



GRATA
INTERNATIONAL

Local Knowledge
for Global Business

www.gratanet.com

COVID-19 and Changing Patterns in Global Economy

In a coronavirus situation when people stay at home, consumption becomes limited and businesses suffer; the focus of solving state economic problems shift from monetary policy to a fiscal one. The spread of coronavirus and inability of the OPEC countries to develop joint policies contributed to decrease of Brent oil price. The double shocks of pandemic and political-economic news have created an environment of unprecedented uncertainty. As a result, oil and gas companies, as well as oil-producing countries will suffer.

We see advantages of high oil price from the current level, but prices will remain low because of the economic downturn. In terms of the apocalyptic scenario, it implies a ban on flights among countries, bans on people being away from home, a sharp decline in the use of all modes of transport, since this industry uses the most oil. 90% of global oil demand is connected with the themes of mobility or transport, so they are important elements. If people stop driving or flying for at least a few months, the scenario will become closer to the situation described. However, it should also be considered that we expect a downturn in the business cycle, and some people may lose jobs. Thus, they will no longer drive to work, which will put pressure on the demand for oil. Those who continue to work will, of course, benefit from lower oil and fuel prices, but this is not likely to push the global economy to growth.

Considering all aforementioned facts, the 10th Extraordinary OPEC and non-OPEC Ministerial Meeting that was held via video-conference on 12 April 2020, agreed to amend the Declaration of Cooperation, where quotas for daily oil production in OPEC and non-OPEC countries in May-June will amount to 9.7 million barrels, from July 1 - 7.7 million barrels and from January 2021 through April 2022 - 5.8 million barrels. Big oil producers, such as the US, Canada, Indonesia, Norway and Brazil, having shown solidarity with the OPEC and non-OPEC countries, will voluntarily reduce oil production by 4-5 million barrels per day.

Having fulfilled the obligations undertaken since May, Azerbaijan will continue to contribute to the process of balancing the oil market. Azerbaijan, which from the very beginning played an important role in creating a balance in the oil market, this time made every effort to ensure mutual understanding among the oil countries. Furthermore, due to this decision, the budgets of the coming years will have to be balanced at a price below \$55 per barrel, which will require budgetary cuts. Due to this decrease, it is necessary to focus on development of non-oil industry. Therefore, the activity of small and medium-sized businesses in development of Azerbaijan's economy should be strengthened.

It should be noted that on 19 March 2020, the President of the Republic of Azerbaijan signed a Decree on establishment of a Coronavirus Response Fund. The "Coronavirus Control Budget" mobilized in Azerbaijan covers expenses in three directions: support, which will be provided to the sectors suffering losses, entrepreneurs and employees; social programs; and expenditures for combating the pandemic. It is also worth to note that Azerbaijan has contributed \$5 million to the World Health Organization to support the global fight against the pandemic.

Regulators around the world are likely to continue to take measures to support the economy of both central banks and governments. We will see a combination of monetary and fiscal policies. The question, however, is whether these measures will help, since a reduction in the rate is unlikely to help the real economy in the current situation. The coronavirus crisis will be a short-term and temporary event. In 12 months, it will less excite the people; probably the effective drugs and vaccines will be available by that time. The major problem is that coronavirus is new and our organisms are not familiar with it. Hopefully, health care field will support us in developing drugs and vaccines. Perhaps we will look critically at our supply chains, particularly in the health field. Thus, let's hope that this will not change the world in terms of increasing protectionism.

Article published in AMCHAM IMPACT Magazine 37th edition.

[Download](#)

Author's biography

Ms. Gumru Eyvazova is a Senior Legal Associate at GRATA International. Before joining to GRATA International she was Legal and External Affairs Executive at British American Tobacco Exports B.V. Representative Office in Azerbaijan. Gumru carries years of experience in banking industry – in capacity of Head of Legal Division, two global airline companies in Azerbaijan – in capacity of Legal Consultant. At the same time, Gumru is Chair of the Board of Directors of a local NGO, "Khazrim" Student-Youth Organizational Public Association. Ms. Eyvazova studied Public and International Affairs at ADA University (MPP, 2018) and Law at Baku State University (LLM, 2007; BSc, 2004)

Өңірлер

ӘЗІРБАЙЖАН

