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# COVID-19 RESPONSE: POLICY MAKERS ARE GETTING IT STEP BY STEP

## Berenberg Macro Flash

The world is facing a medical emergency. According to the World Health Organization, the coronavirus infection had spread to 117 countries and territories outside China by 12 March. While the pandemic and its economic fallout, as well as the consequences of the equity market rout, will affect regions differently, these are global events.

In an ideal world, policy makers would maximise the confidence impact and efficacy of their measures by announcing all of them fast and jointly. They would do so without any partisan bickering or cross-border scoring of points. That would apply equally to:

- containment efforts,
- monetary policy,
- fiscal policy, and
- the regulatory response in the financial sphere.

Alas, we will never live in an ideal world. The responses will continue to come out in a piecemeal fashion. We may criticise that neither the Fed nor the ECB presented their recent monetary policy decisions well. We may or may not agree with some of the precise fiscal or regulatory measures. However, that should not obscure the fact that the various initiatives add up to an unprecedented and unusually fast response around major parts of the globe.

**GERMANY: AN AGGRESSIVE RESPONSE**

The latest example is the German decision today to offer an unlimited volume of federal guarantees to facilitate corporate lending. Key elements include

- an expansion of existing liquidity assistance programmes (often KfW or ERP) to businesses with no pre-set limit,
- a major expansion of credit guarantee schemes,
- tax related liquidity assistance to companies.

See the attached official statement for details.

We would not be surprised to see schemes along comparable lines in many jurisdictions soon. Like Germany's big automatic stabiliser, the "Kurzarbeitergeld" scheme to finance underemployment on the job, this is the kind of policy response that can have a major immediate impact. To some extent, it decouples the liquidity available to companies from their current cash flow. In the same vein, the "Kurzarbeitergeld" decouples the German labour market and consumer incomes from sharp plunges in output to a considerable extent. As a side effect, it will hopefully convince global investors not to focus too much on the details and size of any discretionary stimulus through more investment spending, which would take many months or even years to actually hit the ground. Such standard fiscal stimuli, while welcome, would not be the best tool to contain the current crisis.

**OUTLOOK: IT WILL REMAIN ROUGH NEAR-TERM**

One way or the other, the emergency will eventually end, be it with effective containment, be it when it has spread so far that the virus finds fewer people that can still be infected or be it with a vaccine or treatment eventually. Economists cannot say much about that except noting that, the more the spread of the virus is slowed down, the better our health systems and economies will likely be able to cope.

Amid unusual uncertainty in a medical emergency, monetary, fiscal and regulatory initiatives are not the obvious circuit breakers. For a genuine upturn, we need to get a better idea about the future course of the pandemic first. But the measures that are being taken can contain the downside risks.

For our baseline and bad-case risk scenario for the Eurozone and the UK, see today's Chart of the Week.

For key measures taken on both sides of the Atlantic in the last few days, the Berenberg reports listed below

for Europe...

EU crisis response: following the UK example?

ECB: At odds with markets

UK stimulus – the budget

UK stimulus – BoE package

UK – monetary and fiscal response

...and the US

Fed to increase liquidity injections significantly

Fiscal policy support is focus of US Administration and Congress

Revised US economic and Fed forecasts, and comments



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