

DIGITALES ARCHIV

ZBW – Leibniz-Informationszentrum Wirtschaft
ZBW – Leibniz Information Centre for Economics

Book

A preliminary assessment of the impact of the COVID-19 pandemic on Azerbaijani economy

Provided in Cooperation with:

Center for Economic & Social Development (CESD), Baku

Reference: (2020). A preliminary assessment of the impact of the COVID-19 pandemic on Azerbaijani economy. Baku, Azerbaijan : CESD Press, Center for Economic and Social Development (CESD).
<https://cesd.az/new/wp-content/uploads/2020/08/Impact-of-COVID-19-on-Economy-CESD-Paper.pdf>.

This Version is available at:

<http://hdl.handle.net/11159/6037>

Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/>

Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte.

<https://savearchive.zbw.eu/termsfuse>

Terms of use:

This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence.

Better research, better policy, better reform



Global Think-Tank

A preliminary assessment of the impact of the COVID-19 pandemic on Azerbaijani economy

CESD Research Group

CESD Press

Caspian Plaza, 3rd Block, 13th floor
J.Jabbarli str. 44,
Baku, Azerbaijan
Phone: (99412) 5943665
Fax: (99412) 5943665
Email: info@cesd.az
URL: www.cesd.az

Baku, August 19, 2020

Abstract

Azerbaijan became the country among the post-soviet countries, that allocated the largest share of GDP, in order to eliminate the economic challenges caused due to the outbreak of COVID-19. Providing favorable economic conditions in the post-pandemic period is as crucial as supporting the economy during the period of the pandemic. Thus, it seems like all implemented programs and activities, including the huge amount of government funding, is going to maintain the economic balance and provide the development over the long-term period. It is an undeniable fact that the impact of the pandemic on the economy might be fully assessed only over time. Experience demonstrates that early evaluation may lead to even greater recession and instability. This paper aims to demonstrate the challenges faced by Azerbaijan in the framework of the fight against a pandemic. Since the economy of a country was affected, a detailed analysis may provide a better understanding of the outcome, enlightening the areas which need more support and development.

Introduction

The COVID-19 virus (Coronavirus disease) is an infectious disease caused by a newly discovered coronavirus. The disease was first diagnosed in Wuhan, China, but later it has been detected in over 200 countries across the world. As the outbreak continued to spread outside China, the World Health Organization (WHO) declared COVID-19 a global emergency. According to the speech of WHO chief Tedros Adhanom Ghebreyesus, "The main reason for this declaration is not what is happening in China but what is happening in other countries". On March 11, COVID-19 was declared as pandemic, according to the fact that the WHO defines a pandemic as a global spread of a new disease.

As it becomes clear, the outbreak has negatively affected global economic growth beyond anything passed in nearly a century. Some experts claim that the economic downturn from the pandemic increases the risks of a global economic recession with the highest unemployment and poverty rates not experienced the Great Depression of the 1930 took place. However, it is hard to make some forecasts on the outcomes due to the fact that the full impact will not be known until the effects of the pandemic peak.

The severity of the disease and its alarming speed spread, has triggered strict containment measures around the globe. Countries applied quarantine regimes, closed their borders, and banned traveling, which undoubtedly lead to substantial production disruptions alongside with the output losses.

Even though Azerbaijan applied all essential measures to prevent the mass spread of the coronavirus disease, the economic recession and other negative consequences could not be avoided. This crisis evinced the need for setting the stage for the recovery, protection of vulnerable populations, and strengthen public health systems. The pandemic has substantially weakened business activities and the development of different economic sectors. At the same time, the situation created the roots for the unemployment and possible financial risks. It goes without a doubt that policymakers alongside with financial and commodity market participants were trying to find the best solutions and implement the best policies in order to mitigate the damage arisen from the pandemic. As a result, the government stepped in to support the businesses employees engaged in the affected sectors and economy as a whole. Different economic, social, and financial measures were applied on this basis, respectively.

Taking into account all challenges arisen on the background of a pandemic, it seems necessary to provide a detailed analysis and assessment of the emerged difficulties in Azerbaijan. It will help to build a path for the economic recovery and restructuration of the existing mechanisms in the way of improving them.

1. Main economic consequences

The spread of Coronavirus disease (COVID-19) in Azerbaijan started in February with the first case of infection that was recorded on February 28. It is assumed that the main source of infection came from people who traveled to Azerbaijan from Iran. In order to prevent the mass spread of the infection, Governments decided to apply some measures, the first out of which was the decision on closing the international borders. However, following the increase in the number of infected people, other significant measures were applied, respectively. Thus, as it was mentioned above, all international borders with neighbor countries were closed, while educational and related economic activities have been suspended. This, in turn, emerged in an economic shock for the country. As a direct consequence of the spread of the COVID-19, companies were severely hit by the reduced demand for particular

products and services. Taking into consideration these factors, companies were forced to rely on government support and quick economic recovery.

The Cabinet of Ministers provided an Action Plan in relation to the allocation of funds from the state budget. The Plan envisages funding for particular areas in order to mitigate the damage arisen from the pandemic and maintain economic growth and entrepreneurship¹. The amount of money allocated from the state budget to pay the salaries of workers, operating in the areas that were affected by the pandemic, was composed of 69 million 119.000 manat (\$ 40 million 658,235). At the same time, the amount of 55 million 637.000 manat (\$ 32 million 727,647) was allocated to support the owners of individual (micro) entrepreneurship. According to the official data, provided by the Ministry of Finance of the Republic of Azerbaijan, 35 million manat (\$ 20,58 million) were paid to the Entrepreneurship Development Fund with the aim of providing state guarantees for bank loans and subsidized interest rates. The total sum of 159 million 757.000 manat (\$ 93 million 974,705) was paid in these areas on the basis of the order of the Ministry of Economy.

Thus, as it becomes clear, the economic damage became quite evident. Here emerges a necessity to mention the creation of the Coronavirus Response Fund that was established by the Decree of the President of the Republic of Azerbaijan dated March 19, 2020. The main aim of this Fund was to provide financial support for coronavirus containment measures. Legal entities alongside with individuals had an opportunity to make their donations to the Coronavirus Response Fund. Thereby, according to the official data on the amount of money allocated to the Fund, the total sum of contributions is composed of 113 million 705,788 manat (\$ 66 million 885,757).

It is worth mentioning that the economic support program of the government also includes tax benefits, some privileges and holidays for business entities. To be more coherent, the tax payers engaged in catering activities will have tax reduction and exemption from income tax. At the same time, the import of some goods related to food and medical security, including the raw materials used in the production of these goods, will be temporarily exempted from the Value Added Tax (VAT). Meanwhile, depending on the method of taxation chosen, taxpayers will be provided with several tax

¹ "Koronavirus (COVID-19) pandemiyasının və bundan irəli gələrək dünya enerji və səhm bazarlarında baş verən kəskin dalğalanmaların Azərbaycan Respublikasının iqtisadiyyatına, makroiqtisadi sabitliyə, ölkədə məşğulluq məsələlərinə və sahibkarlıq subyektlərinə mənfi təsirinin azaldılması ilə bağlı bir sıra tədbirlər haqqında" Azərbaycan Respublikası Prezidentinin 2020-ci il 19 mart tarixli 1950 nömrəli Sərəncamının 10.2-ci bəndinin icrası ilə bağlı Tədbirlər Planı"nın təsdiq edilməsi barədə, 04.04.2020

<https://cabmin.gov.az/az/document/4367/>

benefits for a period of 1 year, starting from January 1, 2020. For corporate income tax (profit tax) payers, it is assumed to provide tax benefits in the amount of 75% of the profits.

According to government estimates, the total amount of tax benefits and exemptions will be composed of 130 million manat (\$ 76.5 million)².

1.1 Impact of COVID-19 on economic sectors

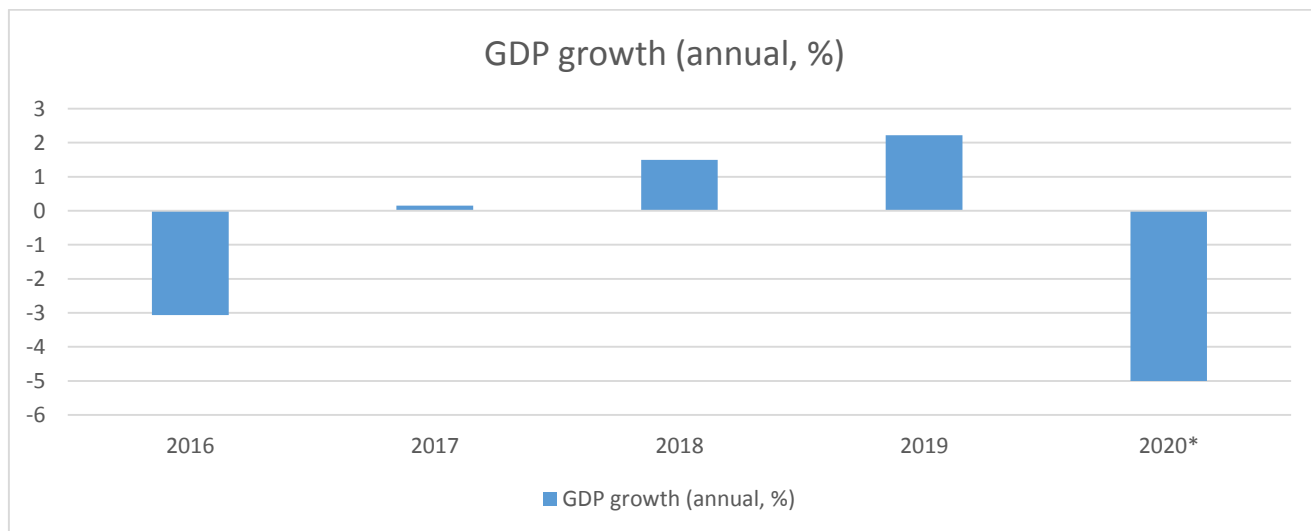
It goes without a doubt that the economy of Azerbaijan was severely affected by COVID-19 and a collapse of oil prices. On April 9, 2020, 23 member countries of OPEC+ discussed the recession caused by the spread of coronavirus and agreed to cut the production of oil by 9,7 million barrels per day, starting from May 1, 2020. The negotiation was aimed on the creation of balance between supply and demand on the global market. The Republic of Azerbaijan, alongside with other member countries agreed to cut the production in relevant proportions. Thus, on the basis of the international agreement, daily production in Azerbaijan should not exceed 554, 000 barrels in May and June 2020, 587,000 barrels in July and December 2020 and 620,000 barrels between January 2021 and April 2022.

According to the official data provided by the State Statistics Committee, the gross domestic product (GDP) produced in the country between January-June 2020 amounted to 33,803.9 million manat (\$ 19 million 884,647), which is 2,7 % less in comparison with the same period last year. Value-added in the non-oil and gas sector of the economy decreased by 2.5 %, while the decrease in the oil and gas sector was composed of 2.9 %.

The graph below illustrates the dynamics of GDP growth over a period of five years. As it becomes clear, we might observe a significant difference between the indicators. The projected indicator for 2020 is composed of -5%. Thus, we may conclude that the forecast per 2020 demonstrates the highest decrease in comparison with last year's indicators.

² <https://report.az/i-nfrastruktur/covid-19-a-gore-olan-ciddi-itkilerden-cixis-yolu-axtarilir/>

Graph 1. GDP growth rate, annual, in %



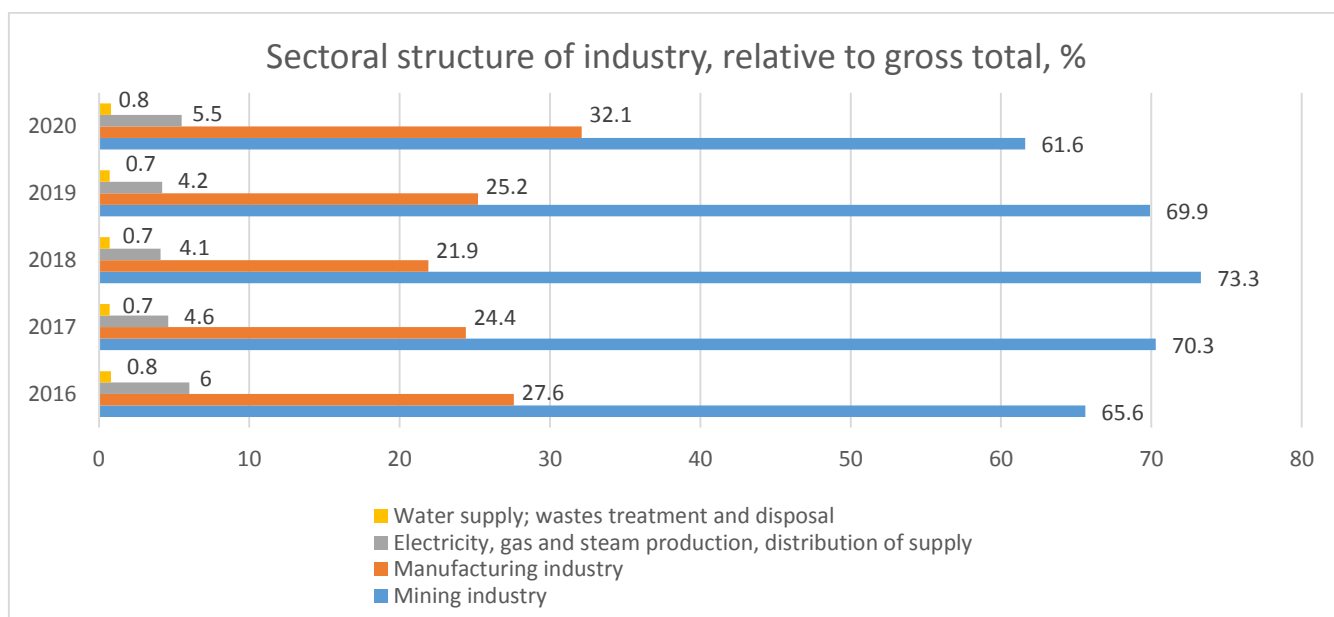
Source: State Statistical Committee of the Republic of Azerbaijan, 2020

Tourism is among Azerbaijan's key sectors that was severely affected by the outbreak of COVID-19. Since the borders were closed, all incoming and outgoing passenger flights have been suspended, respectively. This, in turn, led to the stagnation in the tourism industry. It is worth mentioning that prior to the rapid spread of coronavirus infection in Azerbaijan, the tourism sector was growing steadily. According to the statistical data, 426, 000 tourists from 149 countries traveled to Azerbaijan between January-February 2020. It accounts for 17% y./y. growth. Over the first five months of 2020, 563,900 foreign tourists from 152 countries visited Azerbaijan, which is 1.9 times less in comparison with the same period in 2019. Thus, since the COVID-19 outbreak took place, the overall number of visitors to Azerbaijan decreased by 92%. The measures adopted by the government in order to mitigate the negative impact of the coronavirus on different industries, were applied on the tourism sector as well. The government has allocated 3.5 billion manat (3% of the GDP) (\$ 2.05 billion) to comprise the negative impact on the national economy. Hotels, travel agencies, and tour operators received support under an entrepreneurship relief package, launched by the government and described above. The Azerbaijan Tourism Board (ATB) has developed a four-phase plan, designed to put the tourism back on track after the pandemic subsides. According to the plan, the first phase mainly focuses on the creation of digital content with stakeholders and partners. The second phase is focused on the

development of domestic tourism, while the third one is built on the basis of a staggered approach to roll out communications once the travel restrictions will be lifted and borders reopened. The fourth phase is focused on the adaptation to the post-COVID-19 era, with completely new experiences and campaigns.

Over the first half of 2020, the volume of goods and services produced by industrial enterprises and individual entrepreneurs operating in this field declined by 1.5 % and amounted to 18.4 billion manat (\$ 10.82 billion). If to compare the current indicators with the first half of the previous year, we may observe that industrial production in the non-oil and gas sector increased by 11.2%, while in the oil and gas sector it declined by 2.8%. The total value of production in the mining industry amounted to 11.3 billion manat (\$ 6.64 billion), which claims a decrease of 3.0 % compared to the first quarter of the last year. It is worth mentioning that the production of the crude oil, which is considered as the main product of the industry, accounted for 17.8 million tons, while the production of natural gas reached 13.8 billion cubic meters. Thus, the oil production decreased by 4.9 %, while gas production increased by 14.9 %. Meanwhile, over the first half of 2020, the processing industry produced goods and provided services worth 5911.4 million manat (\$ 3 million 477,294). The total value of production in the field of oil products was 1556.0 million manat (\$ 915.29), which demonstrates an increase of 0.8% in comparison to the first half of the previous year. From the Graph 2 we may observe the sectoral structure of industry, highlighting the main sectoral divisions. In January-June 2020, industrial products at 18,4 milliard manat (\$ 10.82 milliard) or more for 1,5 % compared to the corresponding period of 2019 were produced by industrial enterprises and individual entrepreneurs operating in this field. Product output in the non-oil-gas sector of industry increased by 11,2 %.

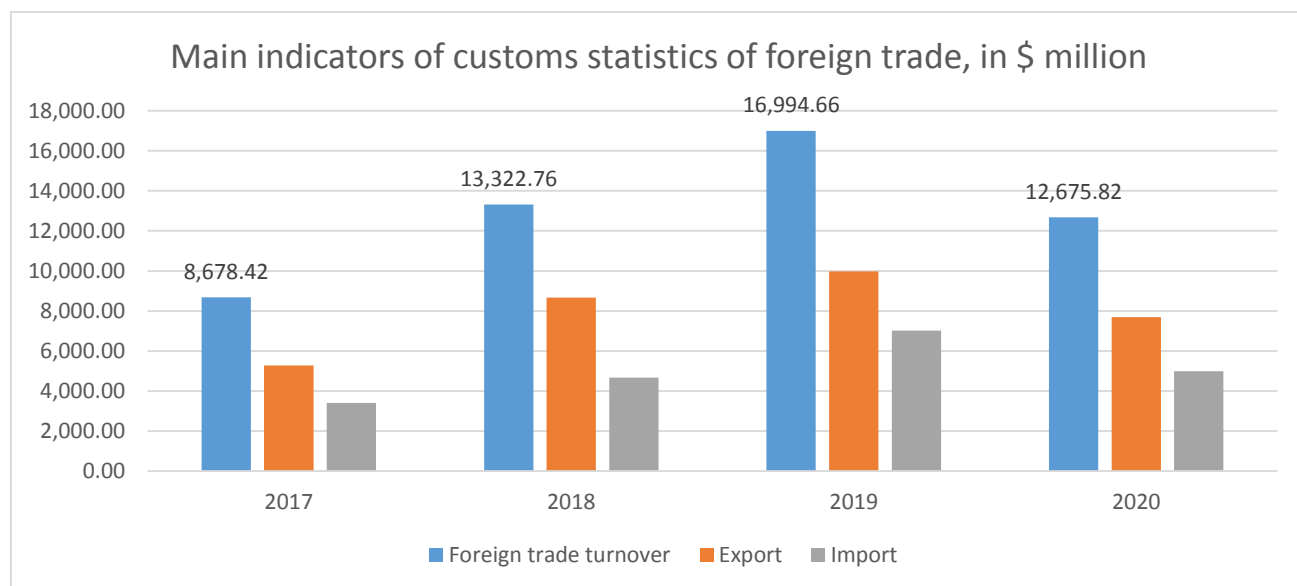
Graph 2. Sectoral structure of industry, in %



Source: The State Statistical Committee of the Republic of Azerbaijan, 2020

Over the first quarter of 2020, the volume of Azerbaijan's foreign trade turnover amounted to \$ 6695.3 million. The value of exported products was composed of \$ 4058.3 million (60.6 % of the trade turnover), while the value of imported products consisted of \$ 2637.0 million (39.4 %), resulting in a positive balance of \$ 1421.3 million. Between January-April, legal entities and individuals of Azerbaijan carried out trade transactions with partners in 161 countries; goods were exported to 96 countries and imported from 149 countries, respectively. Additionally, according to the data provided by the State Customs Committee of Azerbaijan Republic over the first half of 2020, the foreign trade turnover accounted for \$ 12675.8 million, which means a decrease of 25.4% in comparison with the previous year (Graph 3). Furthermore, a decline in the volumes of exports and imports was also noted, taking into account recorded positive saldo (\$ 2696.7 million) over the first half of 2020. The volume of exports decreased by 23%. The recession might be explained through a decline in oil production and cheapening of the oil prices on the world market. In addition, on the basis of the State Customs Committees data, 43.5 % of exports went to Italy, 8.3 % to Turkey, 6.0 % to Israel, 4.5 % to Greece, 4.0 % to India, 3.4 % to the Czech Republic, 3.3 % to Russia. From the Graph 3 we may observe that over the first half of 2020 the indicators of foreign trade decreased significantly as a result of the restrictions arisen due to the pandemic.

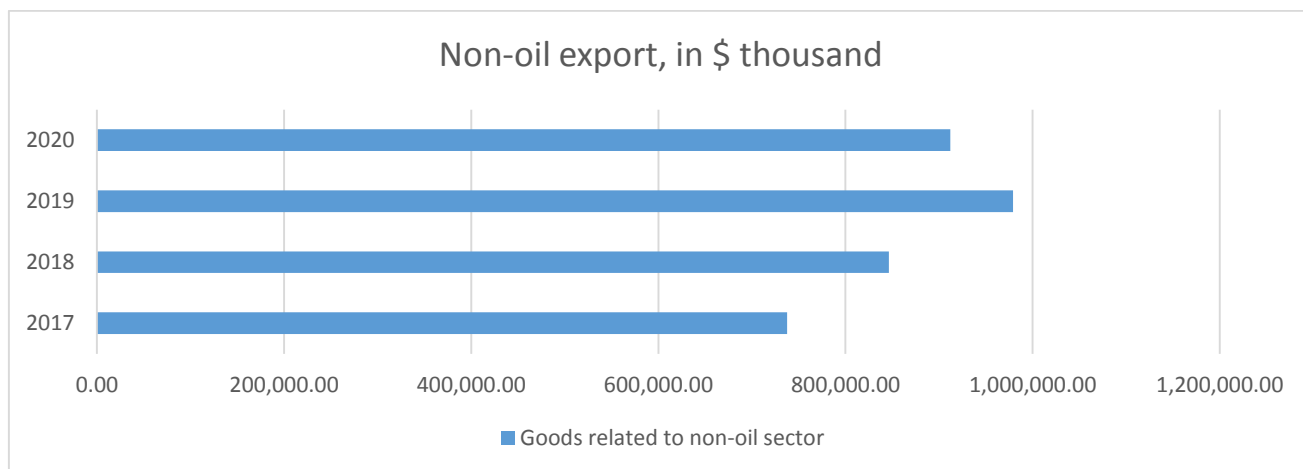
Graph 3. Main indicators of customs statistics of foreign trade over the six months of 2017-2020, in \$ million



Source: State Customs Committee of Azerbaijan Republic, 2020

The state program on “Socio-economic development of regions of Azerbaijan in 2014-2018” made a significant contribution to the development of the non-oil sector, due to a fact that the main potential for production of non-oil goods is concentrated within the country’s regions. This, in turn, positively results in the economic diversification prospects for the country. At the same time, Azerbaijani trade houses abroad along with export missions to foreign countries have helped to develop the share of non-oil products in the structure of the country’s exports by promoting the local brand in foreign markets. We may observe that Azerbaijan's non-oil exports totaled \$1.9 billion in 2019. The government informed that it plans to allocate \$ 11.8 million to develop the country's non-oil exports in 2020. Thus, Azerbaijan’s non-oil industry is expected to demonstrate an 8.8 % growth in 2020. Meanwhile, according to the assessment of the Ministry of Economy, non-oil exports of Azerbaijan will exceed \$ 3 billion by 2024. Graph 4 illustrates the volume of exports in the non-oil sector over the first six months of the considered period. We may clearly observe a decline in the volume of non-oil exports in the first half of 2020, which may be explained through the restrictions and stagnation period emerged on the background of the pandemic.

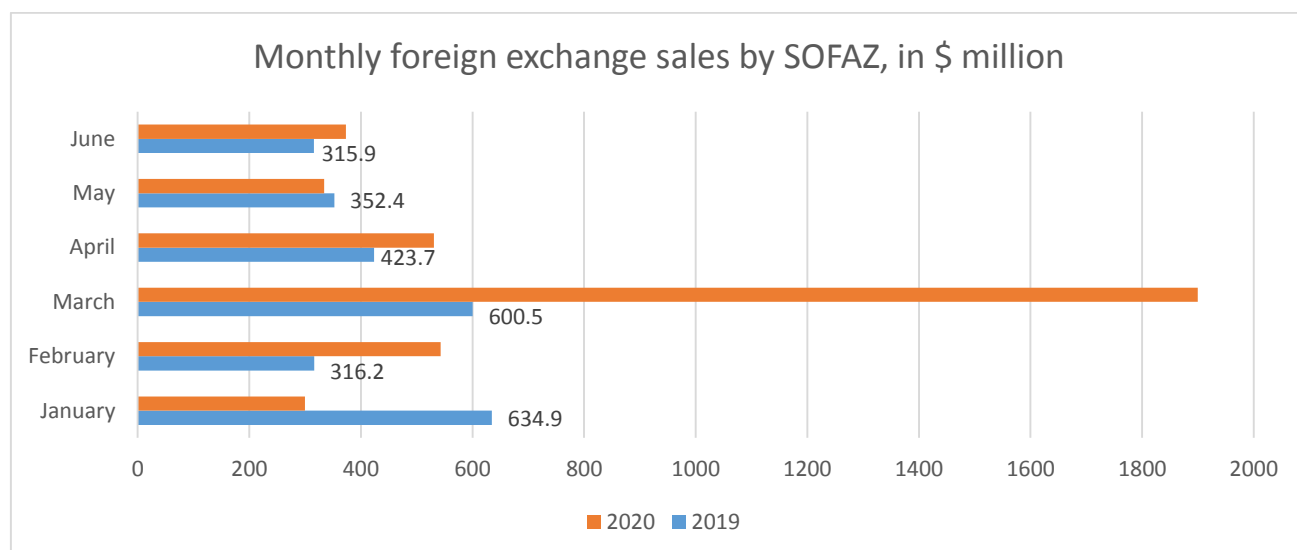
Graph 4. Volume of exports in the non-oil sector over the six months of 2017-2020, in \$ thousand



Source: State Customs Committee of Azerbaijan Republic, 2020

It has to be noted that the pressure on the national currency (manat) has increased in March on the background of a sharp drop in oil prices, oil revenues and foreign exchange expectations of declining incomes. The Central Bank of Azerbaijan alongside with the State Oil Fund, had conducted scheduled and extraordinary foreign exchange auctions. The demands for foreign currency at the announced 1.7 manat/USD rate has been satisfied. From the Graph 4 we may observe the dynamics of monthly foreign exchange sales by the State Oil Fund of the Republic of Azerbaijan (SOFAZ) over the first half of 2020 in comparison with the same period last year. It may be explained by the decision to hold extraordinary foreign exchange auctions in connection with the increased demand of the population for foreign currency since March 10 amid the failed deal of OPEC+ (Organization of the Petroleum Exporting Countries), which entailed a sharp decline in oil prices.

Graph 4. Monthly foreign exchange sales by SOFAZ at currency auctions, in \$ million



Source: The Chamber of Accounts of the Republic of Azerbaijan, 2020

According to the information provided by the Ministry of Economy of the Republic of Azerbaijan the communications sector, as well as the financial, banking, and insurance sectors, were less affected by the pandemic. The Central Bank of the Republic of Azerbaijan (CBA) applied several measures to assist the financial sector. These measures included: the relation of capital requirements and risk weights on mortgage loans; a moratorium on late fees and interest rate penalties; guarantees on insurance premiums and suspension of inspections of credit institutions. Meanwhile, the CBA has also appointed temporary administrators in four banks on April 27. Two banks were closed on April 28, while the other two were closed on May 12. In order to improve the flow of financial resources to the real sector, the Central Bank of the Republic of Azerbaijan has signed a \$ 200 million swap agreement with the European Bank for Reconstruction and Development (EBRD). This swap made it possible for EBRD to provide domestic currency credit support to local companies facing the double challenge of the coronavirus outbreak and the global oil market shock.

1.2 Entrepreneurship ecosystem during the pandemic

As it was mentioned above, within the framework of the Action Plan approved by the Cabinet of Ministers, the amount of 55 million 637,000 manat (\$ 32 million 727,647) was allocated to maintain

individual (micro) entrepreneurs. The National Entrepreneurs (Employers) Confederation of the Republic of Azerbaijan worked directly with entrepreneurs and relevant government agencies in order to determine the negative impact and possible outcomes of the pandemic on the Azerbaijani economy, employment and business sector in the country. 4 Working Groups were established under the Decree of the President of the Republic of Azerbaijan Mr. Ilham Aliyev, with the aim of addressing the negative impact of the COVID-19 outbreak.

According to the data provided by the Ministry of Economy of the Republic of Azerbaijan, a program of compensating for the damage caused to the entrepreneurs and employees, has been launched in Azerbaijan. This program was designed to cover 300,000 employees, 42,000 employers, and about 300,000 private or micro-entrepreneurs. Moreover, the minister also mentioned that the Azerbaijani government has allocated 215 million manat (\$ 126 million) to preserve the salaries of workers. A program launched on April 8 was aimed at the provision of micro-entrepreneurs and private entrepreneurs with funds. The government of the Republic of Azerbaijan provided financial support in the amount of 80 million manat (\$ 47 million) to 300.000 individual entrepreneurs engaged in the spheres affected by the spread of coronavirus infection. There is a special procedure throughout which individual entrepreneur may receive the financial support. He or she has to submit an application form through the electronic system, that is available in the internet tax administration (www.e-taxes.gov.az), and the funds allocated from the state budget will be transferred to the bank accounts of these individual entrepreneurs. The amount of funds allocated for micro-entrepreneurs or private entrepreneurs will not be less than 250 manat (\$ 147). Thus, the maximum amount will reach 5.000 manat (\$ 2941). At the same time, it is worth mentioning that the state structures were putting all of their efforts in order to prevent the staff reductions, reduce business losses and resume economic activities in the abovementioned spheres. Furthermore, it is assumed that the adopted measures, support mechanisms, and credit guarantee mechanisms in the field of entrepreneurship are aimed at maintaining economic activities and ensuring economic growth in the country in the future.

According to the information, provided by the Ministry of Economy of the Republic of Azerbaijan, the Small and Medium Enterprises (SME) Development Agency under the Ministry of Economy launches an online awareness campaign on new mechanisms of provision of concessional loans. Among the participants, there were the representatives of banks, SMEs, alongside with the members of the Agency and Entrepreneurship Development Fund. During the event, representatives of the SME Development Agency and the Entrepreneurship Development Fund provided detailed data on new concessional loans, provision of state guarantees for new business loans, subsidizing part of loan

interest, including some information on the Electronic Credit Platform (www.edf.gov.az), created for potential users of this program.

On the basis of the data provided by the Ministry of Transport, Communications and High Technologies of Azerbaijan, Azerbaijan has included the improvement and implementation of innovations in the package of priority tasks for economic development. Furthermore, it goes without a doubt that Azerbaijan is actively developing the IT industry and innovation, respectively. There is a need for the creation of conditions for attraction investors to the IT and innovation industry. Meanwhile, it seems crucial to improve the startup ecosystem and support startup projects. Relying on a fact that the need for e-commerce grew significantly during the pandemic, the agency held an online event in which entrepreneurs were informed about the development of e-commerce systems for SMEs and software in the field of online sales. Additionally, a number of SMEs were supported to create platforms on online sales. It becomes clear that the development of the digital economy seems crucial in the post-pandemic period, thus, the government is expected to maintain this sphere and attract private investments in it.

1.3 Amendments in the state budget

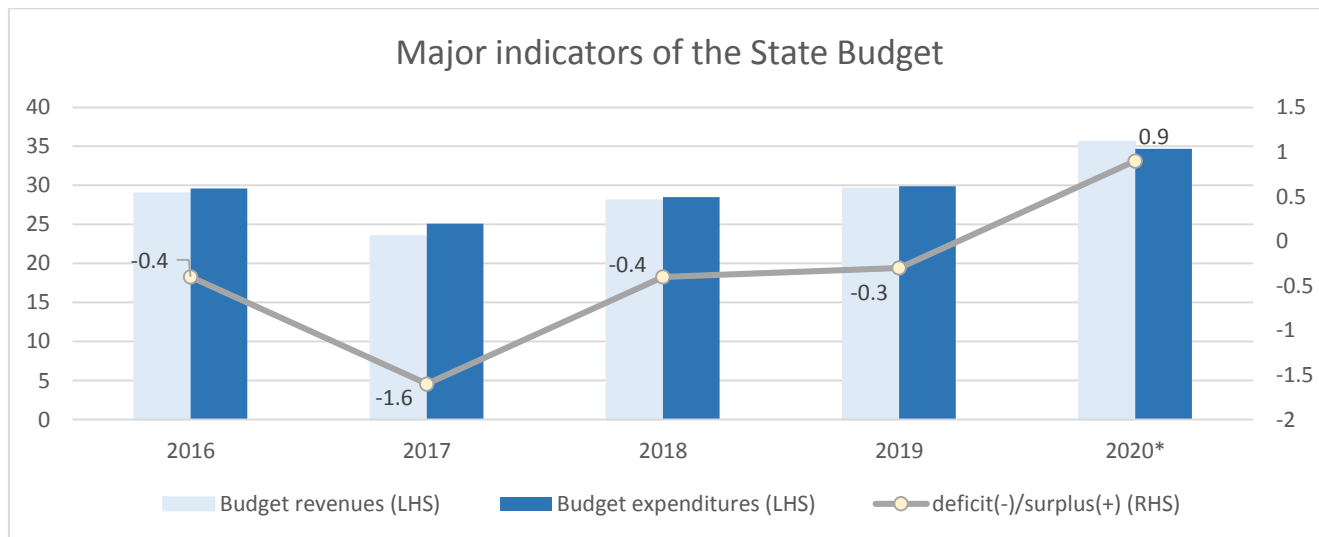
Even though Azerbaijan has allocated the largest share of GDP in order to eliminate the economic damage arisen on the background of the pandemic, the impact of the emerged difficulties made a necessity to revise the budget. A need for qualitatively new approaches and policies emerged on the background of the growing needs of the health sector, governments support of businesses and individuals affected by the pandemic and other public needs. The abovementioned reasons created new challenges for increased state budget expenditures. Thus, it becomes clear that there emerged a need to create additional financial resources to cover all essential expenditures. Amendments to the state budget were implied considering soft countercyclical fiscal policy over the current year, to overcome economic difficulties and balance budget revenues and expenditures. However, it is hard not to notice that as the volume of expenditures rises, the deficit will increase, respectively. Thus, it may seem reasonable to anticipate and minimize the transition to a new countercyclical fiscal policy, taking into consideration the negative impact of this policy in the post-pandemic period.

Analysis of the state budget over the January-May 2020 illustrates that the state budget revenues increased by 16,9 % in comparison with the same period of the previous year, and reached 10,580.25 million manat (\$ 6 million 223,676), while expenditures decreased by 0,4 % and reached

9,392.23 million manat (\$ 5 million 524,841). By the end of this year, the total of the state budget revenues and deficit financing amounts to 927.5 million manat (\$ 545.59 million) (390.0 million manat/ \$ 229.41 million on oil revenues, 500.5 million manat/ \$ 294.41 million on non-oil revenues), while the deficit is expected to decrease by 37.0 million manat (\$ 21.76 million) (including revenues from privatization). Meanwhile, taking into account new challenges, the additional demand for state budget expenditures is estimated at the amount of 1371.5 million manat (\$ 806.76 million). As a result, there emerges a need to form a financial provision of 2299.0 million manat (\$ 1352.35 million) to balance the declining revenues and increasing expenditures of the state budget.

From the graph below, we may observe the indicators related to the revenues and expenditures of a state budget, taking into consideration the surplus and deficit as well. Meantime, we may observe a significant increase in the amount of revenues and expenditures over the first half of 2020 in comparison with last year's indexes.

Graph 5. Major indicators of the State Budget of the Republic of Azerbaijan



*The indicator of 2020 covers the period of six months.

Source: Central Bank of the Republic of Azerbaijan, 2020

It is worth mentioning that in spite of a sharp decline in crude oil prices, the State Oil Fund of the Republic of Azerbaijan has ensured the implementation of its activities related to the protection and sustainability of macroeconomic and fiscal balance, including the fulfillment of obligations to the

state budget. Thus, the amount of 5 675.0 million manat (\$ 3 million 338,235) was transferred to the state budget. The value of the Fund's assets under management as of June 30, 2020 increased by \$ 1 873.8 million and stood at \$ 43 223.3 million. On the basis of the provided data on the reconsideration of the parameters of the state budget, it is planned to increase SOFAZs transfers from 850 million manat (\$ 500 million) to 12200 million manat (\$ 7176.47 million), which, in turn, may maintain the economic development alongside with the growing demand for foreign currency on the background of consumer concerns. Meanwhile, a decline per more than 40% is expected in the amount of SOFAZ revenues.

Table 1. Transfer to the state budget by years, in million manat

Transfer to the state budget (million manat)	
2016	7 615.0 million manat/ \$ 4 479, 411
2017	6 100.0 million manat/ \$ 3 588, 235
2018	10 959.0 million manat/ \$ 6 446,470
2019	11 364.3 million manat/ \$ 6 684,882
2020*	5 675.0 million manat/ \$ 3 338,235

*The indicator of 2020 covers the period of six months.

Source: State Oil Fund of the Republic of Azerbaijan, 2020

The table illustrates the amount of transfers from the State Oil Fund of the Republic of Azerbaijan to the state budget, covering the period of five years.

The abovementioned factors lead to the statement that the procedure of revising the budget was impossible to avoid. In accordance with a significant decline in the revenues, it is expected that the downward trend will continue in the second half of 2020 as well. In accordance with the current circumstances and challenges, it seems necessary to anticipate and minimize the transition to a countercyclical fiscal policy, taking into consideration the negative impact of this policy in the post-pandemic period.

2. Support Packages (economic, social and financial services)

The COVID-19 Operational Headquarters that were created under the Cabinet of Ministers, alongside with working groups within various ministries and CBA, have been in charge for the implementation of specific response measures. The authorities have introduced a special quarantine regime (state of emergency) from March 24, in order to prevent the spread of the COVID-19. A list of restrictions and measures included border closures, prohibition of mass gatherings, restriction of domestic movements, social distancing, disinfection of public spaces and etc.

On the background of the emerged situation the government has increased spending on public health and established the Coronavirus Response Fund for public health needs. At the same time, it has transferred 20 million manat (\$ 11.76 million) (0.02% of GDP) to the Fund, along with additional contributions from both: public and private sectors. In addition, there is a need to mention the construction of modular hospitals (ten hospitals are expected to be) and the provision of 8.5 million manat (\$ 5 million) to the COVID-19 Fund as a part of the WHO's Strategic Preparedness and Response Plan. As a result of the restrictions, the economy went to the stagnation period. A lot of companies began to experience severe losses. The authorities announced support to the affected businesses and individuals in the amount of 3.3 billion manat (\$ 1.94 billion). Implemented measures included partial coverage of salaries (215 million manat/ \$ 126 million), support to micro-entrepreneurs (80 million manat/ \$ 47 million), temporary public jobs (54 million manat/ \$ 31 million), pensions (200 million manat/ \$ 117 million), energy and education subsidies (20 million manat/ \$ 11 million), subsistence and unemployment payments (230 million manat/ \$ 135 million) and funds allocated to the Entrepreneurship Development Fund (50 million manat/ \$ 29 million). The amount allocated to the partial payment of salaries to 300,000 employees in the affected sectors was composed of \$ 127 million. With regard to the tax policy, it seems important to mention that the President of the Republic of Azerbaijan has approved several amendments to the Tax Code, providing tax benefits to businesses affected by the pandemic, which are listed as follows: hotels and hotel-type facilities that are considered as accommodation facilities; tour operator and travel agent activities; public catering activities; domestic (inter-city and inter-district) passenger transport by road (including by taxi); activities of sport and health facilities; activities of training (education) and professional development courses, including out-of-school educational institutions and psychological centers; cinema, theater, museums and concert halls; other activities fully or partially restricted by the Cabinet of Ministers in

order to ensure the public health and safety of the population against the background of the spread of coronavirus. Implemented measures also imply the reduction of the WHT rate on real estate lease from individuals from 14% to 7%; extension of the deadline for payment of income and property taxes for 2019 by non-micro-taxpayers until September 1, 2020; extension of the right to choose the simplified tax method for 2020 by individuals engaged in public catering activities registered for VAT from April 20 to September 1, 2020. For micro and other entrepreneurs, the benefits are the following: 50% discount on simplified tax (the tax rate is reduced from 2% to 1%); temporary exemption from VAT on certain types of goods essential for food and medical needs of the population. At the same time, expenditures on disinfection are carried out by the taxpayer in order to prevent the spread of the epidemic and protect life and health of the population. The amount of \$ 0,3 billion covered insurance of state guarantees and subsidizing interest rates on bank loans to businesses operating in areas affected by the pandemic. Support program assessed at \$ 1.47 billion (3.1% of GDP) is considered not only as an anti-crisis measure but as a program of economic expansion, credit expansion, and stimulation of aggregate demand also. This wide-range support package includes the preservation of social balance and economic development in the post-pandemic period as well.

As it was mentioned above, measures implemented by the Central Bank of the Republic of Azerbaijan covered broad directions, including matters related to the restructuring of business loans, mortgage loans, and support of participants of the insurance and capital markets. Private business entities alongside with individuals engaged in entrepreneurship were provided with the opportunity to restructure loans (with interests subsidized by the state) issued them till March 1, 2020, without deteriorating their quality. Meanwhile, in order to stimulate non-cash payment services and reduce costs, taking into account the decrease in economic activity and income of businesses and households, the reduction of service fees charged by banks in interbank payment systems up to 50% was taken into consideration. The reduction of tariffs for payment services was provided to customers by banks.

The social protection measure consists of lump-sum payments in the amount of living wage- 190 manat (\$ 111) to approximately 200.000 unemployed citizens of the country. The social package was aimed to relieve the impact of the coronavirus infection on the social life of individuals via multiple tools, which included the creation of 50.000 paid public jobs; tuition support programs for students from poor families; financial support program for mortgage and credit guarantee mechanism; program to maintain communal fees, mainly for electricity consumption; and financial support program for vital passenger transport activities. It should be mentioned that as long as the quarantine regime was extended, the provision of lump-sum payment was in order. The payment of annual tuition fees from

the state budget for students from socially vulnerable families was composed of \$ 24 million. At the same time, it is worth mentioning that use of 2019 reserves of the State Social Protection Fund covering the period from April till December 2020 was aimed to ensure the sustainability of social payments (pensions and benefits).

3. Conclusion and Recommendations

The COVID-19 is considered as far more than a health crisis due to the fact that it has an impact on societies, economies, and their base. Even though the effect of the pandemic differs from country to country, it is hard not to notice that it increases poverty and economic disbalance from the global perspective.

As it becomes clear, the spread of the coronavirus disease had a considerable negative impact on the economy of Azerbaijan as well. In accordance with the abovementioned facts, we may conclude that the pandemic had a terrible influence on the businesses and certain sectors of the economy. Thus, the pandemic acted as a main factor of the decline in GDP per 2.9% over the first half of 2020 with the projected index of the reduce consisted of 5% by the end of a year. If to compare the data over a period of five years, we may clearly observe that the forecasted result will be the lowest. As a result of the restrictions on travel, the tourism sector was among severely hit sectors. At the same time, it seems hard not to notice that services, catering, and transportation were also significantly impacted incurring considerable losses. Moreover, based on the information and statistics provided by the State Customs Committee of the Republic of Azerbaijan, we observed a considerable decrease in the volumes of exports and imports as well. The correlation between foreign trade and oil might be explicitly considered. Meanwhile, a recession in the industrial output overseen over the first half of 2020 proves the fact that the negative impact of a pandemic has not spared the industry either. Demand for the foreign currency rose steadily as the consumer's concerns increased. It has to be noted that the international rating agency Fitch has asserted Azerbaijan's long-term foreign-currency issuer default rating (IDR) at 'BB +' with a negative outlook.

It goes without a doubt that the government had to implement particular measures aimed at the stabilization and maintenance of the economy. Thus, support packages adopted by the authorities were

meant to support and contribute to the economic recovery. However, it seems hard not to notice that response measures should also support economic development in the post-pandemic period.

Due to the fact that the spread of the coronavirus disease and its outcomes occurred unexpectedly, the likelihood of an accurate assessment of the possible consequences seems minimal. Newly implemented reforms and measures require new approaches. Thereby, gradual re-opening of the economy by imposing new standards seems reasonable. At the same time, it has to be noted that in the framework of these newly imposed standards, optimization of fiscal expenditures has to be taken into consideration as well.

There is a need to optimize the usage of the oil revenues. Meantime, revealing of the alternative sources for the budgetary increase seems to be reasonable as well. Revenues obtained through the oil sector increase the dependency on this sector, which contradicts to the diversification policy.

The provision of additional support packages for entrepreneurs has to be taken into consideration. It goes without a doubt that the entrepreneurship ecosystem was devastatingly affected as a result of the emerged situation. Therefore, it is assumed that additional support will accelerate the recovery process in this area.

Taking into account tax policy and tax benefits to businesses affected by the pandemic, it seems reasonable to extend the deadline for the existing beneficiaries till January 1, 2021. In the interim, there is a need in a sectoral assessment which may assist in specifying the areas most in need of support.

Shadow economy has to be eliminated, while state-owned enterprises (SOEs) require more deepened reforms. Transition to a more liberal regime seems to be reasonable within this context. The economic strategy for the recovery in the post-pandemic period has to be considered and studied in detail.

4. References

1. <http://www.maliyye.gov.az/en/news/5459/more-than-533-million-azn-were-provided-from-the-state-budget-to-the-areas-affected-by-the-pandemic>
2. <https://home.kpmg/xx/en/home/insights/2020/05/azerbaijan-tax-developments-in-response-to-covid-19.html>

3. Bayramov, Vugar and Abbas, Gulnara, “Oil shock in the Caspian Basin: Diversification policy and subsidized economies”, Elsevier, *Resources Policy* 54 (2017):149–156, accessed July 27, 2020 <https://doi.org/10.1016/j.resourpol.2017.10.006>
4. Bayramov, Vugar and Orujova, Laman, “Volatility, Diversification and Oil Shock in Resource-Rich Turkic Countries: Avenues for Recovery”, *Bilig*, no. 83 (2017): 303325, accessed August 05, 2020 <http://bilig.yesevi.edu.tr/yonetim/icerik/makaleler/2080-published.pdf>
5. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#A>
6. <http://www.socar.az/socar/en/home>
7. Vugar Bayramov, Dan Breban, Elmir Mukhtarov, “Economic effects estimation for the Eurasian economic union: application of regional linear regression”, *Communist and Post-Communist Studies* Volume 52, Issue 3, September 2019, Pages 209-225, (<https://doi.org/10.1016/j.postcomstud.2019.07.001>)
8. <http://covid19fund.gov.az/en/>
9. Vugar Bayramov, *Ending Dependency: How is oil revenues effectively used in Azerbaijan*, Baku, 2009, <http://www.cesd.az/documents/book.pdf>
10. Vugar Bayramov, Tim McNaught, Elchin Rashidov, Baku, 2011, http://www.cesd.az/Oil_Rev.pdf
11. <https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world>
12. Bayramov, V., Rustamli, N., & Abbas, G. (2020). Collateral damage: The Western sanctions on Russia and the evaluation of implications for Russia’s post-communist neighbourhood. *International Economics*. Elsevier B.V. <https://doi.org/10.1016/j.inteco.2020.01.002>
13. <https://caspiannews.com/news-detail/azerbaijan-takes-measures-to-mitigate-covid-19-impact-on-economy-social-life-2020-4-6-1/>
14. CESD Expert Group, *The national currency rate of Azerbaijan: after the presidential elections*, 2018, http://cesd.az/new/wp-content/uploads/2018/04/CESD_Research_Paper_Currency_Market_2018.pdf
15. Vugar Bayramov Ahmad Alili, *Inventory of Energy Subsidies in the EU's Eastern Partnership Countries*, Paris, 2018, https://read.oecd-ilibrary.org/environment/inventory-of-energy-subsidies-in-the-eu-s-eastern-partnership-countries_9789264284319-en#page1

16. <https://az.usembassy.gov/covid-19-information-for-azerbaijan/>
17. <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2019&locations=AZ&start=2016&view=chart>
18. CESD Research Group, Foreign debt of Azerbaijan in 2018: realities and perspectives, http://cesd.az/new/wp-content/uploads/2018/02/Azerbaijan_Foreign_Debt_2018.pdf
19. <https://www.stat.gov.az/news/index.php?id=4442>
20. CESD, Currency market in Azerbaijan: Challenging environment for the national currency, Baku, 2016, http://cesd.az/new/wp-content/uploads/2016/09/CESD_Research_Paper_Currency_Market.pdf
21. Public Administration in EU Eastern Partner Countries: Comparative Report 2011, https://eceap.eu/wp-content/uploads/2017/10/11_Review_No11.pdf
22. Vugar Bayramov, A Comparative Study on Development of Small and Medium Enterprises (SMEs) in Azerbaijan, Baku, 2017, http://cesd.az/new/wp-content/uploads/2017/11/CESD_SME_Paper_2017.pdf
23. <https://customs.gov.az/en/faydali/gomruk-statistikasi/>
24. http://cesd.az/new/wp-content/uploads/2020/08/Amendments_State_Budget_2020_Azerbaijan.pdf