



Impacts of Coronavirus on the Global Economy

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While the global economy was expected to grow by 3.3% in 2020, after having experienced a 2.9% growth in 2019, the outbreak of the coronavirus in China has upset the world and imposed a significant shock on the fragile situation of the world economy.

Indeed, the outbreak of coronavirus emerged as a “Black Swan” in Chinese economy and disrupted economic activities in the country. With the extension of lunar New Year holidays, most of businesses and companies were announced to stay closed by mid-February 2020 and most of economic activities in service sector, industrial sector and transportation sector have been interrupted since 24th January 2020.

On the other hand, transmission of COVID-19 to South Korea, Japan, Singapore and the rest of countries in Asia was reflected in a sharp decline of Asian major financial stock markets. Increasing the number of confirmed cases of COVID-19 in Italy, France, Spain, Germany and the UK affected major financial markets in Europe. Simultaneously, the propagation of COVID-19 reached countries in MENA region and North America.

While how and when the outbreak of the virus would be contained is yet to be assessed, one of the key questions is how and to what extent the global economy would be impacted by coronavirus epidemic.

In this regard, some analysts have used the consequences of SARS-2003 to gauge the economic impacts of COVID-19 and tried to understand the phenomenon of the latter. The first case of SARS was reported in November 2002 and its outbreak peaked after 3-4 month. The SARS virus spread has been contained after 6-7 months. During that period, almost 8000 people in 26 countries were infected, and 800 people died as the result of severe infection.

Although there are some similarities between these two cases through the lessons learnt, the differences on the size of infection, the degree of global integration, the increasing share of Chinese economy in the global trade as well as the fast pace of transmission of COVID-19, led us to examine the effects of this virus separately.

Considering the massive integration of China’s economy with the rest of the world, the spread of epidemic virus is not limited to China only, but also it has affected many other countries in Asia and also worldwide. China accounts for 17% of the world economy and almost 11% of the global trade and around 9% of global tourism activities. On the other hand, by the time of preparing this report (10th March 2020), more than 104 countries have reported cases of COVID-19, out of which China, Italy, South Korea, Iran, France, Spain, Germany and the US were on top of the list.

Therefore, the virus epidemic has become rather a global health crisis declared by the World Health Organization (WHO) as a global pandemic and the economic fallouts of the virus spread have been growing since the virus started spreading widely across the world. Shut down of factories, quarantine measures, travel restrictions as well as interruption in service sector activities have affected the global economy through supply and demand chains.

In line with analyzing the economic impacts of coronavirus, sharp declines in financial markets were the fastest reaction to the economic effects of coronavirus, as major stock market indexes have fallen by an average of 10% in a very short period in Japan, South Korea, China, Germany, UK and more recently in the United States. However, it is worth mentioning that financial markets react quickly to any policy announcement and gain momentum immediately, so they could not be a proper gauge to realize the impact of coronavirus outbreaks on the real economy.

Nevertheless, on the negative impacts of coronavirus eruption on the global and China's economy, we have observed several pessimistic views of authentic international economic institutions, which predict a deceleration of the world economy as follow:

- On 22nd February 2020, IMF announced that China's economic growth in 2020 would be revised down by 0.4 percentage point from 6% to 5.6%. Also, the global economic growth is estimated to be downgraded by 0.1 percentage point from the 3.3% expected prior to the Coronavirus issue. However, in her latest speech on 5th March 2020, IMF Managing Director Kristalina Georgieva highlighted that in any scenario the global growth in 2020 would fall to less than 2.9% which was experienced last year. However, she mentioned that the degree of economic fallout depends on the epidemic and the timeline of containment.
- According to a Survey by FocusEconomics, the main effects of COVID-19 outbreak on the global economy is expected to be subtraction of global growth by 0.2 percentage point in 2020, as compared with the forecast prior to COVID-19 outbreak. China's GDP growth in 2020 also projected to be downgraded by 0.5-0.8 percentage points.
- Oxford Economics has revised down its forecast of the global economic growth in 2020 from 2.5% to 2.3%, down from the 2.6% foreseen in 2019. China's economy is expected to grow by 5.4% in 2020, down by 0.6 percentage points as compared with the January 2020 forecast.
- The International Air Transport Association estimated \$30 billions loss of revenue for airline and tourist companies caused by the COVID-19 outbreak and it foresees a slowdown of the industry from 4.8% growth to a 8.2% contraction in this sector.
- National Bureau of Statistics (NBS) of China released China's Purchasing Managers Index (PMI), which slumped to a record level of 35.7 in February 2020 from 50 in January 2020.

On the other hand, international economic organizations and central banks announced some accommodative packages to support the global economy:

- UN announced that it would release US\$15 billion to help vulnerable countries to contain the spread of the coronavirus;
- The IMF made about \$50 billion available through its rapid-disbursing emergency financing facilities for low income and emerging markets;
- Finance ministers of G7 pledged to support the global economy under acute threat from the coronavirus;
- The U.S. Federal Reserve cut its benchmark interest rate by a half-point - the biggest reduction since the financial crisis 2008-9.

Considering all the above developments and putting our reference point of economic growth on the basis of the latest World Economic Outlook (WEO, January 2020), we have built up three scenarios on the economic impacts of coronavirus outbreak as follows:

- Short-Lived Coronavirus to be contained in 2nd Quarter of 2020 (3-5 months crisis);
- Mid-Lived Coronavirus to be contained 3rd Quarter of 2020 (6-8 months crisis);
- Long-Lived Coronavirus not to be contained by the end of 2020 (more than 8 months).

Table 1 below shows our forecasts of the GDP growth in some selected countries and regions as well as the global growth.

Table 1. Projections of GDP growth (%) in 2020 based on three scenarios

		Global GDP	China	Japan	Europe	U.S.
WEO (January 2020)		3.3	6.0	0.7	1.3	2.0
Short-Lived Optimistic	To be contained in 2 nd Quarter 2020	3.1	5.4	0.5	1.1	1.9
		(- 0.2)	(-0.6)	(-0.2)	(-0.2)	(-0.1)
Mid-Lived Baseline	To be contained in 3 rd Quarter 2020	2.7	4.9	0.2	0.7	1.6
		(- 0.6)	(-1.1)	(-0.5)	(-0.6)	(-0.4)
Long-Lived Catastrophic	Not to be contained by the end of 2020	2.0	4.0	0.0	0.3	1.2
		(- 1.3)	(-2.0)	(-0.7)	(-1.0)	(-0.8)

Source: GECF

N.B. to be contained means the virus spread to be controlled, public health to be recovered, and the economic activity to come back to normalcy.

In our baseline scenario, we believe that the coronavirus will be contained by Q3-2020. As such, the world economy will suffer a drastic deceleration to stabilize around 2.7%, well below the forecasts in early January 2020, (based on the figures of IMF, OECD and World Bank prior to the occurrence of the coronavirus).

The short-lived scenario, which in our sense is very optimistic, supposes that the duration of the disruption will be mastered in Q2-2020, through notably strong fiscal

and monetary stimulus and a lifting of the imposed quarantine measures under favorable opinions of the medical experts and researchers.

In the long-lived scenario, which is a warning scenario for the world economy, the economic impact of COVID-19 could be virulent due to a prolonged disruption in the supply chains and a weak demand. In this scenario, the global trade will be contracted and global investment will remain subdued. In addition, global economy would be depressed and it will drive down commodities' prices with all the consequences they may engender.

It is important to highlight that under all the above mentioned scenarios, aftershocks responses need to be considered as they could curb the stabilization of the economic growth around the foreseen levels of our today's estimations, and thus we can expect a global economic growth much lower than the figures indicated in table1 above.

Based on our analysis, which is inspired from the current worrisome situation, no economy in the world will be immune from Coronavirus and the impacts will be heavily felt worldwide if no efficient global measures are found and agreed upon.