



"Uluchay" Social-Economic Innovation Center
Economic Impact of the Covid-19 Pandemic
Shaki-Zagatala Regional Analysis

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1. INTRODUCTION AND OVERVIEW

World Health Organization (WHO) reports more than 37 million COVID-19 infection and 1 million death cases during the period from December 30, 2019 to October 11, 2020 (WHO, 2020). For Azerbaijan, this number is confirmed as 42381 infection and 612 death cases.¹

For the purpose of fighting the pandemic, countries take necessary public health measures having a social and economic influence on people lives. Although the motion pattern of COVID-19 is indefinite, COVID-19 spread proceeds with the serious effects on health systems, life style, mutual social influence, economic activities, public policies and financial markets (WHO, The Economic and Social Impact of COVID-19 in the Eastern Mediterranean Region, 2020).

Since March 2, 2020, Task Force under the Cabinet of Ministers of the Republic of Azerbaijan declared the quarantine regime in the country to minimize the impact of the virus on the health according to the global economic situation. This regime was further toughened, and entry and exit to Baku and a number of cities for commercial purposes was restricted until September, 8. The mentioned restriction also had an impact on regional economics. In accordance with the information published by Azerbaijan Statistics Committee, 2.7% decrease in gross domestic product (GDP) is observed compared to the same period last year (first half a year).²

Disruption of global and local tourism, limitation of entertainment and social life, and tendency to reduce additional costs caused by uncertainty in the movement of the pandemic have led to regional economic contractions and this influence continues today. Notwithstanding with the increase or stability of business activity in some sectors, serious economic crisis caused by pandemic cannot be gone unnoticed. Thus, International Monetary Fund's (IMF) reassessment of growth prospects for 2020 and 2021 emphasized that the crisis has a special nature and no country can overcome this crisis alone (WHO, The Economic and Social Impact of COVID-19 in the Eastern Mediterranean Region, 2020).

¹ Covid-19 statistics, WHO, 10.15.2020, <https://covid19.who.int/region/euro/country/az>

² Gross Domestic Product, AzStat, 16.07.2020, <https://www.stat.gov.az/news/index.php?id=4629>

Relying on this policy note: Along with the inevitability of international cooperation between countries to overcome economic complications, regional development projects for healthy and sustainable economy are also inevitable. Instead of the principle of free trade in neoclassical economy, state planning has moved to the forefront in order to resolve the Covid-19 crisis, that is expected to be more severe than in 1929. This solution on stable development objectives suggests triple cooperation between state, regional management and regional business management.

2. ECONOMIC IMPACT OF THE PANDEMIC ON SHAKI-ZAGATALA REGION

Initial impact of the COVID-19 pandemic appears to be a direct supply shock to the economy. Closure of enterprises and schools, travel prohibitions, serious physical distance and quarantine measures are observed in almost all regions. These limitations are estimated as employment decrease from the economic point of view. As a result of pandemic, a number of economic sectors across the country, including tourism and hospitality, aviation, oil and gas, consumer goods and the semiconductor industry has been influenced heavily (WHO, The Economic and Social Impact of COVID-19 in the Eastern Mediterranean Region, 2020). Decrease in oil prices and contraction in consumer demand caused 2.5% decrease in value added in non-oil and gas sector and 2.9% in oil and gas sector in the economy of Azerbaijan.³

Shaki-Zagatala region has been severely affected by the pandemic since it is one of the developing tourism centers of Azerbaijan. Deadlock of tourism activities in the region because of the existing quarantine situation has reduced revenues in this sector to zero. The region's economy has been hit significantly by decisions in the tourism sector, such as layoffs or unpaid leave to cover unprofitable quarters at minimum cost. Decline in this sector and market demand of unpaid workers, as well as the cut in investment in the tourism sector also had a direct negative demand impact on the region's economy.

Significant negative differences were found in food and pharmaceutical sectors, that have a significant impact on the region's economy, compared to previous years.

³ Gross Domestic Product, AzStat, 16.07.2020, <https://www.stat.gov.az/news/index.php?id=4629>

Table 1 shows quarterly sales details for 2017-2020 in supermarkets in Shaki-Zagatala region (on 3 quarters). There is a positive break in data structure for the first quarter of 2020. This is arose from unsustainable supply demand due to the pandemic.⁴ Negative impacts of contraction in economic demand have appeared in the following quarters along with the loss of temporary demand.

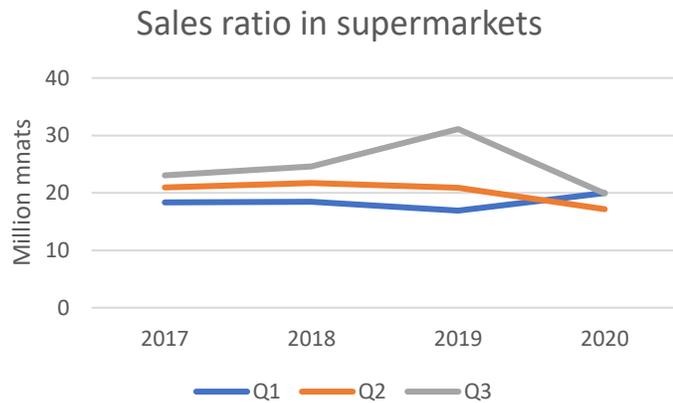


Table 1

There was also a temporary demand in commercial sectors outside the food and pharmaceutical sectors, and the negative effects of the quarantine period can be observed. Sales data of motor vehicle parts have been analyzed to study the impact.

Table 2 suggests data obtained from a number of motor vehicle parts sales centers in Shaki and total sales were estimated by multiplying by the economic magnitude coefficient.⁵ Sharp decline in sales is observed as a result of

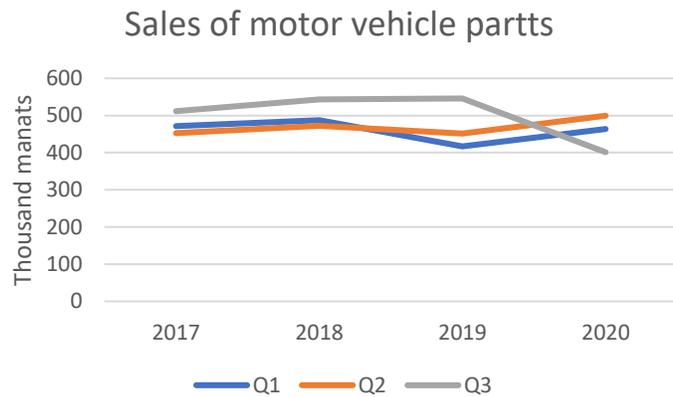


Table 2

⁴ Stability and instability of demand can be explained by ratio in the second and third quarters (Q3). The third quarter always shows increase opposed to another 2 quarters. In the simplest way, this increase is connected to the increase in supply costs for winter in summer. High increase in the first quarter (Q1) of 2020 was not seen in the second quarter (Q2) following a similar trend in previous years. A significant decline is observed in both the second and the third quarters, that had the highest sales rates in previous years. Structural breakdown in the ratio has been caused by disappearance in the following quarters of high temporary demand impact of the pandemic that was in the first quarter.

⁵ Factors in the regional trade structure, such as the avoidance of statistical data sharing, the double-entry bookkeeping system, or the complete closure of unlicensed sales outlets during the quarantine period, have created problems in data collection and analysis phase. Economic coefficient method has been used to solve these issues.

severe quarantine regime in the third quarter (Q3). It should be noted that this quarter had the highest sales volume in previous years, but fell from the economic peak to the bottom due to the pandemic.

Similarly, falling to the economic bottom in other commercial sectors is inevitable. As a result, based on official statistics, sale of food, tourism and motor vehicle parts in Shaki, the leading economic power of Shaki-Zagatala region, we can observe the most difficult quarters since 2017. Pursuant to the continuation of the pandemic and the impact of declining economic activity in other sectors, it is highly probable that the existing bottom points will fall further. Economic contraction together with rising unemployment has created a regional economic stagnation. The only way of this economic stagnation is state planning.

3. RECOMMENDATIONS

Short and long term state interference is inevitable to turnaround the regional economy. Short term interference creates the revival in demand, while long term interference will assist to increase in consumption. It's obvious that unilateral policies cannot be a solution to the crisis.

Short term demand-enhancing interventions

- People with the status of unemployed due to a pandemic should be provided with social support in the form of financial or food assistance until they find a new job.⁶
- In order to stop the region's economic decline, it should be made investments reviving a demand. As it was during the crisis of 1929, the government should take full responsibility, create a temporary increase in demand in construction and similar sectors by increasing regional budget expenditures.⁷

⁶ One-time assistance of 190 manat is not limited to just the quarantine period. This limitation doesn't solve the problem of those who remain unemployed and will remain unemployed even after the end of the quarantine regime. The fact that unemployed people will not be able to find work during the pandemic in a number of sectors, such as tourism and restaurants, must be considered.

⁷ It should be adapted to the Keynesian theory where the state intervenes in every sector needed, instead of neoclassical theories of free economy. In particular, budget expenditures should be closely monitored and transparency in tenders should be ensured.

- Avoidance of economic inequality, as well as reduction in taxes to support the market, should apply not only to entrepreneurs, but also to other sectors. As required by this solution, income taxes should be reduced during the pandemic.⁸

Policies for increasing demand are likely to cause inflation, however, low inflation rate of 2.9% in Azerbaijan keeps the matter of short term intervention open.

Long term demand-enhancing interventions

- Considering the inflation, interest rates on loans, especially for entrepreneurship and agriculture, should be reduced and volume of loans should be increased.
- Consumption plan should be prepared for the regions, and in accordance with the plan, investments from local or foreign sources should be attracted.
- Higher schools should be re-regulated, economic situation should grow proper students. Technological innovations should be priority.⁹
- Customs tax for secondary products should be separated from other taxes and taxes on these goods should be minimized to support industrial development. Customs strategy supporting local production should be accepted.

As a result, new economic balance to be created due to the increase in demand and consumption, will be useful in minimizing the effects of the crisis and will support long term sustainable economic growth.

References

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<https://www.socialeurope.eu/priorities-for-the-covid-19-economy>

⁸ Although tax cuts are estimated by many sources as increasing economic activity, this policy turns into serious economic inequalities. For more detailed information, see: Joseph Stiglitz, "Priorities for the Covid-19 economy", 06.07.2020, <https://www.socialeurope.eu/priorities-for-the-covid-19-economy>

⁹ See: The Future of Farming: Why the world should admire the dutch approach to agriculture, 11.05.2020, <https://investinholland.com/news/the-future-of-farming-why-the-world-should-admire-the-dutch-approach-to-agriculture/>

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