

January 29, 2020

## Coronavirus poses a problem for the Chinese economy

**China's GDP growth will be lower than predicted due to the spread of the disease**

Dmitry Kulikov  
Associate Director,  
Sovereign Ratings and  
Macroeconomic Analysis Group  
+7 (495) 139-0492  
dmitry.kulikov@acra-ratings.ru

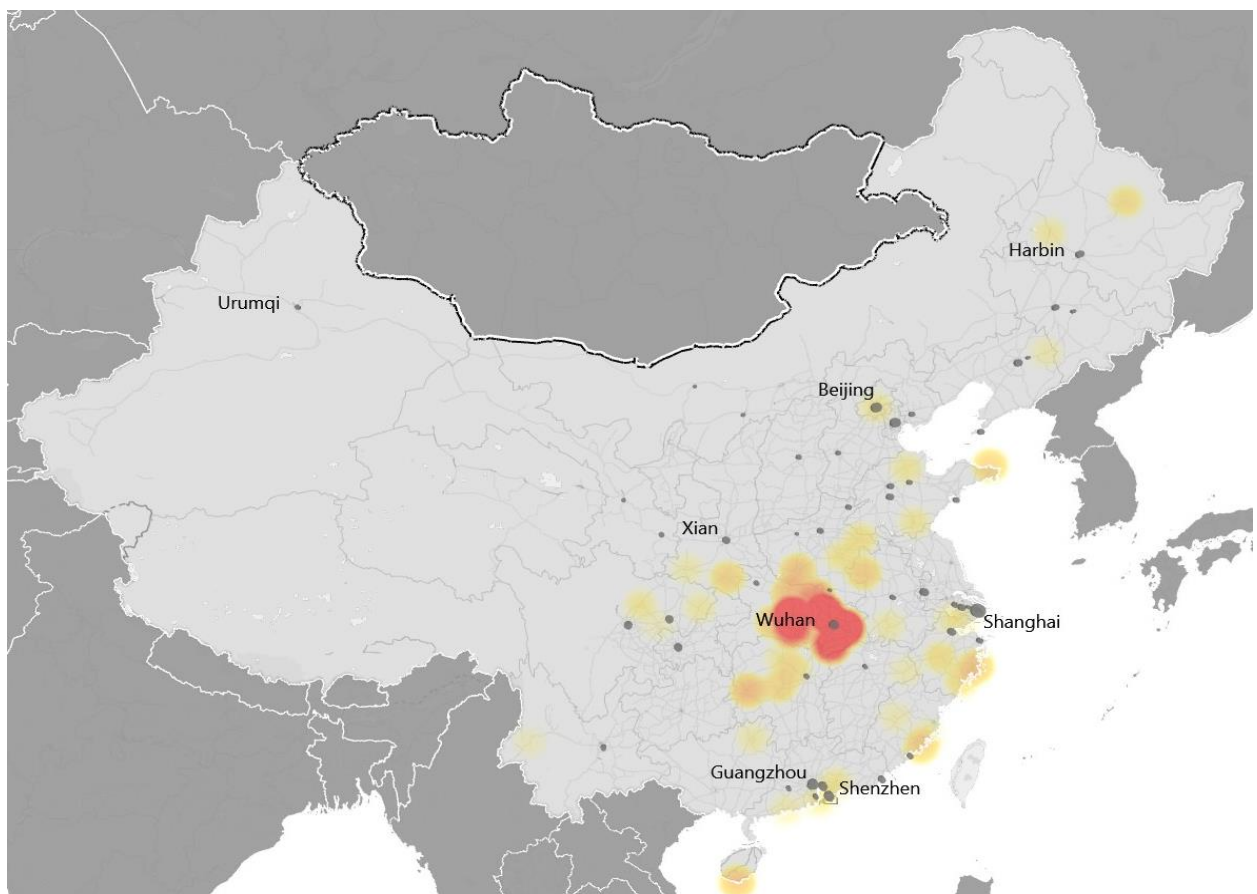
### Contacts for Media

Alexey Churilov  
Manager, External  
Communications  
+7 (495) 139-0480 ext. 169  
media@acra-ratings.ru

The spread of the 2019-nCoV coronavirus, which originated in China, has not reached the scale of a pandemic because currently there are less than 7,000 confirmed cases of infection in 15 countries. Despite this, the macroeconomic consequences of the fight against this disease may be sizeable for China. ACRA believes that the net effect of reduced business activity on the Chinese economy in 2020 may range from 0.4% to 1.1% of GDP. This assessment takes into account effects that compensate for direct economic losses (see *page 2*), but not possible stimulus measures carried out by the state.

Statistics on the largest epidemics of the 21<sup>st</sup> century show that an insignificant part of the working population (usually less than 0.5%) is effected by outbreaks of lethal diseases, however measures to prevent the spread of these viruses may impact the economic activity of more than a third of a country's population. ACRA predicts that China will see a significant decline in volumes of internal tourism, provision of educational services (due to closures of educational institutions), public transport services, and visits to recreational and entertainment venues in 2020.

**Figure 1. Proliferation of the 2019-nCoV virus in China as of January 28, 2020\***



\* Yellow indicates regions where outbreaks of the disease have been recorded; red indicates areas with the most cases of infection (statistics for 200 cities). The share of those infected does not exceed 0.1% in any of the cities indicated. The gray circles mark the 50 largest Chinese cities in terms of population.

Sources: World Health Organization, National Bureau of Statistics of China, ACRA

ACRA has assessed the economic effect of the spread of the coronavirus taking into account the assumptions listed below (the largest major epidemics of the 21<sup>st</sup> century are taken into account, see *Table 1*):

1. The epidemic will not be confined to China, but the majority of cases will be recorded in three or four countries, including China.
2. The number of confirmed cases in China will continue to grow rapidly until late February or early March 2020, while the active campaign against the virus will continue until late April 2020.
3. The mortality rate (ratio of confirmed deaths caused by virus to the number of confirmed infections) will range from 5% to 25%.
4. Internal tourism will decline by 50% and external tourism will decline by 75% in the affected areas during the active campaign against the virus.

### Assessment components

1. **The value of tourism services provided in China in 2020 may fall by 10–30%.** Over the past ten years, internal and external tourism has become a significant part of China's economy. During this period, China's annual revenue from the tourism sector as a whole has grown from 3.7% to 6.7–7% of GDP (out of which internal tourism has accounted for 5.8–6%). ACRA assesses that transportation services related to the tourism sector account for 7–10% of the total value of transportation services. The total value of non-provided transport services in the tourism sector may reach 0.5–1.1% of GDP in 2020.
2. **The volume of educational services provided in 2020 may fall by 3–7%.** Educational institutions are being closed down in the cities where the largest numbers of coronavirus infections have been recorded. These enforced vacations may last for up to a month. Impact: 0.1–0.2% of GDP.
3. **The value of public transport services that are not related to tourism may fall by 2–3%.** Limits are currently in place on urban and intercity transport in at least ten Chinese cities. It is likely that such restrictions will be imposed in more areas. Impact: up to 0.1% of GDP.
4. **Effects mitigating the slowdown in GDP growth:** (a) growth in the volume of healthcare services; (b) growth in demand for food and entertainment due to a reduction of external tourism; (c) growth in demand for services provided by online retailers and online entertainment providers. These mitigating effects are assessed at 0.3–0.7% of GDP. The Chinese government will continue to apply stimulative fiscal and monetary measures.

**Table 1. Statistics of major 21<sup>st</sup> century epidemics (only confirmed cases of infection)**

Virus	2019-nCoV*	H7N9	Zika	Ebola	MERS	H1N1/09	H5N1	SARS
Period of major outbreaks	2020	2017	2015–2016	2014–2016	2012	2009	2005–2007	2003
Most cases	China	China	Latin America	West Africa	Saudi Arabia	Global	South Africa	China
Number of countries affected	15	3	>100	10	27	>100	17	26
out of which were heavily affected	1	1	5	3	1	7	3	1
Number infected	6,014	1,568	>150,000	28,646	2,494	>200,000	861	8,096
Deaths	132	616	18	11,323	858	1,906	455	774
Mortality rate, %	5–25	35–40	no data**	40–50	35–40	<1	50–60	9–10
Average duration of outbreak, months	2–4	3–4	no data	4–5	2–3	3–4	2–3	1–2
Decline in internal tourism, % per year	15–20	no data	no data	no data	no data	no data	no data	no data
Decline in external tourism, % per year	30–40	0–5	15	no data	12	23	25	no data

\* Data as of January 29, 2020. There is no data available for the cells shaded gray; these figures are assumptions needed to calculate the economic effect of the epidemic.

\*\* The Zika virus leads to children being born with developmental diseases and an increased risk of neurological disorders.

Sources: World Health Organization, national statistics agencies, ACRA

(C) 2020

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)  
75, Sadovnicheskaya embankment, Moscow, Russia  
[www.acra-ratings.com](http://www.acra-ratings.com)

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – [www.acra-ratings.com/criteria](http://www.acra-ratings.com/criteria).

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – [www.acra-ratings.com](http://www.acra-ratings.com). Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.