1. **Why has the pandemics had such a large impact on GDP?**

The pandemic constituted both a shock in demand and in the supply side of the economy. The prolonged lockdowns were the cause for the shutting down of many activities, reducing the world supply, and disturbing the network of global value chains, thus creating a deep contraction in the number of products and services available in the economy. On the demand side, families had fewer opportunities to spend, which decreased consumption, and given the higher level of uncertainty, firms reduced their investment levels. Governments increased public consumption due to health related expenditures.

2. **Was there a differentiated impact along components of domestic demand, prices and sectors of activity? Please explain**

On the demand side, there is clearly a differentiated impact across different sectors of the economy. Some sectors which are particularly dependent on personal contact and freedom of movement, such as hospitality and tourism, were particularly hit by the pandemic. Other sectors, namely those related to IT and communications, saw a positive impact due to the higher demand for these products and services.

Additionally, sectors that were more dependent on the global value chains of production and distribution were more affected by the different lockdowns around the world. Thus, on the supply side, the impact of the pandemic was quite asymmetric across sectors. The contraction of consumption and investment, as well as the temporary contraction of world trade, was compensated by a large increase in government expenditures.

Supply chain disturbances were the main contributor to an early ncrease in the price levels.

3. **What was the role of national economic policies in the response to the shock?**

From the beginning of the pandemic crisis, it was clear that monetary policy alone could not sustain the impacts created by the prolonged lockdowns. However, we observed further monetary expansion, through the PEPP, – Pandemic Emergency Purchase Program - further liftings on the amount of public debt bought by the central bank or smoother rules on the provision of credit by banks.

National economic policies in the Euro area were mostly focused on the fiscal policy, given that monetary policy responses were spearheaded by the ECB. Some of the main tools used by governments at the national level included the increase in health expenditures, support for layoffs, direct subsidies to companies, credit lines and guarantees, and direct transfers to families. All these policies tried to provide income and revenue to both families and firms during the lockdown period. Some other fiscal policies were adopted at the European level, notably under the recovery and resilience facility and the React EU programme. Part of this programme is directly financed at the European level, constituting an important step towards more common European fiscal policy.

4. **How do you compare the fiscal and monetary policies taken in the EU during the Covid pandemics with those adopted after the 2008 global economic and financial crisis?**

During the last global financial crisis in 2008 and the following sovereign debt crisis that led to the sudden stop of external financing euro area countries (such as Greece or Portugal), the monetary policy had a key role in containing the crisis. After the “whatever it takes speech” the European central bank engaged in a broader set of unconventional monetary policies, namely through Quantitative Easing (the buying of large sets of financial assets), the outright monetary transaction mechanism (the possibility of the ECB to buy public debt in the secondary markets) or the LTRO’S (long-term refinancing operations which aimed to guarantee the liquidity at long maturities and low-interest rates to the main financial institutions in the euro area). Under the EU advice, the fiscal policy had been used in 2008 and 2009 to fight the financial crisis but this proved to be inadequate, especially in countries with higher debt levels, and thus more exposed to risk.

During the Covid crisis, the monetary tools were again greatly reinforced, through the PEPP, – Pandemic Emergency Purchase Program after a decade of unconventional monetary policy and a prolonged period of low-interest rates. However, the exhaustion of the monetary policy tools demanded a strong intervention through fiscal policy (both at the national and European levels). Therefore, we had a large increase in government expenditures during this period, and the EU started engaging for the first time in a coordinated fiscal expansion program, under the recovery and resilience programs.