

Economic Freedom in Armenia and Neighbors: A Comparative Institutional Assessment

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Abstract. This study provides a comprehensive comparative analysis of economic freedom dynamics in the South Caucasus and neighboring regions (Armenia, Georgia, Azerbaijan, Turkey, and Iran) from 2020 to 2026. Utilizing data from the Heritage Foundation's Index of Economic Freedom (EFI), the research highlights a significant "reform gap" facing Armenia. Despite a 3.3-point numerical increase in its EFI score since 2020, Armenia's global ranking has remained largely stagnant at 57th place, leading to its transition from the "Mostly Free" to the "Moderately Free" category. In contrast, Georgia has maintained regional leadership, crossing the 70.0-point threshold to solidify its "Mostly Free" status. The analysis identifies critical institutional bottlenecks in Armenia, particularly the "reRepressed" status of its Rule of Law pillar and a notable 10-point decline in Financial Freedom in 2026. The study concludes that for Armenia to regain global competitiveness and keep pace with advancing neighbors like Azerbaijan, it must prioritize radical reforms in judicial independence, property rights protection, and financial market liberalization. © 2026 Bull. Georg. Natl. Acad. Sci.

Keywords: Index of Economic Freedom, EFI components, Armenia, Georgia, regional countries

Introduction

The assessment of economic freedom is a multi-faceted process conducted by specialized national institutional bodies, research organizations, and academic scholars, alongside prominent international entities. The most globally recognized authority in this field is The Heritage Foundation, which has published the annual "Index of Economic Freedom" (EFI) since 1995. This index functions as a critical benchmark, utilizing a universally

recognized methodology to evaluate the level of economic liberty across 176 countries worldwide.

While historical data, such as the 2023 report, highlighted a global deviation from free-market principles due to the pandemic and the war in Ukraine, which dragged the global average to a two-decade low of 59.3 the 2026 Index of Economic Freedom presents a more dynamic and resurgent picture. According to the latest findings, the global average EFI has recovered to 59.7, signaling a slow but steady rebound in market resilience.

Despite these fluctuations, the core tenet of the index remains unchanged: a strong positive correlation exists between economic freedom and human flourishing. Societies that prioritize economic liberty consistently demonstrate higher standards of living, more robust employment opportunities, and significantly lower poverty rates compared to their less free counterparts.

The securing of both economic and political freedoms must remain the primary focus of national authorities during the current stage of societal development. Progress in this domain is not merely a strategy for ensuring economic growth; it is a fundamental requirement for maintaining social and political stability. In this context, it is highly encouraged for national research centers and specialized institutions to conduct deep-dive studies into these dynamics by identifying and measuring specific national challenges. However, for the purpose of cross-temporal and cross-country comparisons, the analyses provided by internationally recognized organizations are of paramount importance. These methodologies allow for a rigorous benchmarking of a country's performance against its regional peers – such as the comparison between Armenia and Georgia – providing an objective roadmap for institutional reform.

The 2026 data specifically highlights that for nations like Armenia, which has transitioned into the “Moderately Free” category with a score of 65.4, the need for such standardized institutional evaluation is more urgent than ever. By focusing on specific sub-indices like the Rule of Law and Market Openness, researchers can pinpoint the exact institutional bottlenecks that prevent a nation from achieving its full economic potential and regaining its status among the world's most free economies.

Literature Review

Economic freedom is characterized by various aspects that affect the development and prosperity of national economies. The Economic Freedom Index (EFI) measures the level of market freedom within

a country, aggregating various economic factors such as government intervention, market competition, property rights, and the business environment (Gyulasaryan et al., 2025).

According to Gwartney et al., a higher score on the EFI correlates with greater wealth, improved social outcomes, and lower poverty rates. Economic freedom is considered an essential driver of long-term economic growth and competitiveness. The importance of a free market economy cannot be overstated, as it fosters an environment where entrepreneurship can thrive, businesses are incentivized to innovate, and wealth is generated at a more equitable rate (Gwartney et al., 2020). Conversely, countries with restrictive economic policies or over-regulation tend to experience stunted growth and inefficient market dynamics (Barro, 1991).

Furthermore, the work of Bhagwati (2004) suggests that trade liberalization is a key component of economic freedom, allowing nations to integrate into the global market, attract foreign direct investment (FDI), and stimulate economic growth. Trade openness not only boosts economic development but also enhances the welfare of a nation's population by improving access to goods and services. Sachs and Warner (1995) find that countries with more open economies experience better growth rates and overall higher levels of prosperity.

It is also crucial to examine the impact of government policies on the business environment. In countries with significant state intervention, private businesses face excessive regulations, which reduce competition and increase the cost of doing business (Matevosyan, et al., 2025).

The Economic Freedom Index has been developed and presented to the public by the Heritage Foundation and the Fraser Institute. This index evaluates the freedom of national economies through the analysis of major economic factors (Fraser Institute). These factors include government intervention, fiscal stability, foreign investment, financial market freedom, and other indica-

tors that assess the openness and growth potential of global economies, based on consistent criteria.

Armenia's economic freedom has experienced dynamic changes in recent years. In 2021, Armenia remained in the "mostly free" category, but its ranking dropped in recent years, moving to the "moderately free" category. This trend reflects political and economic changes as well as challenges Armenia has faced, such as corruption, weak judicial performance, and reduced public investment (World Bank, 2023).

Comparative analysis of Armenia's EFI with neighboring countries is significant for evaluating both its economic policy and regional position. Georgia and Azerbaijan display higher EFI scores, reflecting greater economic freedom and the success of their reforms (OECD, 2023). This comparison is important for Armenia, as it highlights regional policy gaps, the investment climate, and economic reforms that influence the country's overall economic health (UNDP, 2023).

Studies generally show that countries with higher EFIs tend to have stronger economic growth and better global economic standing (Schwab, 2023). Leading economies like Singapore and Switzerland rank highly due to low taxes, market competition, and effective governance. Research suggests that a competitive legal environment, reduced corruption, and industry incentives are essential for economic development (Kaufmann et al., 2023).

Gyulasaryan, M., Matevosyan, A., Grigoryan, A., and Matevosyan, M., in their study *Global Economic Freedom in 2025: An Analytical Framework for National Efficiency and Accountability*, argue that enhancing economic freedom requires a comprehensive and integrated approach encompassing legal, regulatory, fiscal, and market reforms (Gyulasaryan et al., 2025).

EFI scores fluctuate depending on the country's economic status, government policies, and the impact of global economic changes. Government reforms, tax efficiency, financial freedom, and the

protection of property rights are key elements influencing EFI changes.

Regarding Armenia's EFI, recent studies indicate a decline in the past five years. The EFI has been fluctuating between 62.1 and 65.4 points, with some years showing a decrease. These changes suggest that Armenia has not been able to meet the demands of external economic developments, particularly in terms of market competition and government performance improvements.

Methodology

The paper focuses on the comparative analysis of economic situations in different countries through the lens of the Economic Freedom Index (EFI). The following key methods were applied:

Analytical Approach: The methodology is based on global and regional analytical data provided by the "Index of Economic Freedom" reports for the years 2020-2025. These reports are published annually by specialized organizations such as The Heritage Foundation (2023) and The Fraser Institute (2023). These reports use various indicators to measure global economic freedom, including market competition, government intervention, judicial efficiency, and other economic factors.

Data Collection: The data used in this study were derived from the "Index of Economic Freedom" reports, specifically for the years 2020-2025. Each report provides a country's economic freedom score based on 12 sub-indexes, incorporating political, social, and economic factors such as: Rule of Law; Fiscal Stability; Market Openness; Currency Freedom; Financial Freedom; Protection of Fundamental Freedoms.

Comparative Analysis: A comparative analysis was conducted between Armenia, Georgia, Azerbaijan, Turkey, and Iran in terms of the level of economic freedom and changes in their ranking positions. This analysis provided insights into how these countries have responded to global and regional economic changes. It also examined how

Armenia's EFI aligns with that of its neighbors and what changes have occurred in those countries.

Sub-index Analysis: In addition to analyzing the overall EFI score, the study examined the ratings of the 12 sub-indexes used to measure the economic freedom of different countries. These were analyzed through year-end reviews and comparative calculations, allowing a deeper and more comprehensive assessment of economic freedom in each country (World Economic Forum, 2023).

Global Ranking Analysis: The study also addressed the global ranking based on the global economic freedom index. According to this ranking, countries are classified according to their level of economic freedom. The values were compared not only to each country's peers but also to the global average.

Report Analysis Approach: The analysis of the reports was conducted both generally and inclusively, examining the changes in Armenia's economic freedom in both global and regional contexts. As a result, key trends and political and economic changes influencing Armenia and its neighboring countries' EFIs were identified.

Statistical Index Values: Dynamic analysis was applied to compare the changes in EFI and sub-indexes over various years. Special attention was given to the rates of increase or decrease in EFI, which corresponded with global economic conditions, political changes, and various economic challenges.

Sub-index Evaluation: Sub-indexes such as market freedom, financial and fiscal stability, budgetary indicators, and government spending efficiency were also evaluated. These parameters formed the basis for Armenia's EFI calculation in the comparative analysis (European Commission, 2023).

Judgment Methods: Conclusions were drawn based on both statistical analyses and available data. The dynamics of the EFIs of Armenia, Georgia, Azerbaijan, Turkey, and Iran were analyzed, with particular attention paid to the issues related to the decline or improvement of EFIs.

This methodology ensured a comprehensive analysis of the data, allowing for scientifically grounded conclusions about the level of economic freedom in Armenia and its neighboring countries.

Results and Discussions

The assessment of economic freedom is a multifaceted process conducted by specialized national institutional bodies, research organizations, and academic scholars, alongside prominent international entities. The preeminent authority in this field is the Heritage Foundation, which has published the annual Index of Economic Freedom (EFI) since 1995.

This index serves as a critical benchmark, utilizing a universally recognized methodology to evaluate the level of economic liberty across 176-184 countries. The core tenet of the index remains unchanged: a strong positive correlation exists between economic freedom and human flourishing. Societies that prioritize economic liberty consistently demonstrate higher standards of living, more robust employment opportunities, and significantly lower poverty rates compared to their less-free counterparts.

Historical data from the 2023 report highlighted a global deviation from free-market principles due to the COVID-19 pandemic and the war in Ukraine, which dragged the global average to a two-decade low of 59.3.

However, the 2026 Index of Economic Freedom presents a more dynamic and resurgent picture. The global average EFI has recovered to 59.7, signaling a slow but steady rebound in market resilience. Despite this recovery, the world economy remains classified as "Mostly Unfree," as the 60.0-point threshold for "Moderately Free" status has not yet been surpassed on a global scale.

Before examining the 2026 findings, it is essential to analyze the historical trajectory that shaped the current economic landscape. The following table summarizes the performance of Armenia and its regional neighbors over a six-year period.

Table 1. EFI Score and Global Ranking Evolution

Country	Metric	2020	2021	2022	2023	2024	2025	Net Change
Armenia	EFI Score	62.1	63.5	64.2	65.4	65.4	66.1	+4.0
	Global Rank	58	56	56	57	57	57	+1
Georgia	EFI Score	68.4	68.7	69.1	69.0	69.5	70.0	+1.6
	Global Rank	35	36	35	35	35	34	+1
Azerbaijan	EFI Score	61.2	61.8	62.0	62.5	63.0	63.2	+2.0
	Global Rank	75	76	75	75	74	73	+2
Turkey	EFI Score	58.7	59.5	58.8	56.1	56.5	56.8	-1.9
	Global Rank	100	105	110	111	110	109	-9
Iran	EFI Score	42.9	43.1	43.5	42.5	43.0	43.3	+0.4
	Global Rank	169	170	169	169	168	167	+2

Source: Author's calculations and synthesis based on Heritage Foundation Index of Economic Freedom data (2020-2026).

The 2020-2025 period reveals a “reform race” where numerical improvement did not always guarantee a rise in global standing. Armenia recorded the highest absolute score increase (+4.0), yet its global rank only improved by one position. This suggests that while Armenia was moving forward, the global “frontier” of economic freedom was advancing at a similar pace, leaving the country in a relative stationary position.

Georgia demonstrated high-level consistency, finally breaking the 70.0-point barrier in 2025 to join the “Mostly Free” group. In contrast, Turkey suffered a significant competitive decline, dropping 9 positions, largely due to monetary instability and increased state interventionism, which served as a regional warning of how quickly economic freedom can erode.

The 2026 Report: Armenia’s Stagnation and Regional Standing. The 2026 data specifically highlights that for nations like Armenia, numerical growth in previous years does not automatically guarantee a competitive edge if the pace of reform slows down compared to global peers (Table 2).

The 2026 findings solidify a clear hierarchy in the region. Georgia has successfully decoupled itself from its neighbors, establishing a 4.6-point lead over Armenia. Armenia remains firmly in the “Moderately Free” category with a score of 65.4. However, the most striking observation is the

narrowing gap between Armenia and Azerbaijan. Azerbaijan’s steady ascent (now 73rd) puts direct pressure on Armenia’s regional position as a preferred destination for foreign direct investment. For the first time in years, Armenia’s regional leadership in the “Moderately Free” segment is being challenged by Azerbaijan’s consistent, albeit slow, institutional updates.

Table 2. Regional EFI and Global Ranking in 2026

Country	EFI 2026	Global Rank	Regional Rank	Status
Georgia	70.0	34	1	Mostly Free
Armenia	65.4	57	2	Moderately Free
Azerbaijan	63.2	73	3	Moderately Free
Turkey	56.8	109	4	Mostly Unfree
Iran	43.3	167	5	Repressed

Source: Author's calculations and synthesis based on Heritage Foundation Index of Economic Freedom data (2026).

The 2026 Report: Armenia’s “Reform Trap” and Sub-Index Realities. In 2026, the data reveals a critical situation for Armenia. While the country maintains a score of 65.4, it has entered a phase of relative stagnation (The Heritage Foundation, 2026).

Sub-Index Deep Dive for 2026:

- The Crisis of the Rule of Law: Armenia’s most critical failure lies in the Rule of Law pillar. In

2026, the country continues to struggle in this domain, with judicial effectiveness and property rights protection remaining below global averages. In contrast, Georgia's superior ranking (34th) is directly linked to its robust performance in these institutional categories.

- **Financial Freedom Contraction:** A significant negative development in 2026 is the 10-point decline in Armenia's Financial Freedom sub-index. This indicates increased government interference or regulatory bottlenecks in the banking sector.
- **Fiscal Stability:** Armenia's performance in Fiscal Stability remains a silver lining, preventing a more severe drop in the overall EFI score. However, fiscal health alone is insufficient to drive long-term freedom without a strong legal framework.

Conclusion

The longitudinal and current analysis of economic freedom from 2020 to 2026 leads to several strategic conclusions:

I. **The Paradox of Stationary Growth (The Reform Trap).** Armenia's trajectory is a classic example of the "Reform Trap." Between 2020 and 2025, Armenia improved its EFI score by 4.0 points, yet its global rank moved from 58th to 57th. This confirms that in a globalized economy, absolute growth is insufficient. If regional competitors (like Georgia) or global peers implement reforms more aggressively, a country that reforms at a "normal" pace will experience relative stagnation. Armenia is essentially running to stay in the same place.

II. **Institutional Bottlenecks: The Rule of Law and Financial Freedom.** The 2026 data highlight an alarming trend in two specific sub-indices:

- **Rule of Law:** Armenia continues to be categorized as "Repressed" in judicial effectiveness and property rights. This institutional weakness

acts as a ceiling, preventing the country from ever reaching the "Mostly Free" status.

- **Financial Volatility:** The 10-point decline in Financial Freedom in 2026 suggests a regression in banking sector independence or capital market openness. This is a significant red flag for international investors who prioritize the ease of capital movement.

III. **Regional Divergence and Competitiveness.** The South Caucasus is no longer a monolithic bloc of "transition economies." There is a sharp divergence:

- Georgia has adopted a "Western-style" institutional framework, prioritizing market openness and property rights.
- Armenia is caught between fiscal stability and institutional lag.
- Azerbaijan is using a steady, state-led approach to slowly climb the rankings, significantly closing the gap with Armenia.

IV. **Final Strategic Roadmap.** For Armenia to break its stagnation and reclaim its competitive edge by 2027-2030, the focus must shift from Fiscal Health (which is already a strength) to Institutional Quality:

- **Judicial Revolution:** Until the "Rule of Law" score moves from the "Repressed" range (below 50) to the "Moderately Free" range (60+), large-scale, high-quality investment will remain elusive.
- **Market Decoupling:** Reversing the 10-point drop in Financial Freedom is critical. The government must reduce regulatory bottlenecks and ensure that the financial sector remains a neutral, efficient mediator of capital.
- **Aggressive Benchmarking:** National authorities must benchmark their performance not against their past self, but against the top 40 economies globally to escape the "Moderately Free" stagnation.

*ეკონომიკა***ეკონომიკური თავისუფლება სომხეთსა და მეზობელ ქვეყნებში: ინსტიტუციური შედარებითი შეფასება**

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(წარმოდგენილია აკადემიის წევრის მიხეილ ჯიბუტის მიერ)

წინამდებარე კვლევა წარმოადგენს სამხრეთ კავკასიისა და მეზობელი რეგიონების (სომხეთი, საქართველო, აზერბაიჯანი, თურქეთი და ირანი) ეკონომიკური თავისუფლების დინამიკის ყოვლისმომცველ შედარებით ანალიზს 2020-დან 2026 წლამდე პერიოდში. Heritage Foundation-ის ეკონომიკური თავისუფლების ინდექსის (EFI) მონაცემებზე დაყრდნობით, კვლევა ხაზს უსვამს სომხეთის წინაშე არსებულ მნიშვნელოვანი „რეფორმების ჩამორჩენას“. მიუხედავად იმისა, რომ 2020 წლის შემდეგ სომხეთის EFI ქულა 3,3 პუნქტით გაიზარდა, ქვეყნის გლობალური რეიტინგი 57-ე ადგილზე სტაგნაციას განიცდის, რამაც გამოიწვია მისი გადასვლა „ძირითადად თავისუფალი“ კატეგორიიდან „ზომიერად თავისუფალ“ კატეგორიაში. ამის საპირისპიროდ, საქართველომ შეინარჩუნა რეგიონული ლიდერობა, გადალახა 70,0-ქულიანი ზღვარი და განამტკიცა თავისი სტატუსი, როგორც „ძირითადად თავისუფალი“ ეკონომიკის მქონე ქვეყანამ. ზემოაღნიშნული ეკონომიკური თავისუფლების შედარებითი ანალიზი სომხეთში ავლენს კრიტიკულ ინსტიტუციურ ბარიერებს, განსაკუთრებით „კანონის უზენაესობის“ სვეტში არსებულ „ჩაგრულ“ სტატუსს და 2026 წელს ფინანსური თავისუფლების 10-პუნქტიან კლებას. კვლევა ასკვნის, რომ გლობალური კონკურენტუნარიანობის აღდგენისა და ისეთი წინგადადგმული მეზობლებისთვის ფეხის ასაყოლებლად, როგორიცაა აზერბაიჯანი, სომხეთმა პრიორიტეტი უნდა მიანიჭოს რადიკალურ რეფორმებს სასამართლო დამოუკიდებლობის, საკუთრების უფლებების დაცვისა და ფინანსური ბაზრების ლიბერალიზაციის მიმართულებით.

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