



ARMENIA

Economic Freedom Score



World Rank: **39** Regional Rank: **19**

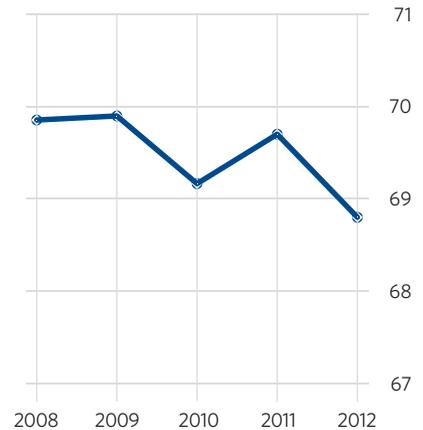
Armenia's economic freedom score is 68.8, making its economy the 39th freest in the 2012 *Index*. Its overall score has decreased by 0.9 point from last year, reflecting worsened scores in freedom from corruption, government spending, and monetary freedom. Armenia is ranked 19th freest among the 43 countries in the Europe region, and its score puts it above the world and regional averages.

Following considerable liberalization and economic transformation over the past decade, Armenia demonstrated a moderate degree of resilience during the recent global economic slowdown. The overall regulatory framework remains efficient, facilitated by streamlined business procedures and competitive tax rates. Policies that support open markets are firmly in place, making the country's investment and trade regimes competitive.

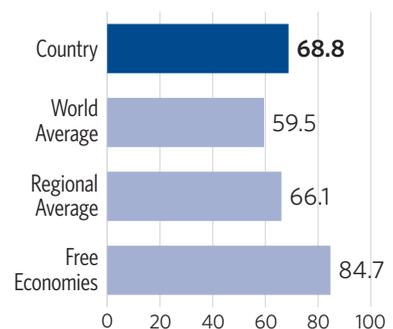
Although the country performs relatively well in many of the four pillars of economic freedom, the foundations of economic freedom are not strongly sustained by a strong and independent judiciary. Lingering corruption further undermines opportunities for more vibrant and lasting economic development. Government spending has been expansionary in recent years, eroding limits on government.

BACKGROUND: Armenia achieved independence from the Soviet Union in 1991. Its 21-year dispute with Azerbaijan over Nagorno-Karabakh remains unresolved. A cease-fire has been in effect since 1994, but more than 550,000 Azeris from the disputed region are still living as refugees in Azerbaijan, and borders with Azerbaijan and Turkey remain closed. Two protocols aimed at reopening borders and re-establishing diplomatic links between Armenia and Turkey were signed in 2009 but have not been ratified. Armenia's economy relies on manufacturing, services, remittances, and agriculture. The economy has begun to recover from the 2009 downturn, and GDP expanded modestly in 2010. The government, which relies heavily on loans from the World Bank, the International Monetary Fund, the Asian Development Bank, and Russia, is running a large budget deficit.

Freedom Trend



Country Comparisons



Quick Facts

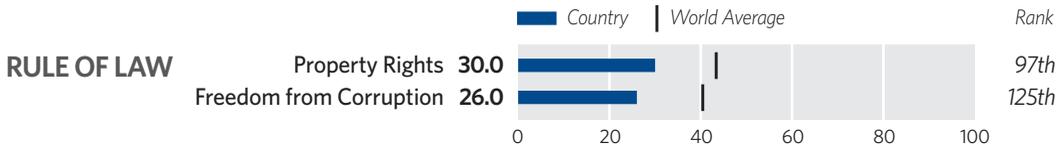
- Population:** 3.3 million
- GDP (PPP):** \$16.9 billion
- 2.6% growth in 2010
- 5-year compound annual growth 3.9%
- \$5,110 per capita
- Unemployment:** 7.1%
- Inflation (CPI):** 8.2%
- FDI Inflow:** \$577.3 million
- Public Debt:** 39.2% of GDP

How Do We Measure Economic Freedom?

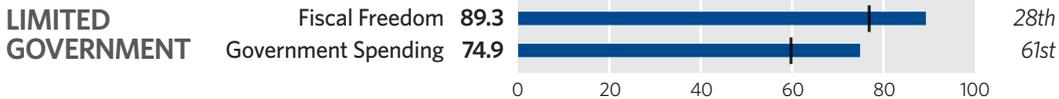
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
Data compiled as of September 2011.

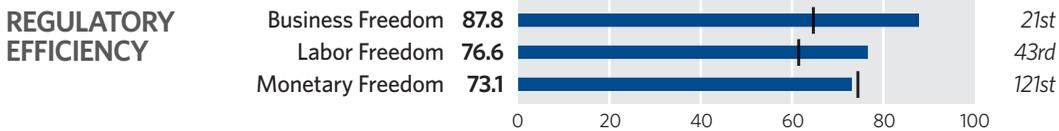
THE TEN ECONOMIC FREEDOMS



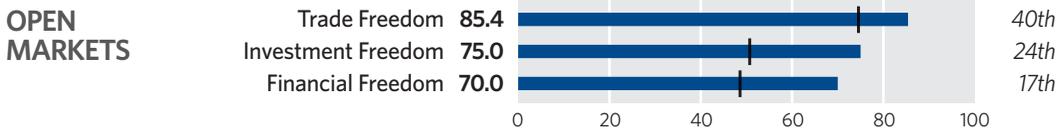
Armenia lacks a dependable rule of law. Its scores for property rights and freedom from corruption are well below world averages. The judicial system is still recovering from underdevelopment and corruption—legacies of the Soviet era that substantially impede the enforcement of contracts. The country’s anti-corruption measures have not been enforced effectively. Protection of intellectual property rights is poor.



The top income and corporate tax rates are 20 percent. Other taxes include a value-added tax (VAT) and excise taxes, with the overall tax burden amounting to 16.4 percent of total domestic income. Tax evasion has been a growing concern. Government spending has increased to 28.9 percent of total domestic output, resulting in chronic budget deficits of around 5 percent of GDP and higher public debt amounting to 40 percent of GDP.



A number of business reforms have been implemented in recent years. The minimum capital requirement for establishing a business has been eliminated, licensing requirements have been reduced, and the bankruptcy procedure has been modernized. The non-salary cost of labor is moderate, but the informal labor market is sizable. Government subsidies distort prices in some sectors such as public transportation, electricity, and gas.



The trade weighted tariff rate is 2.3 percent, with inefficient administration raising the cost of trade. Foreign and domestic investors are treated equally and have the same right to establish businesses in nearly all sectors. The state no longer has a stake in any bank. However, the banking sector, which accounts for over 90 percent of total financial-sector assets, still struggles to provide adequate long-term credit or sophisticated financial services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.1	Business Freedom	+5.4	Trade Freedom	-0.1
Freedom from Corruption	-1.0	Government Spending	-10.8	Labor Freedom	+0.7	Investment Freedom	0
				Monetary Freedom	-2.9	Financial Freedom	0