

**ARMENIA MONTHLY
POLITICAL & ECONOMIC OVERVIEW**

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Summary

Although domestic political tension stemming from Armenia’s 2008 post-election crisis remains generally unresolved, recent developments in Armenian-Turkish diplomacy have shifted the focus of domestic politics to considerations of foreign policy. Although the issue of a possible “normalization” of Armenian-Turkish relations reflected the same political polarization within Armenian politics, domestic discourse and debate eclipsed more domestic concerns. This shift in political priorities was also marked by a new issue for the opposition, although it also served to bolster the government by distracting attention away from the more fundamental shortcomings and deficiencies in democratization and reform. The elevation of foreign policy over domestic issues in Armenian politics was also bolstered by period of renewed activity related to the European Union and its “Eastern Partnership” programme for engagement in Armenia.

At the same time, Armenia also continued to face lingering problems from its sharp economic downturn and serious structural vulnerabilities. This economic pressure is tied more to the Russian economic crisis than to the global crisis per se, with the immediate impact on the Armenian economy demonstrated by a serious reduction in the remittances, or money from Armenian laborers in Russia, new constraints on state spending, and signs of worsening economic conditions. This pressure is even more destabilizing given the country’s already pronounced disparities in wealth and income.

Political Overview

With much of the Armenian media, analysts and political elite consumed with a heated clash over developments in Armenian-Turkish diplomacy, issues in domestic politics went largely ignored. Such distraction allowed the government to maintain pressure on both the public and opposition, while also pursuing new legislation with questionable implications for civil liberties.

Most clearly capturing the mood of the state's attempt to stifle dissent, a senior police official announced in early October that police in Yerevan have been formally ordered to enforce new restrictions on the freedoms of speech and expression. Specifically, the new restrictions apply to any citizen found to make "offensive comments" regarding the Armenian leadership during opposition demonstrations and public rallies. Yerevan Police Chief Major General Nerses Nazarian unveiled the new restrictions during a formal press conference, but was unable to properly define the exact nature of such "offensive comments" or to describe how the instructions would be enforced.

Commenting on another case, Yerevan Police Chief Nazarian also defended the controversial case of opposition youth activist Tigran Arakelian, who was arrested in July after he and several other opposition supporters clashed with plainclothes policemen. What is most disturbing of the Arakelian case was the fact that police targeted youth activists merely for their activities to promote an opposition rally. The police, out of uniform and allegedly failing to properly or immediately identifying themselves, forcibly interfered with Arakelian and several other youths while they attempted to distribute leaflets and flyers for the public rally, clearly within their constitutional rights. In addition, the armed policemen injured Arakelian and another youth, but maintained rather implausibly that the physically slight youth actually attacked and injured several policemen first. The Arakelian case, which may result in a ten-year prison term for the youth if convicted, also sends a disturbing message to other youth activists and seems aimed at intimidating the more vulnerable youth engaged in civic activism.

At the same time, the police official also confirmed official crime statistics that reported a serious 60 percent spike in criminal acts in the first eight months of the year. Although the police chief attributed the rise in crime to "the economic crisis and the socioeconomic plight" of the population, the statistics tend to question law enforcement's priorities for stifling dissent and intimidating civic activists over fighting crime and corruption, however. For his part, the chief of the national police service, Alik Sargsian, dismissed concerns over the rising crime rate, arguing that the spike in crime is merely caused by improvements in the official reporting of criminal acts by police.

The government's efforts to coerce and intimidate leading civic activists were not totally successful, however. On 16 October, for example, a Yerevan district court released a prominent human rights activist after the prosecutor formally requested a one-month "postponement" of the trial in order to give the prosecution more time to "change or complement" its case. The case involves Arshaluys Hakobian of the Armenian Helsinki Association (AHA), who has been imprisoned since early June after a heated argument with two police officers in his private residence. The officers, attempting to deliver a summons from the state Special Investigative Services (SIS), arrested Hakobyan after he allegedly assaulted them. According to the official version of the incident, the Armenian police allege that Hakobian was intoxicated and attacked the two policemen after they "reprimanded" him for "incorrectly signing" the summons.

According to Hakobyan, however, the incident was a “deliberate provocation” in response to a formal complaint that he and the chairman of the human rights group, Mikael Danielian, filed with police after being “intimidated by government loyalists” during the 31 May municipal election in Yerevan. Hakobyan also charges police with beating him after he was forcibly taken to a central Yerevan police station.

The case against Hakobyan, which carries a five-year prison sentence, has been strongly condemned by the AHA and other civic groups, and is based solely on the testimony of the two policemen. Other incriminating testimony introduced by the prosecution, in which the head of Armenia’s state ambulance service certified that Hakobyan was drunk during the morning incident, was later dismissed after the medical official, Artem Petrosian, testified in court that he did not remember signing such a document. As the defendant’s release merely defers and does not dismiss the charges, the case is likely to resume by November 2009.

Economic Overview

Although the government has actively sought new emergency loans and financing from various sources to forestall the impact of the economic crisis, the state is facing pronounced pressure on its planned budget expenditures. The country’s internal economic crisis is exacerbated by three fundamental trends: a sharp fall in both foreign investment and remittances, or money from Armenians working abroad; a structural weakness of arbitrary and inefficient tax and revenue collection; and a dramatic downturn in the overall economy, as years of double-digit GDP growth have now ended, with Armenian GDP now projected to post negative growth for the first time in years. More specifically, real GDP expected to decline by more than 15 percent in 2009.

Pressure on planned state spending was partially alleviated with the mid-October announcement by the European Union that it plans to provide Armenia with 100 million euros (\$149 million) in crisis assistance. That aid, recommended by the European Commission, will be provided in two installments, consisting of a 65-million euro loan and a 35-million euro grant, designed to supplement a \$540 million special adjustment program agreed between Armenia and the International Monetary Fund (IMF). In September, the EU also announced plans to provide some 33 million euros for the period of 2011-2013 in support “institutional reforms” that would allow Armenia to negotiate association and free trade agreements with the EU, as part of the Eastern Partnership programme. The Armenian government projects a budget deficit of 183 billion drams (\$475 million) for next year and plans to cover at least half of the spending gap with this external funding.

One significant budget reduction has already been announced by the Armenian government. In October, officials confirmed that the planned level of defense spending for 2010 would be seriously reduced, from \$426 million for 2009 to \$335 million for next year. Although the dram amount is roughly the same for both years, a sharp 30 percent fall in the current dollar-dram exchange rate this year represents a similar 30 percent in defense spending. The reduction in the defense budget is in line with broader cuts in the 2010 state budget, with a planned nine percent cut in across-the-board expenditures.

More recently, the IMF has also stated that it is now reconsidering its aid to Armenia, with plans to increase its assistance from \$540 to \$823 million, despite serious concerns over the country's mounting budget deficit and soaring foreign debt. Armenia's \$1.5 billion foreign debt as of 2008, roughly 13 percent of GDP, has already doubled this year to more than \$3 billion and which the IMF projects may expand to about 38 percent of GDP before peaking at as much as 46 percent by 2011.

Conclusion

Given the impact of the country's unresolved political crisis, which is now marked more by stalemate than confrontation, the Armenian government continues to be plagued by a lack of credibility and limited political capital. The government still suffers from the combined challenges of being more unpopular and having less legitimacy than any previous Armenian government. Nevertheless, these challenges have tended to drive the leadership to be more desperate for a foreign policy success, especially regarding its moves to normalize relations with Turkey. Such desperation for a breakthrough in foreign policy stems from a strategy to both endow the government with a greater degree of legitimacy as well as to help distract scrutiny from its domestic shortfalls in democratization and human rights.

Yet even with these constraints, it is the economic pressure that poses a far more serious challenge. And with socio-economic pressure increasing, the Armenian authorities seem incapable of surmounting the country's economic crisis. And although the record of economic reform in recent years has been fairly impressive, it is not enough to save the situation, as one of the more negative aspects of Armenia's economic reality is the "paradox" of economic growth, whereby several years of double-digit economic growth have resulted in an uneven or partial sharing of wealth and higher living standards among the overall population. Moreover, widening disparities in wealth and income have only broadened this already serious socio-economic divide.

Moreover, now that the Armenian government's traditional reliance on statistical economic growth as a source for legitimacy has ended, the absence of a strong mandate to govern has become ever more obvious. But the real impediment to stability is now economic, and not simply political in nature, as the combination of structural fragility, entrenched corruption and incomplete reform is now posing a threat to the economic system itself, questioning whether the government can sustain itself despite its lack of legitimacy and an absence of any real popular mandate. This not only calls into question the authority of the state, but also seriously erodes the government's capacity to implement the difficult policies needed to satisfy mounting demands for change and expectations for reform. Thus, as the political crisis remains far from resolved and is likely only to continue, there is still a very real chance for a potentially unprecedented period of change, as the pressure for systemic reform mounts.