaw Stock Exchange's 65% acquisition of Armenian Securities Exchange (AMX) in 2022. However, markets remain underdeveloped, with only 12 listed companies and a market cap of 2.3% of GDP, though the bond market is showing growth driven by government incentives.

The sector demonstrates strong health with key indicators such as 16% asset growth in 2023, a low non-performing loans (NPL) ratio of 2.4% – well below the emerging market average of 4-5% – and solid credit risk management. The ROA of 3.93% further highlights efficiency and profitability.

Armenia also enforces banking regulations such as the Law on Bank Secrecy and hard budget constraints, underscoring its commitment to a regulated and secure financial environment.

Banking system



8 | Monetary and fiscal stability

According to Fitch Ratings, Armenia experienced deflation in 2023, with prices declining by 0.6% in December. This was driven by a strong dram, lower international food prices and the delayed effects of a tight monetary policy. The annual inflation rate in Armenia rose to 1.5% in December 2024 from 1.4% in the previous month, marking the highest inflation rate since April 2023. However, Fitch expects inflation to rise in 2024 – 2025, averaging 3.9% – slightly below the central bank’s 4% maximum target – as the dram weakens. In response to the deflationary trend, the central bank reduced interest rates by a total of 150 basis points in 2023, bringing the rate to 9.25%.

Armenia’s real effective exchange rate (REER) stood at 248.4 in December 2024, indicating that, on average, Armenian goods and services have become more expensive relative to those of its trading partners, which constrains the competitiveness of Armenia’s exports.

The Armenian Central Bank operates a floating exchange rate policy with no official restrictions on the dram’s exchange rate movement and a liberalized capital market. The dram strengthened significantly in 2022 as Russians relocated their businesses to Armenia and because Armenia switched to paying for Russian gas in rubles instead of dollars (an estimated \$40 million monthly), significantly reducing dollar demand in the Armenian banking system and accelerating the dollar’s decline.

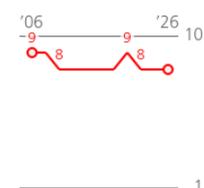
The strong dram benefits importers, who can purchase more foreign goods with their dram earnings, leading to reduced domestic prices for imported goods and deflation since late 2023. But the strong dram disadvantages exporters and deters foreign direct investment as projects become more expensive in dollar terms. Meanwhile, the government benefits, as servicing its \$6.5 billion foreign debt (as of end-2023) has become cheaper due to the dram’s appreciation.

As of September 2024, Armenia’s government debt stands at \$12.5 billion, or 48.1% of GDP, a significant increase from the record low of 14.25% of GDP in 2007. While government debt remains relatively modest, Armenia’s fiscal deficits are relatively large. In 2025, the government deficit is projected to rise to 5.5% of GDP, driven by factors such as increased military spending. The national debt-to-GDP ratio will most probably continue rising between 2024 and 2029, reflecting ongoing fiscal pressures.

However, the International Monetary Fund (IMF) has endorsed Armenia’s 2025 budget and its projected deficit as appropriately balanced to address urgent expenditures while maintaining macroeconomic stability. This allows the government to meet pressing needs without compromising fiscal health. Looking ahead, the authorities plan to resume fiscal consolidation in 2026 – aiming to reduce the deficit and ensure sustainable public finances.

Monetary stability

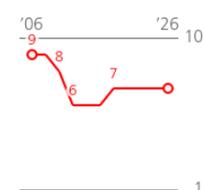
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Fiscal stability

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Overall, Armenia has demonstrated prudent fiscal management, maintaining an average fiscal deficit of 3.5% of GDP over the past decade and ensuring public debt sustainability, aided by updates to its fiscal rule in 2017. Fiscal policy has shown reasonable counter-cyclicality and progressivity, effectively navigating recent economic shocks. However, its impact on stimulating growth has been limited – highlighting the need to enhance the efficiency of public spending and the tax system to maximize fiscal effectiveness.

9 | Private Property

Property rights in Armenia are generally well-defined and protected by law. Article 60 of the constitution establishes core property rights, including possession, use, disposal and inheritance, with limitations or deprivations allowed only through legal processes and with fair compensation. While the constitution and civil code provide the foundational framework, and various legislative acts govern property acquisition, transfer and use, challenges persist. These include issues with land registration, particularly in rural areas, and concerns about property disputes and enforcement mechanisms – especially in cases involving foreign investors.

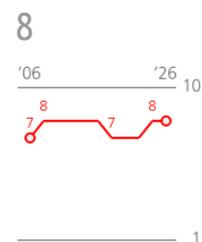
Reforms have been implemented to modernize Armenia’s property rights system, but gaps remain in transparency during property transactions, the effectiveness of contract enforcement and the consistency of regulation application. These issues are especially pronounced in urban development projects and cases of land acquisition for public use. Property rights in Armenia are considered absolute – requiring all entities, including the state, to respect these rights.

Armenia has faced scrutiny from the European Court of Human Rights (ECHR), which has issued more than 20 rulings against the country for violations of property rights. Most of these cases involve the alienation of private property for public use, highlighting the need for stronger safeguards and fairer compensation mechanisms. While there has been progress, more work is needed to address systemic weaknesses and ensure consistent protection of property rights nationwide.

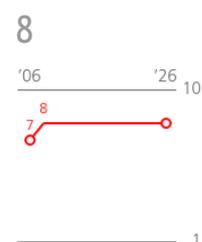
Since 2019, Armenia has introduced significant reforms to its private business framework to enhance transparency and accountability while developing good governance practices.

Private business and corporate governance are featured in key strategic documents such as the Comprehensive and Enhanced Partnership Agreement (CEPA) with the European Union, which mandates alignment with international standards, including the OECD Principles of Corporate Governance. Additionally, Armenia’s Anti-Corruption Strategy for 2023 – 2026 underscores the role of corporate governance in combating corruption, emphasizing the private sector’s responsibility to adopt anti-corruption measures.

Property rights



Private enterprise



Civil society also plays a role in shaping Armenia's corporate governance environment. Initiatives focus on combating corruption within the business community and empowering women to serve on corporate boards and executive teams. These programs aim to build a talent pool of skilled Armenian women ready to assume leadership roles and foster networking opportunities, contributing to a more inclusive business culture.

10 | Welfare Regime

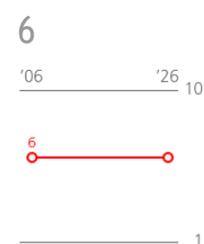
The International Monetary Fund has evaluated Armenia's social safety net positively, noting its effectiveness in protecting vulnerable populations during economic challenges, particularly throughout the COVID-19 pandemic. The system also demonstrated its capability by providing crucial support to displaced Armenians from Nagorno-Karabakh. Despite these achievements, evaluations indicate that improvements are needed in several aspects of Armenia's social assistance programs, specifically in their reach, benefit levels and beneficiary selection processes. Enhanced social safety nets would strengthen economic stabilization mechanisms, contribute to long-term fiscal health despite increasing spending needs and better prepare the economy for future challenges. This analysis examines specific areas where Armenia's social protection system requires enhancement.

The state provides basic social protection through various forms of compensation, including cash transfers for vulnerable groups, pensions for the elderly, disability benefits and family allowances. The country also implements targeted social assistance programs and subsidies for utilities and housing for low-income families.

In 2021, social assistance spending in Armenia accounted for approximately 2.6% of GDP, including support measures related to COVID-19 and the 2020 war. This figure is comparable to the Central Caucasus Area (CCA) average of 2.7% of GDP but significantly lower than the OECD average of 12.9%. Armenia's social safety net is primarily based on targeted cash transfers, particularly through the Family Benefit Program, which supports vulnerable and low-income families with a focus on children and the elderly. While this system has been effective in mitigating the impact of economic shocks, there is still potential for improvement in coverage, adequacy and the targeting of specific groups.

The funding structure of Armenia's social safety nets primarily relies on tax revenues, contributory benefits and some international donor support. The pension system operates on a pay-as-you-go basis, though reforms have introduced elements of a funded component. While the state remains the primary provider of social protection, non-governmental organizations are also involved in delivering social services and support.

Social safety nets



Coverage and inclusiveness of Armenia's social safety nets face significant challenges. Although citizens have universal access to basic social services, the adequacy and reach of benefits remain limited because of fiscal constraints. Traditional family and community support networks continue to play an outsized role in providing informal social protection, particularly in rural areas.

Armenia has an unemployment insurance (UI) program that provides monthly benefits to eligible workers. Individuals must have been employed for at least 12 months before becoming unemployed, be actively seeking work or be a first-time job seeker. The benefits are quite low, at AMD 18,000 (less than \$50) per month, and are available for a minimum of six months and a maximum of 12 months.

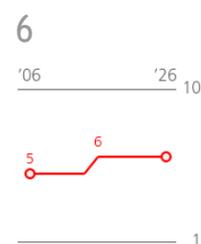
The country has basic legal frameworks prohibiting discrimination, but implementation and enforcement remain inconsistent. Women continue to face barriers in employment and political representation, with traditional social norms often limiting their opportunities in leadership positions and certain professional fields. A significant gender pay gap persists, and women are under-represented in senior government positions and parliament. Armenia's political empowerment performance is particularly weak, with only 35.5% of parliament members being women, no women in core executive roles and just two female ministers. Women comprise 54% of ministry staff except in defense, but hold only 18% of deputy minister positions.

In Armenia, inequality in education is a significant issue, with poverty serving as a major barrier to accessing higher education and pre-primary care. Tuition fees and other education-related costs are key obstacles that prevent many from pursuing higher education. Research has consistently shown that poverty severely limits access to higher education, and without such access, individuals face a heightened risk of falling into poverty.

There is also notable inequality in public office in Armenia, particularly with regard to gender representation. Despite women constituting the majority of the population, they remain vastly under-represented in leadership positions across all levels of government. This reflects a broader issue of gender disparity in decision-making roles within the public sector. As of July 2024, women make up 36.5% of the Armenian parliament, with 39 female members.

Religious minorities, particularly those outside the Armenian Apostolic Church, sometimes face limitations in practice, though freedom of religion is legally protected. The LGBTQ+ community faces significant social and institutional discrimination, with limited legal protections against discrimination based on sexual orientation or gender identity. Non-citizens, particularly refugees and asylum seekers, sometimes encounter obstacles accessing employment, education and public services, despite legal provisions for their protection.

Equal opportunity



The U.S. State Department reports that although Armenian legislation provides free legal assistance to asylum seekers, implementation is hindered by various legal, capacity and operational constraints. Evidence shows discrimination in processing asylum applications and detention based on factors such as country of origin, race, sexual orientation and religion, while foreign migrants sometimes encounter discriminatory attitudes when seeking employment.

In terms of education and employment, although universal access to education is guaranteed by law, socioeconomic disparities create practical barriers, particularly for rural communities and economically disadvantaged groups. The education system shows disparities in quality between urban and rural areas, affecting equal access to higher education and subsequent employment opportunities. Additionally, persons with disabilities continue to face challenges in accessing education and employment, despite improvements in legal frameworks and infrastructure accessibility in recent years.

11 | Economic Performance

According to the Asian Development Bank, while Armenia's economy experienced a strong growth rate of 8.7% in 2023, it was projected to slow to a moderate rate of 5.7% in 2024 due to declining external demand, before slightly recovering to 6% in 2025. This moderation is partly due to reduced monetary inflows from Russia affecting domestic consumption. The IMF gives a more conservative estimate of 4.9% for 2025.

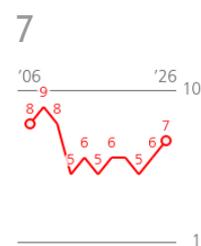
The most dynamic sectors of the economy are services and construction. According to Asian Development Bank (ADB) projections, services are expected to grow by 9.4% in 2025, driven by tourism, finance, recreation, retail trade, transport and information/communication sectors. Construction shows particularly strong growth projections of 18.1% in 2025, supported by government infrastructure investments.

World Bank data indicate the employment situation shows some problems, with unemployment rising to 13.8% in H1 2024 from 11.7% in H1 2023, partly due to the challenge of integrating refugee populations into the labor market.

World Bank figures show inflation is relatively well managed, dropping from 2% in 2023 to 0% during January – September 2024, largely due to falling food and beverage prices. However, it is projected to rise again to 3.5% in 2025.

The government is actively promoting economic stability through infrastructure and housing investment programs, which are expected to support future growth.

Output strength



12 | Sustainability

Environmental concerns in Armenia have seen mixed effectiveness in regulation and implementation. The country has established a comprehensive environmental regulatory framework, overseen by three main bodies: the Ministry of Environment, the Environmental Protection and Mining Inspection Body and the Inspection Bodies' Coordination Bureau. Armenia has also demonstrated an international commitment to improving its environmental legislation through the EU CEPA agreement and more than a dozen other international agreements.

However, several challenges persist. The regulatory framework needs improvements in clarity, institutional capabilities and compliance monitoring. Environmental monitoring equipment requires updates, and there are ongoing concerns about mining waste management. The mining sector particularly exemplifies these challenges, with lax environmental regulations resulting from overreliance on mining revenues.

Generally, the country faces significant environmental challenges in waste management, with no dedicated facilities for processing hazardous waste. Toxic industrial, electronic and chemical waste is currently mixed with municipal waste, though there are proposals for separate facilities and a comprehensive waste management strategy.

On May 13, 2021, the Armenian government approved the Climate Change National Adaptation Action Plan for 2021 – 2025, developed with UNDP-GCF support. This plan formalizes climate change adaptation efforts, emphasizing the need for medium- and long-term planning. The government recognizes climate change's impact on national development and is taking steps to address vulnerabilities through institutional arrangements, climate policies and programs. While Armenia's adaptation response has been reactive and fragmented, it is now being driven by various actors at national, sectoral and local levels.

Armenia adopted the Program on Energy Saving and Renewable Energy for 2022 – 2030, based on the RA Government Program and the Strategic Program for the Development of the Energy Sector (until 2040). The program incorporates Armenia's commitments under international agreements on sustainable development, renewable energy, energy saving and climate change. It outlines goals and actions for energy efficiency and renewable energy from 2022 to 2030, with implementation divided into three stages: 2022 – 2024, 2025 – 2027 and 2028 – 2030, each supported by specific action plans approved by the government.

Regarding environmental policy and incentives, Armenia has introduced tax exemptions for electric vehicles through 2025, eliminating both import duties and value-added tax. However, these measures have yielded limited results, with only about 4,500 EVs imported in 2023. The country also lags behind European standards on vehicle emissions, continuing to apply Euro 5 regulations while the European Union transitions to Euro 7.

Environmental
policy

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Armenia's education system shows uneven performance across key indicators. While enrollment rates remain high – around 90% in general education (91.2% in primary and 87.3% in secondary education as of 2020) – persistent challenges in educational quality and funding continue to undermine outcomes.

The government has demonstrated a commitment to improving the quality of education in the country through its Education Strategy 2030, adopted in November 2022, which focuses on vocational education and training, lifelong learning and better school-to-work transitions. However, implementation faces significant hurdles in developing a state-level strategy and improving cooperation between various state agencies and local governments.

A number of changes have been implemented in general education, ranging from the organization of education at schools to grading mechanisms, textbook development, technical capacity development and other areas. Several schools are also empowered to organize student clubs and implement project-based learning that has positively influenced teachers' workloads and students' motivation.

Quality indicators reveal concerning trends. Despite a reported 99% literacy rate, standardized tests show significant gaps in basic skills. Between 2003 – 2015, 16% – 28% of students failed to meet basic math benchmarks, and 24% – 42% failed to meet basic science benchmarks. Additionally, 20% of students did not meet the minimum threshold for Armenian Language in 2019 university entrance exams.

The vocational education sector, while growing to 28.7% participation in 2021, faces challenges with dropout rates and weak connections to the labor market. At the tertiary level, the government's proposal to merge several institutions lacks clear analysis or justification.

In 2024, a new system of teacher training was implemented that hinges on assessing teachers' needs, making the process more needs-based and targeted. Around 1,500 teachers are trained each year, now also covering pedagogical-psychological topics such as teaching without violence and bullying. A total of 3,903 teachers have already used the voluntary attestation system and become qualified to receive higher salaries.

Armenia's tertiary education system includes public and private universities, with institutions such as Yerevan State University, the State Polytechnic University and the Armenian National Agrarian University playing key roles in research and development (R&D). However, despite a solid academic framework, Armenia faces challenges in connecting research to the market, reflected in its R&D expenditure, which was just 0.2% of GDP in 2023. Additionally, there is a disconnect between universities and research institutes such as the National Academy of Sciences, which – in line with the Soviet tradition – dominates the research sector.

Education policy /
R&D

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'06 _____ '26 10



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Governance

I. Level of Difficulty

Armenia is a small landlocked country with limited access to global markets. Its borders with Türkiye and Azerbaijan remain closed due to long-standing geopolitical conflicts, particularly over Nagorno-Karabakh. This isolation restricts trade options and increases dependence on limited trade routes through Georgia and Iran, which are themselves vulnerable to political and infrastructural challenges.

Armenia is currently facing an existential threat from Türkiye-allied and backed Azerbaijan, which has the resources to pose a serious challenge to Armenia's existence as a sovereign state. The 2020 war and the subsequent displacement of Armenians from Nagorno-Karabakh in 2023 have exacerbated governance challenges, particularly in resettlement, security and social cohesion and integration. The Armenian government perceives Russia's role as Armenia's security guarantor as having effectively ceased in 2022, and Armenia has since sought to diversify its military and diplomatic alliances, but it is not engaged in a strategic alliance with any power that guarantees its security. Armenia has deepened ties with the West, particularly the European Union, which has provided some security support, but this has fallen well short of full protection.

Despite recent economic growth, the country remains below the global average for upper-middle-income countries, reflecting economic constraints. Armenia remains structurally reliant on Russia for trade and energy, leaving its small domestic market exposed to external shocks. The country is also reliant on the West for foreign aid to develop infrastructure. Economic diversification is limited, with key sectors such as mining and agriculture facing environmental and economic sustainability issues.

While Armenia has a high literacy rate and a well-educated labor force by regional standards, there is a mismatch between workforce skills and market needs. Emigration of skilled labor – brain drain – exacerbates these challenges, reducing the availability of talent for critical governance and economic sectors. Its small and still developing economy also offers limited opportunities for graduates.

Infrastructural development lags behind global standards, particularly in rural areas. Limited connectivity, outdated energy infrastructure and inadequate public transportation systems hinder economic integration and growth. Efforts to modernize infrastructure are ongoing but require substantial investment. These same structural challenges apply to medical care and education in the regions.

Structural
constraints

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Armenia is prone to earthquakes and extreme weather events, straining governance capacity during crises. Climate change poses additional risks to agriculture, water resources and energy generation, further complicating long-term planning and sustainability efforts.

Armenia has had one of the most vibrant civil societies in the former Soviet Union, with successive grassroots social movements achieving significant victories and giving the public a sense of agency and ownership over the political process. This vibrancy was particularly evident during the 2018 Velvet Revolution, which demonstrated a strong civic culture of peaceful protest and public participation – showing how Armenian society has developed mechanisms for collective action and civic engagement.

In Armenia, social trust and social capital are built primarily through informal networks and community ties, strengthened by cultural traditions and extended family networks. Since independence in 1991, the country has also seen the rise of numerous NGOs. Armenia has experienced growth in civic associations focused on human rights, environmental protection and democracy promotion. However, since the 2020 Nagorno-Karabakh war, civil society dynamics have shifted significantly. While formal civil society organizations flourish with institutional support and funding, largely from abroad, grassroots movements and informal civic initiatives have declined, with minimal trust and cooperation between these two sectors. The civil society sector faces two main challenges: securing sustainable funding – as foreign donors often set priorities remotely – and developing sustained civic participation that extends beyond major political events.

Limited time and staffing – particularly the lack of human resource capacity for effective advocacy – remain serious obstacles. Insufficient advocacy skills and the absence of structured engagement mechanisms compound these challenges.

Armenia’s geopolitical environment, marked by the legacy of the Nagorno-Karabakh conflict and persistent regional tensions, exerts considerable pressure on its civil society. The ongoing conflict with Azerbaijan – and indirectly with Türkiye – continues to shape governance and societal structures, influencing how civil society engages with external powers such as Russia.

Armenia has faced political polarization, national security challenges and societal divisions in recent years, with deep rifts between pro- and anti-Pashinyan factions, particularly in the aftermath of the 2020 Nagorno-Karabakh war. Polarization has intensified due to such issues as the loss of Nagorno-Karabakh, its ethnic cleansing, ongoing security challenges with Azerbaijan and contentious border delimitation processes. Protests and demonstrations – especially those opposing government policies on border agreements – were mostly tolerated, but some instances escalated to crackdowns. Allegations of attempted coups by individuals and the confiscation of their weapons have further highlighted the tense political climate.

Civil society traditions

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Conflict intensity

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The Nagorno-Karabakh conflict has profoundly affected Armenian society, shaping domestic politics and national identity. Trauma from the conflict and subsequent threats to Armenia's territorial integrity have intensified divisions and impeded social cohesion.

On May 26, 2024, thousands rallied in Tavush, led by Archbishop Bagrat Galstanyan, demanding Prime Minister Pashinyan's resignation after Armenia agreed to return four villages to Azerbaijan (taken during the first war from 1991 – 1994). Three days later, a significant confrontation occurred at a key national memorial when Catholicos Garegin II and clergy had to break through police cordons to lay flowers, while Pashinyan held his ceremony 30 minutes later. The incident sparked protests led by Archbishop Galstanyan outside the Interior Ministry, with demonstrators demanding Interior Minister Ghazarian's public appearance. The protests and the government's dismissive reaction are emblematic of the deepening political polarization in Armenia following the fall of Nagorno-Karabakh in 2023.

Ethnic and religious conflicts, by contrast, are otherwise negligible. Armenia is predominantly ethnically Armenian and Armenian Apostolic Christian, with mostly peaceful coexistence among religious and ethnic minorities. However, national discourse remains heavily focused on Armenia's security and ethnic identity, particularly in relation to Azerbaijan.

The use and spread of violence have been mostly confined to Azerbaijani attacks on border regions, especially since 2020 and most recently in early 2024, but the repercussions are felt throughout the country. These conflicts shape political discourse, strain social relationships and pose significant challenges to national security. While Armenia has managed to maintain internal peace to a large extent, the underlying polarization and ongoing tensions highlight the fragility of the country's political and social fabric.

II. Governance Performance

14 | Steering Capability

The government of Armenia, under Prime Minister Nikol Pashinyan and the ruling Civil Contract party, has demonstrated an active approach in setting strategic priorities, but its political capacity to maintain long-term strategies is severely limited, especially during times of crisis and deadlock. While the government has outlined key priorities in national development strategies, including reforms in anti-corruption, infrastructure, education and digital transformation, the capacity to follow through with these plans is often hindered by political instability and internal divisions.

Question
Score

Prioritization

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Armenia's geopolitical challenges, particularly ongoing security threats from Azerbaijan and unresolved issues related to Nagorno-Karabakh, dominate the national agenda. However, there is a lack of broad consensus within the country on a clear long-term vision for the future beyond immediate security concerns. The government's attempts to shape a vision have often clashed with deeply ingrained social, historical and cultural values – resulting in limited public buy-in.

The government's approach to governance is also marked by a tendency to maintain a tight inner circle of advisers who largely align with the prime minister's views. This has resulted in a lack of institutionalized mechanisms for seeking outside expertise or fostering broader, more inclusive discussions on key issues. As a result, strategic priorities may be shaped more by immediate goals rather than genuine long-term planning.

While there are notable efforts to align with European Union standards and promote economic modernization, the government's ability to maintain and implement strategic priorities over the long term is often undermined by political fragmentation, a lack of shared national vision and a narrow decision-making circle. When prioritization is driven by particularistic goals such as maintaining political power or clientelist networks, it reduces the effectiveness of long-term strategies and hampers governance capacity.

While the Armenian government has been able to implement certain significant policies, it has faced considerable challenges in others. Key strides have been made in anti-corruption, digital transformation and infrastructure development, but persistent obstacles continue to hinder the realization of its strategic priorities.

One of the government's core policy priorities has been economic modernization. To achieve this, the government has introduced reforms to improve the business climate and attract foreign investment, and has made progress in digitalizing public services. The establishment of an open finance ecosystem and the expansion of ATM and payment terminal infrastructure are positive steps. However, these efforts are often hindered by structural constraints such as limited access to digital markets, high dollarization and reliance on external factors – particularly remittances and trade routes through Russia.

In the social sphere, the government has focused on poverty reduction and improving the quality of public services. Armenia's GDP growth between 2021 and 2024 has been strong and poverty levels have decreased, yet persistent challenges remain in areas such as health care and education. For instance, the government has again delayed implementing the national health insurance system by not allocating funding for it in the 2025 budget, despite earlier plans for a gradual rollout. The quality of human capital remains constrained by insufficient investment in these sectors, and the government has struggled to bridge the gap between urban and rural areas in access to essential services.

Implementation

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Policy implementation has often been hampered by political polarization and internal divisions. Additionally, bureaucratic inefficiencies, weak institutional capacity and limited coordination between ministries have further delayed or obstructed the implementation of certain policies.

The government has demonstrated clear political commitment to reform, especially in alignment with its European Union integration objectives. Yet, implementation remains inconsistent and progress uneven.

The Armenian government pledged to build the country as an “island of democracy” upon coming to power in 2018, vowing to eliminate corruption and strengthen democratic institutions. However, in practice, not nearly enough has been done to realize these goals. Freedom of expression has once again deteriorated, with officials who criticize the government facing intimidation and state reprisals – such as the former ambassador to Poland, Edgar Khazaryan. Politically motivated corruption charges have also been used as a tool of repression, as illustrated by the case of former education minister Armen Ashotyan. Legal measures threaten free speech. Despite claims of decriminalizing slander, authorities continue to prosecute individuals for “grave insults,” imposing hefty fines and potential jail sentences of up to three months. More than 50 criminal charges and hundreds of investigations have targeted critics, particularly those speaking out against Prime Minister Pashinyan on social media or in public.

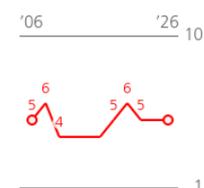
Armenia’s government has shown mixed results in terms of innovation and adaptability in policymaking. Since 2018, it has made progress in digitalizing public services through e-governance initiatives and has increasingly collaborated with international partners and organizations to exchange knowledge and adopt best practices. However, the government’s openness to new ideas – particularly those from local experts – often depends on the experts’ perceived political alignment and whether proposed policies serve the administration’s interests rather than the country’s long-term goals. As a result, policy learning tends to occur on an ad hoc basis rather than through systematic, institutionalized processes.

The administration struggles with long-term policy strategizing, which leads to significant shortcomings, including the limited capacity to monitor and evaluate policy outcomes, difficulty maintaining consistent reform momentum and poor harmonization across different sectors.

In Armenia, innovative and participatory approaches to policymaking are not systematically integrated into strategic governance, policymaking or service delivery. Citizen and stakeholder involvement is largely driven by legal obligations rather than a genuine recognition of how these perspectives can improve policy outcomes, quality and efficiency. As of December 2024, legal requirements are the strongest motivator for engagement (76%), followed by institutional objectives (31%). Public sector innovation in Armenia is mostly top-down, with limited support structures

Policy learning

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such as labs, funds or accelerators to encourage innovation and disseminate best practices. This hampers the potential for grassroots solutions to address public challenges.

15 | Resource Efficiency

The Armenian government faces significant challenges in the efficient use of administrative personnel, with the civil service remaining highly politicized. Politically motivated appointments and dismissals persist, undermining institutional stability and creating an expectation of loyalty over competence. While merit-based recruitment frameworks are formally in place, their inconsistent application limits the effectiveness of personnel selection.

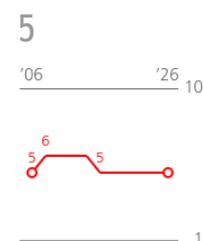
Budget resource management presents a mixed picture. Armenia's state budget has shown deficits, with Ministry of Finance projections for 2025 indicating an increase to 5.5% of GDP before tapering to 3% in the medium term. While the debt-to-GDP ratio is projected to remain manageable at 53.5% by the end of 2025, rising public debt highlights a need for more prudent fiscal discipline. Transparency in budget planning needs improvement, with a score of 60 out of 100 from the International Budget Partnership, and weaknesses remain in simplifying budgetary information for greater accessibility and comprehensibility for the public. Monitoring of budget implementation is also limited and significant deviations between planned and actual expenditures are common, undermining the efficient allocation of financial resources.

In terms of administrative organization, decentralization remains a work in progress. Local governments often lack sufficient financial resources and autonomy to operate effectively, limiting their ability to meet local needs. Efforts to modernize the public administration system are evident, but progress is slow due to bureaucratic resistance and capacity limitations. Reform initiatives, while well-intentioned, frequently falter at the implementation stage, reflecting broader systemic inefficiencies. Without greater investment in institutional reform and capacity-building, the government's ability to optimize its organizational resources will remain constrained.

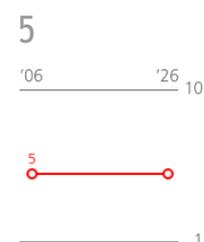
The government's ability to coordinate conflicting objectives into coherent policy faces several challenges. While basic policy coordination mechanisms exist, significant improvements are needed in managing trade-offs between competing policy goals. The government often struggles to develop policies that effectively balance different stakeholder interests, primarily because of two key factors: limited long-term strategic planning capacity and insufficient horizontal coordination across ministries.

The institutional framework for policy coordination, while formally established, faces challenges in implementation. Although responsibilities are officially assigned to various government bodies, enforcement mechanisms and accountability measures remain weak. This can lead to task negligence or unclear lines of responsibility.

Efficient use of assets



Policy coordination



Ministries often pursue conflicting policies. For example, recently implemented tax reforms imposed strict and financially burdensome measures, impacting socially disadvantaged groups. Yet the Ministry of Labor and Social Affairs has yet to respond or adjust its approach to mitigate these effects. This lack of strategic planning undermines policy coherence and effective implementation.

The coordination style in Armenian governance has shifted from a strictly hierarchical Soviet-era model to a more mixed approach. In recent years, although there have been positive developments in adopting more collaborative practices, coordination still relies heavily on informal networks and personal relationships in government.

The current government initially rose to power on an anti-corruption platform, pledging to transform Armenia's political culture. Over the past few years, it has made significant progress, notably through police reforms. Interactions with law enforcement, once marked by widespread bribery, have improved dramatically, with corrupt practices now largely diminished or rare. This has led to a significant shift in attitudes toward key state institutions, even if overall trust remains low.

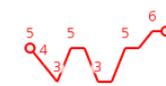
At the same time, troubling signs of backsliding have emerged, particularly regarding the accountability of officeholders. Issues such as weak enforcement of asset declarations, conflict of interest rules and codes of conduct, along with a lack of transparency in public procurement, are becoming more prevalent. Recent cases illustrate this regression. The Corruption Prevention Commission fined the mayors of Hrazdan and Artashat for failing to disclose conflicts of interest. In Hrazdan, contracts were awarded to the mayor's relatives, while in Artashat, road construction projects worth 723 million drams went to a ruling party council member. Similarly, in 2023, politically connected individuals influenced decisions in Ararat, with a 109 million dram contract awarded to a ruling party-affiliated construction company.

While the government introduced a new anti-corruption strategy for 2023 – 2026, progress has noticeably slowed compared to earlier reforms. Transparency International, in December 2024, raised concerns about inconsistent enforcement of anti-corruption measures, especially involving ruling party officials. These issues include unresolved conflicts of interest and questionable public spending practices, highlighting the need for a renewed commitment to maintaining and advancing anti-corruption reforms.

Anti-corruption
policy

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16 | Consensus-Building

The 2018 Velvet Revolution marked a turning point in strengthening democratic commitment across Armenia's political spectrum. However, this consensus has weakened in recent years, particularly after the 2020 Nagorno-Karabakh war, as the narrative that democracy and security are incompatible has gained traction among certain segments of society. Overall, major political actors still regard democracy as a strategic goal, though this commitment is less explicitly prioritized in public debate compared to values such as national security. Interpretations of democratic principles vary, and some actors affiliated with the former regime maintain ambivalent stances toward democratic reforms.

Regarding the market economy, there is broad consensus among political actors on maintaining a market-based system. Both the ruling Civil Contract party and opposition forces support free-market principles, though they differ in their approaches. Key points of contention include the regulation of oligarchic interests – largely unchecked under the former regime, which had strong business ties – and Armenia's integration with regional economic blocs. The previous regime leaned heavily toward Russia and supported the Eurasian Economic Union, while the current government, though more Western-leaning, continues to cooperate with the Eurasian bloc out of pragmatic necessity. Beyond political actors, business associations, chambers of commerce and civil society organizations generally support democratic norms and market economy principles, with the latter widely accepted as a foundational norm. Labor unions, however, remain weak and exert negligible influence on policy. While there is fundamental agreement across political and civil society actors on democracy and the market economy as strategic goals, consensus is notably stronger on economic principles than on democratic governance, where trust in institutions continues to pose significant challenges.

Reformers, in this case the government, generally succeed in overcoming anti-democratic veto actors, largely because of the strong democratic culture embedded in Armenian society, where autocratic politicians struggle to gain legitimacy. While dissatisfaction with the current government exists, it is widely regarded as the only viable alternative to the former regime, which is associated with anti-democratic governance and self-enrichment.

However, anti-democratic forces continue to mount opposition, particularly by leveraging security concerns – a pressing issue in Armenia given its geopolitical challenges. These forces often attempt to undermine the government by promoting the idea that democratic reforms are incompatible with national security needs. This creates ongoing pressure on reformers to balance democratic development with addressing societal anxieties about safety and territorial integrity.

Consensus on goals

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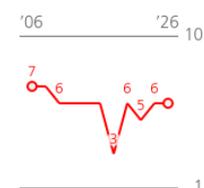


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Anti-democratic actors

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Armenia's democratic institutions remain underdeveloped, posing a challenge to fully excluding or permanently co-opting anti-democratic actors. While the government enjoys substantial public backing due to societal pragmatism and the negative legacy of the former regime, institutional weaknesses allow these actors to exploit gaps in governance. This has contributed to a troubling trend toward increasingly centralized, one-man rule – exposing a deeper flaw in Armenia's democracy: its inability to check executive dominance or foster meaningful opposition.

Armenia's political leadership has struggled to moderate cleavage-based conflicts, particularly in the highly polarized environment following the loss of Nagorno-Karabakh and ongoing security challenges. Opposition factions have capitalized on widespread public concerns over security, using these concerns as a rallying point to mobilize sentiment against the government. The government's response has often been combative – resorting to personal attacks and delegitimizing its opponents. This approach exacerbates divisions and risks undermining democratic development by deepening political polarization.

Another significant cleavage arises from the grievances of Armenian refugees from Nagorno-Karabakh, who face significant hardships integrating into Armenian society after their displacement. Rather than addressing these grievances constructively, the government has at times viewed collective expressions of these concerns as a threat. Instances of unethical rhetoric by ruling party officials toward the Nagorno-Karabakh community further strain relationships and hinder efforts to build societal consensus.

Overall, the political leadership has demonstrated limited ability to depolarize structural conflicts or build broad consensus across societal divides. Addressing these cleavages will require a more inclusive and empathetic approach, focusing on constructive dialogue and equitable solutions that recognize the legitimate concerns of all groups while fostering trust in democratic processes. This, however, is a difficult proposition given the militancy among many opposition forces.

Armenia's government consults civil society actors in policymaking, but the effectiveness of this engagement is limited by structural and relational factors. Following the 2018 Velvet Revolution, a significant number of civil society actors transitioned into government roles, creating strong social ties between officials and their former colleagues. While this has facilitated collaboration, it has also led to some redundancy in ideas and a reluctance among civil society actors to offer strong criticism of the government, reducing the diversity of perspectives in policymaking.

Moreover, the government tends to favor working with civil society organizations that align with its views, excluding those that provide critical analyses or dissenting opinions. This selective approach undermines the plurality of voices in policymaking and diminishes the inclusivity of the process. Analysts, representatives of nonaligned organizations, intellectuals, scientists and journalists who criticize the government are often left out of key discussions and decision-making processes.

Cleavage /
conflict
management

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Public
consultation

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As a result, while civil society engagement exists, it is not as broad or inclusive as it could be. For more effective policymaking, the government would benefit from expanding consultations to include a wider range of civil society actors – particularly those with differing viewpoints – and fostering an environment where constructive criticism is welcomed and valued.

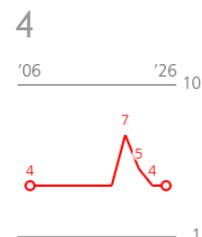
Armenia’s political leadership has struggled to achieve reconciliation between victims and perpetrators of past injustices, facing substantial challenges in addressing both historical and recent conflicts. Regarding the events of March 1, 2008 – which involved a violent crackdown on opposition protests resulting in ten deaths – Prime Minister Nikol Pashinyan initially proposed introducing transitional justice mechanisms to address these injustices and broader issues within the judiciary. However, little progress has been made, reflecting the government’s limited capacity to confront and resolve these issues.

Efforts at normalization – both regarding the Armenian genocide and relations with Türkiye, as well as the Nagorno-Karabakh conflict – have highlighted both possibilities and constraints. Under Pashinyan’s leadership, attempts to improve ties with Türkiye are clearly shaped by a policy of appeasement toward Türkiye and Azerbaijan and often come at the expense of Armenian national interests, clashing with collective memory and history and raising questions about their legitimacy. For example, Pashinyan equated the term “Western Armenia” with Azerbaijan’s term “Western Azerbaijan.” However, “Western Armenia” refers to lands historically populated by Armenians – now part of Türkiye and devoid of Armenians following the Armenian genocide – and it is a term established in scholarship. In contrast, “Western Azerbaijan” is a propagandistic construct by Azerbaijan aimed at undermining Armenia’s sovereignty by claiming its territory. This false equivalence seems aimed at appeasing Türkiye and Azerbaijan at the expense of dismissing legitimate Armenian historical claims and collective memory. These actions suggest a lack of cohesive strategy in addressing deeply rooted historical grievances while pursuing diplomacy with Azerbaijan and Türkiye.

The government has refused to facilitate a genuine public reckoning over the loss of Nagorno-Karabakh, consistently deflecting responsibility and placing blame on previous administrations. Officials have openly denigrated Karabakh Armenians, questioning their loyalty, with Speaker of Parliament Alen Simonyan even disparaging those who fled, further deepening divisions.

These developments highlight the ongoing challenges of reconciliation amid regional tensions. The Nagorno-Karabakh conflict has created new layers of complexity through displacement, loss and trauma. The government has drawn criticism on several fronts: its perceived lack of advocacy for Armenian POWs in Azerbaijani custody, its reluctance to pursue legal action against Azerbaijan for wartime atrocities and cultural destruction, the right of return for Karabakh Armenians and its apparent readiness to amend the constitution to remove symbolic ties to Nagorno-Karabakh

Reconciliation



and Armenian heritage under external pressure – all to appease Azerbaijan. These decisions have sparked concerns about the government’s capacity to balance peace-building initiatives with addressing both historical and current injustices – leaving reconciliation efforts disjointed and unresolved.

17 | International Cooperation

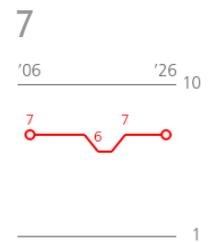
Armenia’s political leadership has demonstrated some ability to leverage international assistance for its long-term development strategy, outlining aims for political and economic development such as strengthening democratic institutions, improving infrastructure and promoting economic diversification. However, these strategies often lack clarity and specific, actionable steps, and the integration of international assistance into these plans remains uneven.

Armenia has received significant development support from international partners, including the European Union, USAID and various U.N. agencies, for technical expertise, funding and capacity-building initiatives. For instance, the EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) outlines reforms in areas like governance, human rights and economic development. Similarly, USAID has supported initiatives ranging from judicial reforms to economic resilience. Development support from the United States in particular has now shown immense volatility and unpredictability.

Despite these frameworks, the implementation of international assistance often faces obstacles such as policy inconsistencies, limited institutional capacity and resistance from entrenched interests. For example, while judicial reform programs funded by international partners have seen some progress, a lack of comprehensive vetting and structural reforms has still limited their impact. Similarly, economic development initiatives, such as those promoting small and medium enterprises (SMEs), have been hindered by bureaucratic inefficiencies and insufficient alignment with local needs.

Armenia’s political leadership has demonstrated the ability to adapt external advice to domestic realities in some cases, such as tailoring EU-supported reforms to fit its governance model. However, short-term political expediencies, especially related to post-conflict pressures and security concerns, sometimes overshadow long-term development goals. Additionally, the risk of rent-seeking behavior, particularly in sectors where public procurement and international funding intersect, remains a concern.

Effective use of support



As a small landlocked country facing persistent threats from Azerbaijan and lacking security allies, Armenia has prioritized diplomacy and adherence to Western rules-based norms to strengthen its international standing. The country has proven itself a reliable partner in international development programs while building strong relationships with various international donors and organizations. Despite complex regional dynamics, Armenia has skillfully maintained balanced relationships with multiple international actors, consistently upholding its international commitments and actively participating in multilateral forums.

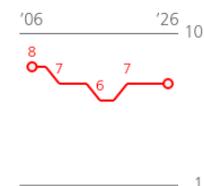
At the same time, Armenia's historically close ties with Russia have become increasingly strained. While Russia has long been seen as Armenia's primary security guarantor, its failure to provide military support during escalations with Azerbaijan – despite Collective Security Treaty Organization (CSTO) treaty obligations – has led to growing disillusionment. Armenia has sought to diversify its dependence on Moscow, pursuing closer ties with Western partners and exploring alternative security arrangements. However, economic and energy dependencies as well as the presence of Russian military bases in Armenia continue to prevent efforts to fully reorient its foreign policy.

Armenia maintains robust engagement with major international institutions and adheres to international standards through its membership in organizations such as the Council of Europe, the OSCE and the Eurasian Economic Union. Armenia is also a World Trade Organization (WTO) member, notifying the WTO about draft technical regulations and participating in agreements like the Trade Facilitation Agreement. Some areas of compliance may require further implementation and harmonization with EU standards through the Comprehensive and Enhanced Partnership Agreement (CEPA). Its suspended membership in the Collective Security Treaty Organization stems from that organization's failure to meet its obligations to Armenia.

While Armenia cooperates with international monitoring bodies – particularly on human rights and democratic reforms – the effectiveness of implementing their recommendations varies. For instance, issues such as police brutality, including abuse and torture, remain a concern, with questions surrounding the thoroughness of investigations and accountability. Armenia continues to face challenges in enforcing the protection of the rights of LGBTQ+ individuals. Additionally, although some reforms have been made, there are ongoing concerns about the judiciary's independence as well as restrictions on freedom of expression, particularly regarding government criticism.

Credibility

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Armenia's cooperation with neighboring countries is severely constrained by regional geopolitical tensions. Relations with Georgia and Iran have generally remained positive, as both countries serve as critical economic partners due to Armenia's closed borders with Türkiye and Azerbaijan.

Over the past decade, Armenia and Iran have maintained a pragmatic and cooperative relationship rooted in mutual economic interests and a shared stance against pressures from Azerbaijan and Türkiye. Iran has consistently opposed any border changes in the Caucasus, particularly the so-called "Zangezur Corridor" demanded by Azerbaijan, Russia and Türkiye. Iranian officials have repeatedly underscored that any redrawing of borders in the region would threaten Iran's national security.

While relations with Türkiye began showing signs of improvement in the past decade, they remain largely tied to the Armenia-Azerbaijan conflict. Armenia has demonstrated its willingness to improve ties with Türkiye, as evidenced by its 2023 humanitarian gesture of sending a 29-person search and rescue team to assist after Türkiye's devastating earthquake. In January 2025, Armenia also cooperated with Türkiye by extraditing two Turkish citizens wanted by Ankara. Diplomatic efforts have included discussions on normalizing relations, with special envoys meeting in 2022 to agree on measures such as opening borders for third-country nationals and holders of diplomatic passports. However, these measures have yet to be implemented.

Moreover, Türkiye continues to support Azerbaijan in its pursuit of a "victor's peace," continuing to issue threats of force, although these threats have subsided to some degree but have not disappeared.

Azerbaijan's ongoing demands on Armenia have been a major roadblock in both Armenia-Azerbaijan normalization and Armenia-Türkiye relations. Despite Armenia's openness to negotiating with Türkiye without preconditions, Türkiye continues to link the normalization process to Armenia-Azerbaijan relations, coordinating closely with Azerbaijan. Türkiye has repeatedly tied the establishment of diplomatic relations and the opening of borders to Armenia accepting Azerbaijan's demands. Following instances of Azerbaijani aggression against Armenia's sovereign territory in May 2021, November 2021 and September 2022, Türkiye has issued warnings to Armenia to "refrain from provocation."

One of Azerbaijan's most significant demands is that Armenia amend its constitution, specifically targeting references to the 1990 Declaration of Independence and Soviet-era laws regarding Nagorno-Karabakh. Aliyev frames this constitutional change as necessary for normalizing relations, claiming that the current references represent ongoing Armenian territorial claims. Pashinyan called for a new constitution in February 2025.

Regional cooperation

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One major point of contention is Azerbaijan's push for an extraterritorial corridor – the so-called “Zangezur Corridor” – through Armenian territory, which would be controlled by Russia's Federal Security Service (FSB), aligning with Azerbaijan's and Russia's shared geopolitical objectives. This demand stems from a deliberate misinterpretation of the November 2020 trilateral cease-fire agreement, in which Armenia pledged to reopen transportation links. However, Azerbaijan frames it as an exclusive corridor through Armenia without Armenian oversight, posing a serious threat to Armenia's sovereignty. Baku continues to issue threats against Armenia for not conceding to this demand.

Armenia's relationship with Russia has deteriorated significantly over the past few years. Once considered Armenia's primary security guarantor, Russia failed to intervene during Azerbaijan's incursions into Armenia's sovereign territory, despite its obligations under the CSTO and bilateral agreements. The same applies to Russia's obligation from the trilateral cease-fire agreement of 2020 to protect the Armenian population in Nagorno-Karabakh. Armenia has grown increasingly disillusioned with Moscow's inaction, leading to a gradual shift toward Western partnerships. The government has suspended participation in the CSTO, refused to host Russian military drills and strengthened ties with the European Union (notably with France) and the United States. Meanwhile, Russia has responded with relative restraint but growing hostility, accusing Armenia of drifting away and engaging in economic and political pressure tactics.

Regionally, Armenia has maintained a delicate balancing act between competing alliances. While it is a member of the Russia-led Eurasian Economic Union (EAEU) and the Collective Security Treaty Organization (CSTO), Armenia has also deepened its partnership with the European Union through the Comprehensive and Enhanced Partnership Agreement (CEPA). Although its diplomatic shift falls short of a “pivot” to the West, Armenia's active efforts to diversify and deepen diplomatic relations with the West underscore its attempt to navigate the challenges posed by its geopolitical isolation and the security dynamics of the region.

Strategic Outlook

Armenia stands at a pivotal moment in its development, navigating complex geopolitical challenges while pursuing greater economic independence and institutional reform. Recent efforts to diversify security partnerships signal a strategic shift, but sustaining progress will require a comprehensive approach. By prioritizing defense modernization, economic diversification and governance reform, Armenia can strengthen its resilience and autonomy.

A central priority is reducing dependence on a single military partner. Expanding defense cooperation with a broader range of countries is essential for access to advanced technologies and training. Recent regional conflicts have underscored the importance of military preparedness, making defense autonomy increasingly critical in the absence of reliable allies. Armenia can strengthen its defense sector through investments in domestic production, cyber capabilities and asymmetric warfare for defensive purposes. Enhanced border security – particularly in vulnerable regions – through improved surveillance and professionalized security forces will further bolster Armenia’s defense posture.

Russia has long played a dominant role in Armenia’s security architecture, providing military guarantees and economic support. However, bilateral relations have deteriorated in recent years. The scaling back of military cooperation and the withdrawal of Russian forces from key border areas have raised doubts about the future of the strategic partnership. Frictions within the Collective Security Treaty Organization (CSTO) have deepened, as Armenia has effectively suspended its participation – challenging Moscow’s regional influence. While this has given Yerevan greater latitude to diversify its foreign relations, such flexibility may narrow if Russia succeeds in concluding the war in Ukraine on its own terms. A decisive Russian victory could reassert Moscow’s regional dominance and pressure Armenia to realign with its orbit.

Economic resilience represents another cornerstone of Armenia’s future. Heavy reliance on a limited number of trade partners leaves the country exposed to external shocks. To mitigate these risks, Armenia must accelerate diversification – particularly in technology, innovation and export-oriented sectors. The country’s dynamic IT industry provides a strong base for growth, but scaling it up will require better access to venture capital, targeted tax incentives and investment in digital infrastructure. Expanding manufacturing capacity and streamlining trade facilitation measures can help reduce dependence on volatile regional markets. Energy independence should also be a strategic goal, with an emphasis on renewable energy development – especially solar and hydroelectric power – to curb reliance on Russian imports and advance long-term sustainability.

Good governance and institutional reform will remain central to Armenia’s long-term stability. Strengthening democratic institutions, combating corruption and safeguarding judicial independence are key priorities. Public sector transparency can be enhanced through expanded digital governance initiatives, which improve accountability while streamlining bureaucratic processes. Promoting civic engagement and reinforcing the rule of law will help rebuild public trust and consolidate democratic progress.

International partners can play a pivotal role in supporting Armenia's transformation. Assistance should focus on empowering civil society, providing technical expertise and facilitating technology transfer and trade opportunities. In light of U.S. policy uncertainties, deeper integration with the European Union should be prioritized through expanded partnerships and sectoral cooperation. The European Union can leverage conditionality – linking cooperation benefits to reforms in areas such as judicial independence and anti-corruption – to incentivize institutional strengthening and sustain Armenia's democratic trajectory.