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COVID-19 UPDATE: WORSE THAN LATE 2008, BIGGER POLICY RESPONSE

Berenberg Macro Flash

Spread of the virus: Confirmed infections continue to surge on both sides of the Atlantic, up 66% to 77k in Europe and 120% to 6.5k in the US since 15 March according to Johns Hopkins University data this morning. The situation in China remains largely stable with just 13 confirmed new cases yesterday.

Staying put: Ever more countries and regions are imposing ever harsher travel restrictions and lockdowns. EU leaders approved a 30-day ban on travel of non-citizens into the EU. As harsher measures in Europe have only kicked in step by step in the last eight days, it may take another week before we see evidence to which extent they are slowing down the advance of Sars-Cov-2.

Worse than late 2008: Amid huge uncertainty about the outlook for the pandemic and the measures to contain the spread of the virus, we cannot really predict the depth and length of the recession. At least for the months March to May, the drop in economic output in much of Europe is likely to exceed that seen from September 2008 to April 2009, possibly by a significant margin. The risks to our base case scenario of a 3.5% drop in Eurozone and a 2% decline in UK GDP in 2020 are heavily tilted to the downside.

An extreme emergency continues to meet an unprecedented policy response that is being scaled up day by day (see Virus pandemic: the macro essentials). Policy makers around the Western world are in **"whatever it takes"** mode. Following to some extent the **German example** of last Friday, the **UK** yesterday announced a big package including a government-backed loan-guarantee scheme with at least GBP330bn of guarantees (c15% of GDP), a major employment-support scheme, a bailout for airlines and airports, tax relief for businesses and a 3-month mortgage holiday. **France** wants to offer €300bn in guarantees for businesses, other countries have announced or are planning similar programmes. **US** President Trump has proposed a $1trn stimulus package which may even include a $1000 cash handout to (most) citizens. In our view, huge but targeted measures to ease liquidity crunches and prevent dismissals are better suited to tackle the unique current situation than traditional stimuli to boost aggregate demand amid a health emergency, lockdowns and an impending liquidity crunch. Separately, the **Fed** re-launched a programme used in the last financial crisis to allow approved dealers to borrow money against some stock, municipal debt, and higher-rated corporate bonds as a further contribution to ease liquidity shortages.

Footing the bill: We expect the "whatever it takes" policy responses to contain liquidity crunches and financial stress sufficiently to prevent the emergence of a big financial crisis on top of the unfolding real economic emergency. If so, this will keep the huge overall economic damage below what it would be otherwise. It also shifts a significant part of the costs of the pandemic onto the public sector. Fiscal deficits in in coming quarters may temporarily exceed those of post-Lehman 2009. Part of the surge in public debt will end up on central bank balance sheets.

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