Key points of the Action Plan: what measures will be taken in Spain to alleviate the impact of the war in Ukraine?

At the cabinet meeting on 29 March, the government approved the War Response Action Plan, which will mobilise up to 16 billion euros in order to mitigate the impact of the war in Ukraine on the Spanish economy. This package will cost some 6 billion euros (0.5% of GDP), as well as including 10 billion in government-backed ICO credit lines, and most of the measures will be in force between 1 April and 30 June. Below, we take a detailed look at the main measures in three spheres: households, the productive fabric of the economy and the electricity market.

Measures to mitigate the impact on households

One of the main measures is the 20-cent per litre cut in fuel prices in force until 30 June for all users. The government will assume 15 cents of this cut and the oil companies 5 cents (this only applies to those with an annual turnover of more than 750 million, in all other cases the government will also assume these 5 cents). Its cost to the public coffers is estimated at 1,4 billion euros euros. It is essential that this price cut is implemented in a quick and coordinated manner; in this respect, an immediate discount will be applied in full to bills at petrol stations, while the Tax Agency will have to refund the seller in the future or they may request an advance.

In the field of labour, there is a ban on objective dismissal for companies receiving public aid or ERTE furlough grants where the cause cited is a rise in energy costs.

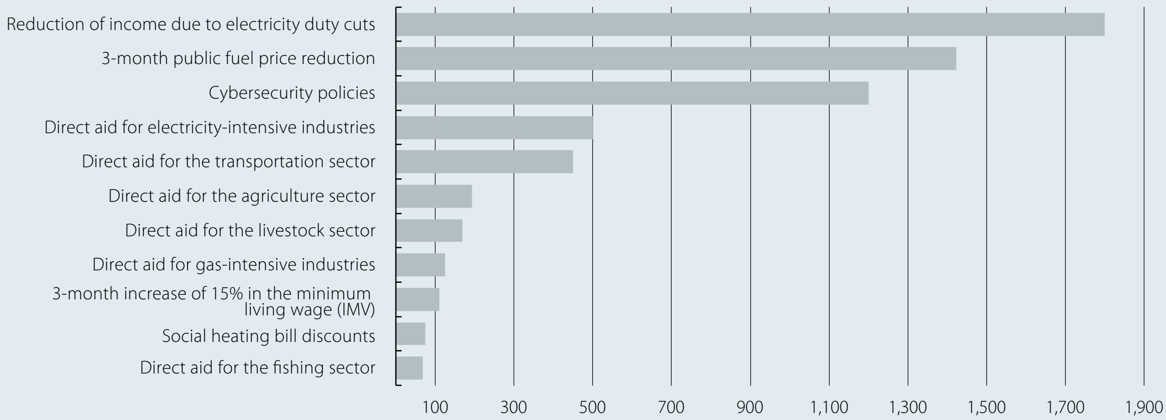
With regards to the real estate market, any revisions of rental prices during the next three months will be limited to the annual change in the Competitiveness Guarantee Index (known as the IGC). As this index is legally applied in values between 0% and 2%, this measure is setting a 2.0% ceiling, albeit with a nuance: this hard ceiling is only applicable to large holders of real estate, while for all other landlords the rent rise may exceed this threshold if agreed with the tenant.

In addition, greater support will be given to the most vulnerable groups: the minimum living wage (known as the IMV) is being increased by 15% for the next three months (we estimate the cost of this measure to be around 110 million euros) and the bigger discounts applied to electricity bills on regulated tarrifs for small consumers (PVPC) under the social discount for electricity bills will be maintained until 30 June (60% instead of 25% for vulnerable groups, and 70% instead of 40% for serious cases).[1] Moreover, this social discount is being extended to 600,000 new households to encompass all those on the minimum living wage with a supply contract (in total, 1.9 million households will benefit from the scheme).

Measures to mitigate the impact on the economy's productive fabric

The measures aimed at supporting the productive fabric of the economy focus on the sectors hardest hit by the rising production costs as a result of the increase in

Spain: main components of the Crisis Response Plan
(EUR millions)



Source: *CaixaBank Research, based on data from the Official State Bulletin (BOE) and the Ministry of Finance.*

1. To be considered a «vulnerable consumer», a household must have an income level equal to or lower than: i) 1.5 times the Multiplier for the Public Income Index, or IPREM (i.e. €12,159.42/year), if there is no household unit or there are no minors in it, or ii) 2 times the IPREM (i.e. €16,212.56/year) if there are also special circumstances.

energy and food prices following the start of the war. In particular, 169 million euros of direct aid will be channelled to dairy producers (124 million for producers of cow's milk, 32.3 million for sheep's milk producers and 12.7 million in the case of goat's milk, with a maximum of 35,000 euros per company), while 193 million euros will go to farms. The fishing sector will receive direct aid worth 68 million euros, including 18 million to compensate fishing vessels and 30 million to compensate fishermen for the increased costs.

The transportation sector will also receive support: in addition to being one of the main beneficiaries of the blanket 20-cent per litre cut in fuel prices, 450 million euros will be injected into the sector in direct aid, depending on the type of vehicle (€1,250 per truck, €900 per bus, €500 per van and €300 per light vehicle).

Industry, a major consumer of energy, will also see its significant cost increases mitigated: 500 million euros in direct aid will be allocated to covering 80% of the tolls between now and the end of the year and offsetting the indirect costs of CO_2 emissions. An additional 125 million will be allocated to gas-intensive industries (paper, cardboard, glass and ceramics). Finally, in relation to cybersecurity, the security of the 5G network will be bolstered with an investment of 1.2 billion euros.

Besides this battery of highly targeted direct aid, there will also be a new set of government-backed ICO credit lines worth 10 billion euros available until the end of the year, the requirements and conditions of which have not yet been specified. In addition, the conditions for extending maturities on the COVID credit lines are being relaxed (the fall in turnover of over 30% in 2020 compared to 2019 will no longer be one of the requirements) and an additional six-month grace period will be granted to the sectors hardest hit (road transportation, agriculture, fishing and livestock).

Measures in the electricity market

The Spanish government, in conjunction with the Portuguese government, has submitted to the European Commission a proposal for setting the benchmark gas price that is used for electricity production. This scheme has not yet been approved, so it is not included as part of the Action Plan, but it will be key in mitigating inflationary pressures, the erosion of households' purchasing power and rising business costs.

What has been included in the Plan is an extension until 30 June of the tax cuts currently applicable in small consumers' electricity bills. These include: a VAT cut from 21% to 10% (which will result in a reduction in revenues of 217 million euros), a cut in excise duty on electricity from 4.11% to 0.5% (reduction in revenues of 224 million euros) and a suspension of the tax on the value of electric energy production (known as IVPEE, representing a revenue loss of around 1,356 million euros).

In addition, the remuneration system for renewable energy and waste plants has been updated. This entails a reduction in electrical system charges of up to 55% in 2022, amounting to 1.8 billion euros.

The windfall profit reduction mechanism in force in the electricity market, linked to the high gas prices, has also been extended until 30 June and its scope is being extended to fixed-price and fixed-term energy contracts, if this price is above €67/MWh, following the European Commission's endorsement as part of its toolbox in early March. The funds raised from this windfall tax will be used to reduce the charges passed on to consumers.

Ultimately, the government has taken steps to alleviate the inflationary shock associated with the war in Ukraine. The impact on the deficit will be around 0.5 pp of GDP. These are temporary measures which, therefore, ought not to have an impact on the structural deficit, and in general (with the exception of the blanket fuel price cut) they are targeted at the most vulnerable households and the productive sectors hardest hit by the rise in prices.

Javier García Arenas