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EXITING THE LOCKDOWNS
A TALE OF FOUR STORIES

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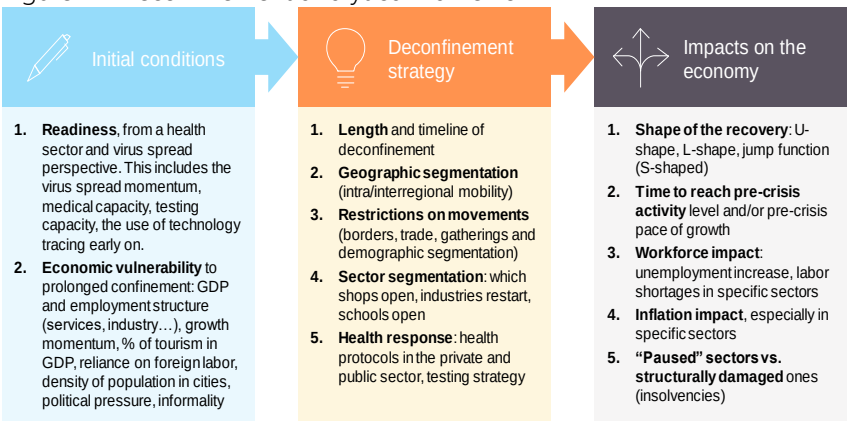
As more countries announce future end dates for lockdowns (France, the UK, Germany), already start curbing them (China, Austria and now Italy and Spain) all of them are outlining their plans to gradually restart activity. Yet one should keep in mind that not all countries are in the same boat; each faces different risks on the eve of deconfining. Starting with initial conditions, it is evident from epidemiological data that few countries are already in a position to start deconfining, i.e. boasting an estimated basic reproduction number R0<1. However, many would like to start relaxing restrictions as early as possible to support their economies. To understand potential exit strategies and the risks associated with them, we group countries over two dimensions that analyze their initial conditions, prior to lifting their lockdowns: (1) the health readiness to deconfine and (2) the economic vulnerability to confinement.

Figure 1 – Deconfinement analytical framework



Source: Various, Euler Hermes, Allianz Research

Our analysis reveals four clusters of countries (see figure 2). The framework is dynamic, so clusters may evolve across time as the fight against the virus progresses, and as countries ramp up their testing or medical capacities. The **first cluster,** mostly made of so-called Emerging Markets, is still unprepared to deconfine as the virus spread accelerates and health care facilities are struggeling to keep up. However, these countries are highly vulnerable to confinement, which could be harder to implement in highly populated areas (Brazil, India…). Informality also makes it difficult to generalize social safety nets as activity halts (Mexico), and political pressure to re-start the economy is mounting. Not only will the impact of confinement overall be devastating, but its effects could even hamper the economy in the medium-term. And the risk of policy mistakes – restarting

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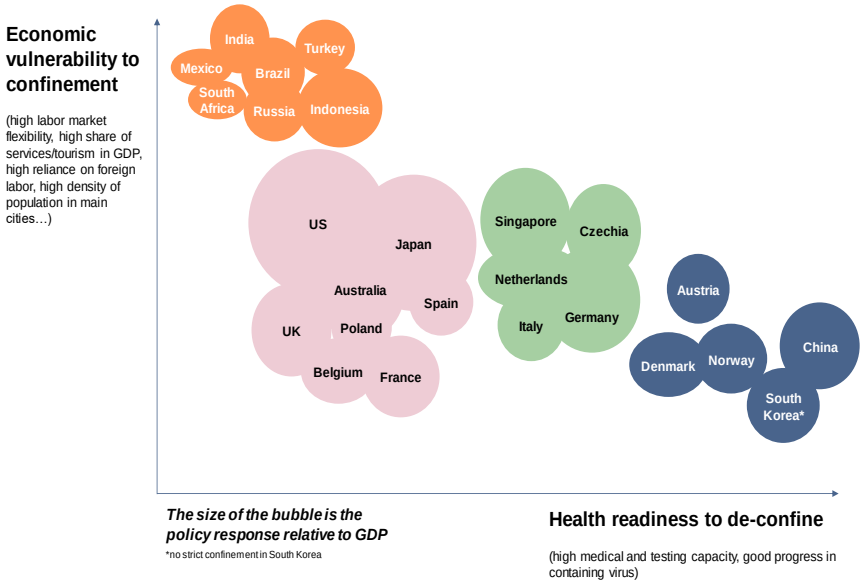
the economy too soon and risking a secondary outbreak – looms. A very gradual deconfinement appears to be the optimal solution, even if it means a sluggish U-shaped recovery.

Figure 2: Countries distributed according to their initial conditions



Source: Various, Euler Hermes, Allianz Research

A **second cluster**, the early birds, are close to having defeated the virus, having ramped up testing capacity and medical capacity. They also showcase lower vulnerability than others, due to central top-down decision-making (China), efficient activity stabilizers and safety nets (Denmark) or limited confinement (South Korea). Their deconfinement strategies are likely to be prudent, and gradual, as seen by most recent announcements where some services subsectors remain shut until June. China's experience shows confinement measures are being relaxed prudently or sometimes even re-tightened in cities where there is a risk of a second wave of infections, whether due to imported or asymptotic cases.

A **third cluster** comprises borderline countries, where progress has been made in stopping the virus' spread (Italy) or medical and testing capacity has outperformed peers (Germany, Singapore). However, many of these countries are relatively more economically vulnerable to confinement than early birds. It is likely that here, in an effort to reduce the negative economic impact (through trade, tourism and industrial supply chains), deconfinement would come earlier or be less progressive; we would see higher risks of a new wave of infections (Singapore); it could be compensated only by a higher testing or contact tracing capacity.

The **last cluster** comprises countries still battling the epidemic and where testing has not yet reached the standard of best performers. In this cluster, we also find countries with highly dense urban areas (U.S., Japan, UK, France) where confinement is hard to enforce logistically. Besides, some are highly vulnerable in economic terms due to a flexible labor market (U.S.) and an already depressed economy (Japan) or limited fiscal policy leeway (Spain). Lastly, many countries are vulnerable to prolonged lockdowns because they have a high concentration in sectors where activity is halted. Optimally, deconfinement should be even more gradual

and slow to avoid secondary outbreaks, and because some of these countries (mainly in the EU) have to deal with regulation before being able to implement contact-tracing apps. These countries could opt for on and off confinement intervals to make sure ICU capacity is sufficient to treat patients, testing is ramped up and self-isolation enforced strictly. The risk of deconfining too early because of economic urgency (e.g. Spain, which started lifting curbs on construction and industrial activity) remains.

Figure 3: Preliminary lessons for deconfinement: general do's and don'ts

Length and timeline	- To keep the R0 < 1, it could be optimal to not fully lift lockdowns before a vaccine is found. The return to "normality" would hence not be expected before the first half of 2021. - Yet 18-month lockdowns appear unsustainable: gradual deconfinement (minimum of two months, up to six months) seem to be the accepted standard, but they need to be accompanied by mass testing, targeted isolation and identification of asymptomatic cases.
Sectorial segmentation	- The confidence effect will be long-lasting, so we should not expect consumption to resume immediately: self-isolation and fear prevails the longer the confinement lasts. - Sectors with a low risk of infection, e.g. highly automated factories, and less vulnerable persons, e.g. day-care centers and schools, could be opened first. "Essential sectors" could also re-start providing they adopt strict health protocols. - How sectors will organize the deconfinement is critical to understanding the recovery: not all will be able to resume swiftly, depending on their integration in the global supply chain, their accumulation of inventories during confinement, consumer confidence shocks and shipping delays. - Complementarities between sectors must be taken into account. For example, many people with children cannot go to work when day-care centers and schools are closed;
Geographic segmentation	- Regions with free capacities in health care can be opened up more easily. - Should "herd immunity" be reached in some regions, especially areas and regions with high immunity can be open;
Restrictions on movement	- Keeping borders closed or enforcing strong travel restrictions will be the new normal until the end of the year. Avoiding imported cases will be key as deconfinement differs in its timing and strategy across countries - Priority should be given to easing restrictions that imply high social or psychological stress
Health protocol	- Managing the asymptomatic cases: as long as there is no accurate estimate of the number of asymptomatic cases or widespread testing put in place to detect them, deconfinement could never be complete. China tells us that no matter how top-down the guidelines and constraints are, one of the biggest challenges is managing the spread through asymptomatic cases. - Contact tracing appears to be one of the best ways to date to monitor the virus spread, if combined with appropriate mass testing. However, it has raised concerns about privacy and could prove harder to implement in Europe given privacy regulation. Mass testing combined with strict enforcement of self-isolation could be an alternative suggested in European countries.

Sources: Various, IFO, Blair Institute, McKinsey, Allianz Research

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