SPAIN

ECONOMIC STIMULUS PACKAGE IN RESPONSE TO COVID 19

The Government of Spain announced a €200 billion package on 17 March, 2020 to help companies and protect workers and other vulnerable groups affected by the spiralling corona virus crisis.

The Spanish government plans to mobilize €117 billion for the package, with private companies providing the rest. Some €600 million will be pumped into basic social services. Half of the assistance measures, which are worth 20% of Spain's economic output, are state-backed credit guarantees for companies, and the rest includes loans and aid for vulnerable people.

The European Central Bank (ECB) decided to provide monetary policy support through

(i) additional asset purchases of €120 billion until end-2020 under the existing program (APP), and

(ii) providing temporarily additional auctions of the full-allotment, fixed rate temporary liquidity facility at the deposit facility rate and more favorable terms on existing targeted longer-term refinancing operations (TLTRO-III) starting between June 2020 and June 2021.

(iii) Further measures included an rel="noopener noreferrer" additional €750 billion asset purchase program of private and public sector securities (Pandemic Emergency Purchase Program, PEPP) until end-2020, an expanded range of eligible assets under the corporate sector purchase program (CSPP), and relaxation of collateral standards for Eurosystem refinancing operations (MROs, LTROs, TLTROs).

(iv) The ECB Banking Supervision allowed significant institutions to operate temporarily below the Pillar 2 Guidance, the capital conservation buffer, and the liquidity coverage ratio (LCR). In addition, new rules rel="noopener noreferrer" on the composition of capital to meet Pillar 2 Requirement (P2R) were front-loaded to release additional capital.

(v) The ECB considers that the appropriate release of the countercyclical capital buffer by the national macroprudential authorities will enhance its capital relief measures. The ECB Banking Supervision further decided to exercise – on a temporary basis – flexibility in the classification requirements and expectations on loss provisioning for non-performing loans (NPLs) that are covered by public guarantees and COVID-19 related public moratoria; it also recommended that banks avoid pro-cyclical assumptions for the determination of loss provisions and opt for the IFRS9 transitional rules. More recently, ECB Banking Supervision asked banks to not pay dividends for the financial years 2019 and 2020 or buy back shares during COVID-19 pandemic, from which the conserved capital should be used to support households, small businesses and corporate borrowers and/or to absorb losses on existing exposures to such borrowers.

In addition, the government of Spain has extended up to €100 billion government loan guarantees for firms and self-employed; up to €2 billion public guarantees for exporters through the Spanish Export Insurance Credit Company; and guarantees for loan maturity extensions to farmers using the special 2017 drought credit lines. These public guarantees could leverage up to €83 billion of liquidity support to companies through the private sector.

Other measures include

(i) additional funding for the Instituto de Crédito Oficial (ICO) credit lines (€10 billion);
(ii) introduction of a special credit line for the tourism sector through the ICO (€400 million);
(iii) three-month moratorium on mortgage payments for the most vulnerable, including households, self-employed and homeowners who have rented out their mortgaged properties;
(iv) automatic moratorium on rent payments for vulnerable tenants whose landlord is a large public or private housing holder during the COVID-19 crisis period;
(v) moratorium on non-mortgage loans and credits, including consumer credits, for the most vulnerable;
(vi) suspension of interest and repayment of loans granted by the Secretariat of State for Tourism for one year with no need for prior request; deferred repayment of loans granted to businesses by the Ministry of Industry, Trade, and Tourism; ban of short-selling Spanish shares in the stock market at least until April 17; authorization for special government screening of FDI in strategic sectors; and adoption of a new macroprudential liquidity tool empowering the National Securities Market Commission to modify requirements applicable to management companies of Collective Investment Schemes.

Date of announcement: 12 and 17 March 2020

- **Immediate fiscal impulse (€8.8 billion):**

1. €3.8 billion in medical expenditure (out of these, €2.8 billion will be transferred to regional governments, the remaining €1 billion will be placed in a contingency fund, to be directed by the ministry of health)
2. 25 million in meal allowances to ensure the basic access to food for vulnerable children
3. €5 billion in additional public expenditure corresponding to the package of measures adopted on March 17th to add flexibility to the economy, to preserve jobs, to support workers, firms, families and vulnerable groups, and to fund research on COVID-19. The package includes, among other measures:

    a) €110 million funding research into a vaccine and other treatment
    b) €300 million in transfers to regional governments to combat the social impact of COVID-19
    c) €300 million in additional expenditure by local authorities to fund social services and primary assistance to dependent persons

d) No amount available: additional expenditure relates to the use of temporary employment schemes (ERTEs). They have been simplified and access conditions to them have been extended. In addition, employers will benefit from certain exemptions of social security contributions during the period of application of the temporary employment adjustment scheme.
e) No amount estimate available: an extraordinary allowance is provided for self-employed workers affected by the suspension of economic activity.

- **Deferrals (€24.4 billion):**

1. €14 billion in deferred tax expenditure for 6 months for SMEs and the self-employed
2. About €10 billion moratorium on mortgage loan payments on primary homes for those identified as economically vulnerable, facing extraordinary difficulties procuring payment as a result of the COVID-19 pandemic.
3. No amount estimate available: Guaranteed supply of water, electricity and gas regardless of payment to consumers identified as vulnerable or at risk of social exclusion

- Other liquidity and guarantee measures (€112.4 billion):

1. €100 billion in credit guarantees programmes for companies and the self-employed, both for re-financing and new credit
2. €10 billion increase in the net borrowing limit of the ICO (Spanish equivalent of the EIB) to increase existing lines of credit
3. Specific ICO financing facility amounting to €400 million to support, through liquidity provision, firms and self-employed workers in the tourism sector affected by COVID-19
4. Up to 2 billion in guarantees through the Spanish Export Insurance Credit Company

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