



## **COVID-19 to Push the Global Economy toward Recession**

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The outbreak of the coronavirus (COVID-19) in China and its hasty spread across the world has imposed unavoidable damages on the vulnerable conditions of the global economy. The pandemic of COVID-19 has resulted in the most intensive crisis of the world community in terms of both public health and economy. Implementing containment measures to protect people's lives and support public health have become the highest priorities for countries across the world; and the outlook for the global economy has quickly reversed from a fragile recovery into a sharp recession, which is yet to realize the depth and duration of this economic fallout.

In our previous report on the "Impacts of Coronavirus on the Global Economy"<sup>1</sup>, which was published on 10<sup>th</sup> March 2020, as an early estimate, we had built up three scenarios on the economic impacts of the coronavirus outbreak and projected deceleration in the global growth ranging from 0.2 to 1.3 percentage points. However, the global situation has been changing dramatically since early March 2020. The escalating number of COVID-19 cases across the world resulted in characterizing COVID-19 as a pandemic disease rather than an epidemic. As the number of infected people and countries has increased dramatically, more and more countries adopted restrictive measures of social distance, lockdown, quarantine, and isolation. As such, service and industrial sectors took the flop. These containment measures resulted in disruptions of all the activities, shutting industries, a slowdown in trade, public services, business activities as well as the downfall of investments. Meanwhile, North America became the new epicenter of the virus where a large number of people were infected in the United States. Indeed the real effects of the coronavirus on the economy have been exacerbating in parallel with the spread of the virus across the world, with a substantial effect on services and travel sectors.

In order to protect their economies against harmful damages of COVID-19 crisis, most of governments and central banks announced supportive packages. In this regard, some countries like the US, the UK, Germany, Italy, Japan, Spain, and France have taken historical stimulus measures to cope with the economic damages of the

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<sup>1</sup>. The full report is available at the GECF website: <https://www.gecf.org/events/gecf-expert-commentary-impacts-of-coronavirus-on-the-global-economy>

coronavirus. Also, developing economies like China, South Africa, and Indonesia have announced sizeable policy stimulus to support their economies. The IMF Policy Tracker has listed supportive measures that have been taken by more 193 countries to restrict the economic impact of the coronavirus on their economies<sup>2</sup>. Besides, international organizations including IMF, United Nations, World Bank, European Central Bank, and OECD took considerable policy supports including fiscal and monetary measures to support countries to protect human lives, but also stabilize the global economy. On the other hand, G20 countries agreed in their statement on COVID-19<sup>3</sup> on a series of actions aimed at a vigorous international response. While highlighting the importance of human health and the significance of a close cooperation among international organizations, G20 countries reiterated the necessity to work together in order to gain the battle against COVID-19 outbreak through to protect human lives, but also stabilize the global economy through.

Such resolutions could balance the situation; however, amid this ongoing battle to cope with the coronavirus, the magnitude and length of the economic downturn depend on several factors including the size and duration of COVID-19 pandemic, the extent of containment measures and economic lockdown as well as the effectiveness of stimulus packages in supporting business and individual sentiments.

The more spread of the virus, the more need for containment measures. Moreover, implementing containment measures as mentioned above will hit economic growth directly and indirectly. The OECD estimated almost 2 percentage points of decline for each month of strict containment measures.

On the other hand, the effectiveness of supportive packages including fiscal and monetary policies in battling with adverse effects of COVID-19 on the economy is another factor. It is yet to realize to what extent these supportive packages could shield people and the economy against damages of coronavirus is still a central question. However, the fact is that those countries suffering from the weak economic situation will have huge problems in bearing the economic costs of the coronavirus. If the COVID-19 outbreak lengthens more than six consecutive months, we reach a chaotic situation where all economies will be contaminated by the effects of the virus. We expect the economic indicators to worsen: under a maintained economic lockdown, budget deficits will be recorded, high unemployment, high inflation in addition to a higher poverty rate in the majority of economies. Consequently, global demand, trade activities and investment will decline over the year 2020.

By the time of finalizing this report (20<sup>th</sup> April 2020), more than 2.3 million confirmed cases of coronavirus in more than 200 countries have been reported. Moreover, around 157 thousand people died because of COVID-19 according to the WHO. The virus outbreak has not been contained yet and continues to spread aggressively. Though Germany declared that it gained the battle against the virus, however, the risk is still present for a second wave of COVID-19 attack. Hence, it would be quite difficult to estimate for how long and to what extent the virus outbreak would hit the global economy in this rapidly changing situation. Accordingly, most of the international economic institutions and agencies have changed their projections; and the proposition of a deep economic recession is reinforced strongly.

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<sup>2</sup>. available at <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#S>

<sup>3</sup> *G20 Sherpas, Khobar, Saudi Arabia, March 12, 2020*

IMF in its April 2020 World economic Outlook (released in 14<sup>th</sup> April 2020) projected that the global economy will contract by -3% in 2020, worse than the 2008-9 financial crisis.

According to the latest survey by Focus Economics on 16<sup>th</sup> April 2020, the global economy will decline by more than 3% in 2020.

Oxford Economics projected a short but sharp recession in the global economy. According to the baseline scenario of Oxford Economic, the global economy is expected to shrink by 2.8% in 2020.

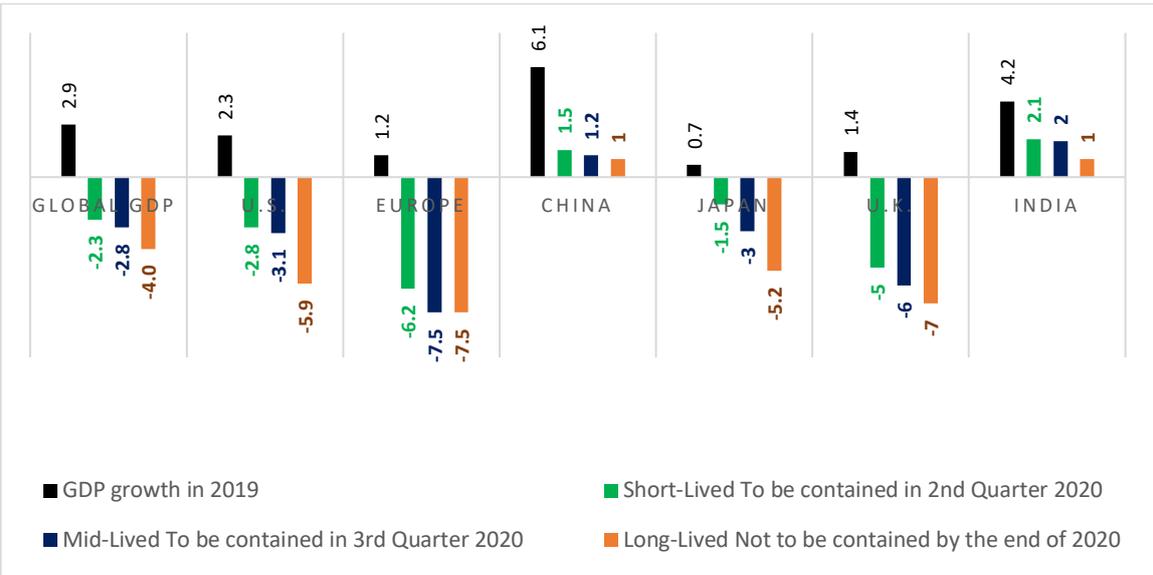
The Economist Intelligence Unit (EIU), on 26<sup>th</sup> March 2020, forecasted that the global economy to decline by 2.4% in 2020.

Considering the latest developments and keeping our basic scenarios, we have updated our figures for economic growth. Figure 1, illustrates our projections of the global growth based on three scenarios on the economic impacts of the coronavirus outbreak as follows:

<b>Short-Lived</b>	<b>Optimistic</b>	<b>Coronavirus to be contained in 2nd Quarter of 2020 (3-5 months crisis)</b>
<b>Mid-Lived</b>	<b>Baseline</b>	<b>Coronavirus to be contained 3rd Quarter of 2020 (6 -8 months crisis)</b>
<b>Long-Lived</b>	<b>Catastrophic</b>	<b>Coronavirus not to be contained by the end of 2020 (more than 8 months)</b>

*N.B. to be contained means the virus spread to be controlled, public health to be recovered, and the economic activity to resume.*

**Figure1: Projections of GDP growth (%) in 2020 based on three scenarios**



Source: GECCF, IMF

The world economy is projected to fall by 2.8% in 2020, the sharpest decline after the Great Depression<sup>4</sup> according to our baseline scenario. We estimate that most of the Advanced Economies including the US, the UK, Germany, France, Italy, and Japan will experience severe economic fallout due to higher numbers of infected people and tighter containment measures. Although, Developing Economies like China and India are expected to grow by minor positive rates, however, the growth rates in these countries would be significantly weaker than expected before COVID-19. It is important to highlight that under all the above-mentioned scenarios, the economic impacts of COVID-19 is not limited to the number of countries that were infected severely by the virus and implemented containment measure. The outbreak of coronavirus inflicts economic activities in the majority of countries in the world since it has domino effects and spillover across the globe. Executing lockdown measures and business closer resulted in supply disruption and dramatic lay off in many economies. As a result, demand has declined due to unemployment, weak disposable income, and precaution measures. Governments, especially in developing economies are expected to face huge budget deficits due to unexpected expenditures. The global trade has been deteriorated drastically and commodity prices dropped. Oil and gas exporting countries are expected to face sizable negative impacts as energy demand is foreseen to remain low and weigh on the oil and gas revenues. Despite the decision by OPEC+ countries to cut oil production by around 10 million barrels per day, the significant decline in oil demand coupled with high inventory levels have led oil prices to decline to their historical low level in two decades. Concerns about storage capacity and unprecedented plunge of crude oil Futures for May 2020 delivery to negative records (-37 \$/b) show the magnitude of declining demand for oil and gas. However, such circumstances would not be able to remain for a long period. This is to somehow showing overreacting of financial market to the situation which demonstrated to be inefficient.

If the coronavirus is not contained by the end of 2020, which is our long-lived scenario, the prolonged disruption in supply chain and contracting demand will severely destroy the fundamentals of the economy due to lockdown measures. In this case, the announced stimulus by governments would not be sufficient to compensate for the negative impacts of the lengthy pandemic. Such a situation will expose many countries in a dilemma to choose between extending lockdown measures to contain the virus versus easing restricting measures to keep alive their economies. It seems that many countries, especially those suffering from the weak economic situation; have to relax lockdown measures in order to avoid harmful economic damages, tremendous bankruptcy of small businesses and thus spreading poverty and unemployment in the society. This leads us to be more conservative on the negative impacts of long-lived scenario, projecting the global economy to shrink by 4% in 2020, while the negative impacts are expected to carry over 2021.

As of short-lived scenario, with considerably low probability of occurrence since we do not see the virus to be fully contained in Q2-2020. However, in this optimistic view, we expect that the global economy to fall by around 2.3% despite fiscal and monetary stimulus. However, the negative impacts will be limited to only 2020 and we expect a recovery in 2021.

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<sup>4</sup>. During the Great Depression (1929-1939), the global economy contracted by more than 10 percentage.

There are various arguments about whether the recovery after pandemic will be V-Shaped or U-shaped. Indeed, this depends on the duration and peak of the pandemic and lockdowns. However, we believe that the full recovery will take more time since the pandemic has affected many of the socio-economic fundamentals of the world society.

Between today's likely recession and a full recovery, the market will suffer supply chain disruptions and its equilibrium will be detrimental to many vulnerable economies and industries.

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