Pandemic update: The curve continues to flatten. In Europe, the number of confirmed infections rose by 3% per day on average over the last three days to 901k after a 5% average increase a week ago. The US remains roughly one week behind Europe with a 5% rise in the number of confirmed infections per day to 609k over the last three days according to Johns Hopkins University data from the morning of 15 April, down from a 9% rate a week ago.

STRIKING THE BALANCE
Europe and the US are approaching a critical stage in the fight against the pandemic. The crippling lockdowns imposed over the last four to six weeks are working. As the spread of the virus slows and intensive care units in many of the most affected regions become less strained than they were a week or two ago, countries are starting to plot their exit strategies. As discussed over the last six weeks, some clarity about the outlook for the pandemic and the lockdowns needed to contain it is a key requirement for any sustained rebound in financial markets.

In their fight against the pandemic, most western countries have adopted a similar strategy, namely, to manage the spread of the virus rather than eradicate it completely. European lockdowns are – mostly - not as harsh as they were in China's Wuhan region. Western countries are trying to slow down the spread of the virus so that the health system can cope with the caseload. They now need to strike the balance between easing the lockdowns in order to restart economies while managing the risk of a big new wave if increased human interactions allow the virus to infect more people again.

SOME COUNTRIES CAN BE IN THE VANGUARD
Our chart below gives a rough idea which countries can possibly afford to move ahead earlier than others. It plots the daily growth rate in confirmed infections against the intensity of testing for the infection. Countries which have managed to contain the spread of the virus while testing intensely probably have a better grip on the situation and run a lower risk of a surge in new infections. Judging by this criterion, South Korea, Switzerland, Austria, Italy and Germany would be in the best position to proceed cautiously soon whereas the US and, even more so, the UK remain behind. Of course, these data have to be interpreted with caution as specific containment policies, along with testing and reporting patterns, differ between countries. In the UK, lockdowns are less harsh than in some countries on the continent.

PLOTTING THE EXIT STRATEGY
The economic costs play a major but not the decisive role in the discussion across much of Europe.

• Judging by the state of the debate so far, many countries will prefer to err on the side of medical caution. They mostly do not want to risk a new surge in infections. Having to re-instate se-
rious restrictions later on may be politically and economically much more damaging – and may be much more difficult to enforce – than maintaining some restrictions a little longer.

- Countries will proceed gradually and learn from the experiences of others.
- As it will take at least two weeks before it may become clear whether the virus is spreading faster again, the process will likely be very gradual.
- Most countries will probably ease their restrictions in a way that encourages citizens to comply with the restrictions that remain in place.
- Opening more shops and factories that can comply with social distancing rules will come at an early stage.
- Such steps will often come with a duty to wear face masks on public transport.
- Big public events will likely come last. I would be surprised if I would still get the chance to see a home match of Hertha BSC football club in the stadium close to my home office in Berlin before the end of the year.

THE NEXT STEPS
Some European countries including Austria, Spain and Denmark are already taking the first cautious steps to ease some of the restrictions that are crippling economic activity. Germany will discuss its way forward this afternoon. The European Commission will publish general guidelines today that will reportedly recommend a differentiated approach by country and region. The US will probably also go for a differentiated approach as the US debate seems to have degenerated into a contest between President Donald Trump and the governors of the most seriously affected states.

PONDERING THE IMPACT
As economists, we cannot predict the medical outlook and judge what and when restrictions should be imposed and in which stages they should be lifted. To some extent, we can try to assess the economic costs of various options. In addition, we can check whether the pandemic and the political decision about the timing and details of an exit strategy are in line with the assumptions behind our forecasts.

Our economic forecasts rest on the assumption that some of the economically crippling restrictions can be lifted at some stage in the second half of May. If those countries that are starting to test an early easing of some restrictions now do not suffer a serious relapse of new infections, the gradual rebound of activity may start a little earlier than we had expected in parts of Europe. We see a rising chance that May could already be less dismal than April in some European countries.

As explained in our macro essentials, we would subtract at least 2.5% from annual 2020 GDP for every month of a harsh lockdown while adding at least 1.5% to 2021 GDP due to base effects and a post-lockdown rebound. We would also raise 2022 growth by up to 0.5ppt as the recovery continues, supported by the monetary and fiscal stimulus. The same would hold for every two months of a follow-up semi-harsh lockdown if restrictions can be eased only very slowly. Details vary with the specifics of each country and the assumptions about non-corona trends. Our cur-
Current forecasts assume a severe lockdown of about eight weeks in total until mid-May followed by step-by-step easing thereafter. The restrictions on daily life and economic activity are hitting most non-digital consumer-facing services including tourism (think Italy, Spain and Greece) much more than manufacturing and construction.

**Chart 1: Confirmed cases vs. tests**

<table>
<thead>
<tr>
<th>Country</th>
<th>France</th>
<th>UK</th>
<th>US</th>
<th>Germany</th>
<th>Switzerland</th>
<th>Japan</th>
<th>Italy</th>
<th>Spain</th>
<th>South Korea</th>
<th>Austria</th>
<th>Netherlands</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth rate in confirmed cases</td>
<td>▶</td>
<td>◂</td>
<td>◁</td>
<td>◁</td>
<td>▶</td>
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</tr>
<tr>
<td>Cumulative testing per capita</td>
<td>0</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>20</td>
<td>25</td>
<td></td>
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</tbody>
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*Daily increase in confirmed cases, average of last three days, in %. Total tests per capita, in thousand. Sources: Berenberg, Haver Analytics, Johns Hopkins University, Worldometers.*