

Spread of COVID-19 in Azerbaijan Republic: analysis of economic impact and recommendations on policy adjustments

In the rise of public health concern due to the pandemic of novel coronavirus disease 2019 ("COVID-19") initiation of timely and well-tailored policy responses by governments is of utmost importance. Undoubtedly, the uncertainty associated with scope and duration of such an unprecedented health crisis and the absence of vaccines or any drugs to cure the infected or to curb the further contagion leave policymakers in the midst of a huge conundrum.

As the current situation continues to escalate, the health officials urge governments to step up with strict confinement policies to keep the number of reported cases at a level manageable for the health system to ensure that everyone receives a proper treatment. In the meantime, governments are pushing their economic resources to the limits to restore public health. While all these things are happening it is not difficult to predict the struggle will inflict considerable damage to economies and steepen the economic recession curve globally. Where does Azerbaijan stand in this scenario?

In this article I analyze the situation in Azerbaijan by providing an insight to the joint public and economic crises posed by COVID-19 with a focus on the vulnerable industries, public need and policy recommendations aimed at minimizing economic damages in the short-run.

Brief situation assessment

The first confirmed case of COVID-19 in Azerbaijan was announced on 28 February 2020. As of 31 March 2020, 298 people have been tested positive for COVID-19, with 5 fatalities and 26 recoveries.

After the detection of the first case Azerbaijani government stepped up by initiating social distancing measures where the regulations are gradually but steadily tightened to prevent the spread.

So far as a part of preventive measures:

- All borders of Azerbaijan Republic have been closed to passenger traffic;
- International and domestic trips have been limited to a great extent;
- Mandatory quarantine rules apply to all arrivals to the country;
- Education and related activities have been suspended;
- All cultural and sport events have been postponed;
- All cinemas, museums, theaters, entertainment venues and sports halls have been temporarily closed;
- Weddings as well as mourning ceremonies have been banned;
- Activities in all commercial enterprises have been suspended with exception of supermarkets, groceries and pharmacies;
- Cafes, restaurants and other businesses offering dine-in services have experienced curfews and gradually suspended their activities with the exception to takeout services;
- Leaving private homes and apartments where people temporarily or permanently reside has been limited.

Continuously tightened regulations by Azerbaijani government aimed at containing the spread of the virus is about to freeze commercial activity in many corners of the economy for an uncertain period of time and undoubtedly presages an economic fallout.

Who is at stake?

Today's economy is a web of interrelated parties. When shutting down the economy is the only choice of government to restore public health the economic web shall be substantially damaged as long as the quarantine days are being extended and people are urged to stay home. Undoubtedly, in this scenario everyone is at stake. Proper approach is "who is more vulnerable?"

Hospitality and leisure industry

As people are being called to stay home and international flights, events, conferences, sports events are being cancelled, the hospitality and leisure industry finds itself at the epicenter of chaos suffering the immediate repercussions. Simultaneously, as the government imposes restrictions on cafes, restaurants and other businesses hosting dine-in customers those businesses also experience significant reduction in their revenue and perhaps will incur irreversible losses as the situation continues to unfold.

Faced with the prospect of few to no sales, many businesses may have little choice but to lay off workers. Not all the employed individuals in the country have jobs that employ them legally and provide a labor contract. With no immediate chances of reemployment, lucky ones with all labor contracts in place shall submit unemployment claims to government to sustain their and their family's life whilst others shall be forced to ignore confinement policies in hope of finding new work place to cover their and their family's necessities, which in turn, undermines public health policy as well.

Retail industry

As noted earlier, activities of all commercial entities are being suspended. This in turn implies that not only large but also small and medium sized businesses may hugely suffer. Many businesses, unable to pay their suppliers or their loans without support, will be forced to close their doors, perhaps permanently. When the effects compound jobs of some of the least financially secure workers in the country is also jeopardized as they generally work in the retail industry leaving them and their families vulnerable with very few to no income.

Airline industry

The Airline industry will likely be one of the hardest hit industries by the pandemic, as international flights are restricted, domestic flights are substantially limited. In the current situation, where the government is drastically reducing travel, imposing restrictions and airlines are cancelling flights and grounding their fleet, revenue has plummeted. These adversities may add up as an operating cash flow decreases over the next month or months, in addition to the cost of customer refunds, payroll expenses.

Oil and gas industry

Oil and gas production plays a vital role in Azerbaijan's economy. As the borders are being closed worldwide, movement of vehicles are being restricted, people stay at home and do not travel, the demand for gas and oil has plummeted worldwide. At the same time oil price has seen unprecedented freefall, selling under USD 30 per barrel as of March 16 after Saudia Arabia initiated a price war against Russia. Lower oil price means less currency and elevated fiscal deficits.

How to address immediate economic damages in the short-run?

Timely and targeted response of the government is very important in order to minimize losses experienced by businesses and individuals, speed up economic recovery without having long-term "scarring" effects when this is hopefully over.

In my opinion, the proposed action plan should reflect the consequences of the lockdown, social distancing regulations and respond to the real needs of the country. In my policy suggestions, I formulate three main priorities as a part of economic stimulus package and propose solutions to limit immediate economic damages to the minimum in the short-run.

Priority #1. Retention of jobs, providing incentives to employers not to lay-off.

Amid wave of COVID-19 related layoffs and staggering unemployment numbers the first priority of the government should be the retention of jobs. The stimulus package should contain some incentives for both employers and employees. As a part of solution, the following measures can be considered:

- i. Expanding the list of persons covered under unemployment insurance system

As per the current legislation only the employees working under labor contract are eligible to make unemployment insurance claims from the government in case of liquidation of the enterprise or downsizing.

This coverage within the limits of minimum monthly income should further be extended to individuals performing works on basis of civil-law contracts during times of state emergencies if they meet below criterion:

- have paid social insurance contributions in the last one year;
- lost their income after the 1st case of COVID-19 was reported.

ii. Relaxation of insurance fund levies with regard to employer's portion of contributions

Azerbaijani government has already postponed compulsory medical insurance payments until January 1 2021, for certain groups of citizens.

Employer's portion of contributions to the social insurance and unemployment insurance fund should be also be eliminated for the period that confinement policies are effective for the enterprises operating in hotels, airlines, travel companies, tourism-dependent retail industry as well as shopping malls, arts and sports centers.

It is worth noting that these payments accounts for 15,5% to 22.5% of employers' payroll expenses and is due at the same time with payment of employees' salary but not later than the 15th day of the month following the month when salaries accrue. Abolition of this portion of mandatory insurance payments shall decrease the tax burden and incentivize employees not to lay off.

iii. Payment extensions to the payroll taxes with regard to employee's portion of contributions

Employee's portion of contributions consists of personal income tax contributions, contributions to the social insurance and unemployment insurance fund and is due at the same time with payment of employees' salary but not later than the 15th day of the month following the month when salaries accrue. A late payment surcharge at the rate of 0.1% per day of the delay of payment is payable if companies do not timely remit such payments to the state budget on behalf of their employees.

Abolition of late payment surcharges, in other words payment extensions to the employees' part of payroll taxes for enterprises operating in hotels, airlines, travel companies, tourism-dependent retail industry as well as shopping malls, arts and sports centers would significantly motivate employers not to lay-off and relax financial burden.

iv. Tax rebates in case of material damages

Tax authorities should be open to grant tax rebates to taxpayers if they face significant fall in their turnover, experience high financial indebtedness or cash flow problems that are significant to justify the rebate requests by investigating each submitted case separately.

Priority #2 Actuating rescue measures for small and medium sized enterprises ("SMEs")

Most of the SMEs are experiencing sudden and large losses in demand and revenue. On the other hand, spending and consumption have also reduced because of loss in consumer confidence. These effects are compounded when employees are laid off. It is very important to have SME specific measures instead of general policies. These measures may include:

- i. Designation of support packages including emergency loans with 3 to 6 months grace period and lower interest rate;
- ii. Subsidizing local banks to suspend the penalty calculation for customers with loan delay of up to 1 month;
- iii. Direct financial support by government with issuance of zero-interest loans;
- iv. Expansion of tax rebates and deferrals to SMEs as a part of government incentives.

Priority #3 Measures aimed at decreasing the cost of leaving.

- i. Providing discounts to the monthly electricity bills to individual consumers and enterprises;
- ii. Allocating funds to local food industry to meet domestic demand.

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