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How European countries are dealing with rising inflation and energy prices

Economic hardship from the pandemic and the war in Ukraine has hit the continent. We look at the government's response in Spain, Czechia and Greece

Spain

By dessert at the latest, the pain threshold has been reached: in the early summer of 2022, watermelons in Spain will cost almost 200 per cent more than in the previous year. According to the INE statistics office, the price of basic food items has risen by an average of 30 per cent, and energy prices were already rising exorbitantly before the attack on Ukraine. In June 2022, inflation was 10.2 per cent, the highest level in 37 years. Without the government's stabilisation and cushioning measures, it would possibly be much higher.

On July 19, Prime Minister Pedro Sánchez presented his second anti-crisis package to combat the effects of inflation and help those most in need. The most important measures of the package are the introduction of extraordinary taxes for electricity companies and banks, the promotion of social housing, a temporary subsidy for local public transport, and additional payments for scholarships.

In the case of the electricity companies and banks, the aim is to skim off so-called excess profits, which were made in the course of the price increases, for tax purposes. By taxing the electricity companies, the Spanish government expects to collect €2 bn per year. The announced tax on financial institutions is expected to bring another €1.5 bn into the state coffers per year. The groups and banks affected have reacted to the announcement with criticism and are reserving the right to take legal action against it. By way of background, Spanish banks paid out dividends of more than €3.5 bn in the first quarter of this year, and a total of over €13.4 bn last year.

'We will not allow the suffering of the many to benefit the few,' affirmed Prime Minister Pedro Sánchez, referring to the recommendations of the OECD and IMF as well as regulations in the United Kingdom, Italy, Belgium, and Sweden. The head of government also recalled that banks were supported with public money in previous crises. With these two taxes, the government's revenues are set to rise to €7 bn over the next two years. Banks and energy companies are to be prevented by law from passing the new tax on to their customers.

The second crisis package, which includes further measures in the areas of health, regional cohesion, and agriculture, supplements regulations that have already come into force previously: the price cap on gas known as the 'Iberian exception'; the reduction of VAT on electricity (from 21 to 5 per cent); subsidising the price of petrol for consumers (20 cents per litre of diesel or petrol by the end of the year); the rent cap (maximum increase of 2 per cent); the one-off payment of €200 for all individuals, families, and the self-employed with a household income of less than €14,000 a year; the increase in non-contributory pensions (widows, orphans, invalids, social pensions, etc.) by 15 per cent; freezing the price of gas cylinders; raising the basic income for the poorest by 15 per cent; and subsidising ancillary housing costs for certain groups. There are also plans to increase the minimum wage, which is currently €1,000 (14 monthly payments per year).

A kind of concerted action is currently being negotiated with the social partners. It is hoped that an agreement can be reached on an income pact. In addition, the development of an emergency plan for energy security is also planned as a concerted action with representatives of the energy and fuel companies, the trade unions, and consumers under the aegis of the Minister for Ecological Transformation and Demographic Change, Teresa Ribera.

The Spanish economy, which had not yet fully recovered from the financial crisis, was hit particularly hard by the pandemic and now by global inflation. The unusually early and long heat wave of 2022 – the fires, desertification, and water shortages – once again illustrate the drastic dimension of the climate crisis, which is also affecting the prices of energy, fuel, and other goods in Spain.

The social balance sheet of the Sánchez government is actually quite impressive: in the three years that it has been in office, the statutory minimum wage was raised by 60 per cent, among other things, and a basic income has been introduced for the first time, that is also available to people who are otherwise not covered by the social system, and a number of companies have survived with the help of government loans and the

outsourcing of wage costs. Nevertheless, dissatisfaction among the population is high. Truck drivers, for example, are threatening to go on strike once more due to the increase in petrol prices – which had already led to significant supply bottlenecks in the spring. The trade unions have also announced that they intend to take industrial action on behalf of workers who have been hit by inflation.

The government led by the Spanish Socialist Workers' Party (PSOE), on the other hand, makes it very clear that it is also concerned with overriding political goals when fighting inflation and mitigating its consequences. 'Governing means making decisions. And we choose to side with the working class,' says Pedro Sánchez. With their anti-cyclical crisis policy, the Spanish socialists are clearly distancing themselves from the crisis management of the right-wing conservative People's Party in the past. On the other hand, they are prioritising the social democratic project of *Just Transition*. The climate and economic crises must be fought to the utmost at the same time. For Sánchez, it is about understanding ecological change as a great opportunity for economic power, job creation, and social cohesion. He wants to lead the green industrial revolution in Europe.

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Czech Republic

Since the beginning of the Russian war of aggression in Ukraine, there has been great solidarity and willingness to help Ukrainian refugees in the Czech Republic. Well over 400,000 Ukrainians have found refuge there – and that out of a total Czech population of less than 11 million people. This statistic is particularly remarkable in view of the fact that the living conditions for many Czechs had already deteriorated noticeably before the start of the war.

Inflation had already risen sharply at the end of last year and now stands at 17.2 per cent. This is the twelfth month in a row that the inflation rate has been on the rise, and it remains the highest since December 1993. Higher energy prices have been the main contributor to this, but groceries and other everyday necessities have also become significantly more expensive. For many people, this has meant quick calculations when at the supermarket checkout; going out to a restaurant has become a luxury. Many people are also worried that they will no longer be able to pay their electricity and gas bills in autumn and winter. In addition, many energy companies in the Czech Republic have already adjusted their tariffs to the increased purchase prices and passed them on to their customers, so that the actual price increases are already being felt in

people's wallets in a very real way.

The liberal-conservative five-party government has so far done little to help citizens against the rising prices. Only a one-time payment for children of 5,000 crowns (approx. €200) was approved in June. However, this regulation applies only to families whose annual gross income is less than 40,000 crowns (approx. €1,600). As a result, discontent in the country has increased noticeably in recent weeks. Politically, this is proving to be advantageous for the former Prime Minister Andrej Babis and his ANO party, who are driving the government forward and since the outbreak of the war, have been demanding relief for the Czech population.

Not least due to the increased public pressure, the government has now decided to introduce a so-called energy-saving tariff starting 1 October. This is intended to provide households with a fixed amount of support in order to enable them to pay their energy costs. A total of 30.5 bn crowns (approx. €1.3 bn) has been earmarked for this in the budget. However, it is not yet clear how high the subsidies will be per household and who will actually be eligible for them. The government is also planning to modernise the cogeneration plants in order to save additional energy. A further 10 bn crowns are available for this.

Moreover, the collective bargaining negotiations for public sector employees are also currently entering the decisive phase. It is important to know that salaries for this group of employees have been frozen since the beginning of the year for reasons of budget consolidation. The trade unions in particular have been demanding a significant increase in salaries and wages by 10 per cent for quite some time now. An agreement with the responsible Labour and Social Affairs Minister seems to be in the offing. However, the question of when the increases are to apply is still open.

On the subject of energy security, the government says that it has been quite successful. The gas storage facilities in the Czech Republic are currently 77 per cent full. According to Prime Minister Petr Fiala, this means that the country is well prepared for the winter. In addition, an agreement was recently reached with the Netherlands on further liquefied natural gas deliveries starting in September. There is also a so-called solidarity agreement with Germany, in which both countries assure each other that they will support each other in the event of an energy shortage. The Prime Minister has also set the goal of the country to become independent of Russian fossil fuels within five years. In order to achieve this goal, the Czech Republic will rely on an energy mix and will also increasingly use nuclear power for electricity production. At the

same time, however, renewable energy is to be successively expanded. However, this has so far only accounted for 15 per cent of the total electricity production in the Czech Republic.

The country is certainly going through a difficult phase. If prices continue to rise and at the same time the government's aid measures are perceived as insufficient, this could lead to more discontent and even social protests among the population. Another disadvantage for the Czech Republic in terms of energy security is its geographical location. Since the country does not have its own access to the sea, it will also have to rely on cooperation with other countries such as Germany for the supply of liquefied natural gas. Solving the first challenge is the task of the Czech government, but the second is not least a question of European solidarity.

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Greece

A winter in the eternal Greek spring, 'far from the crises' and without freezing – this is the invitation from Minister of Tourism Vassilis Kikilias to German citizens. But the invitation should rather be 'Freezing together under the Greek sun'. Most houses and apartments in Greece were built with poor structure, poor insulation, and outdated heating systems. Many apartment buildings have not been heated for years because households could not afford the costs since the economic crisis. Comfortable room temperatures of 22 degrees are unlikely to be achieved.

This cynical PR stunt by the conservative government not only shows how out of touch it is, but also the extent to which inflation is affecting the Greek population: After over ten years of economic crisis, followed by the pandemic, many Greek households are at the edge of their financial resources: in fact, 30 per cent are at risk of poverty. As a result, inflation is hitting Greece particularly hard. While the energy costs have been the number one topic of everyday conversation for months, general inflation has now been added to the mix, and many families are cutting their summer vacations short or can no longer afford them at all.

The severity of the impact of inflation is also shown by a call for a general strike: the trade union confederations GSEE and ADEDY organised a general strike on 6 April, which paralysed public transport in Athens. The demands were for salary increases to match the level of inflation, the reintroduction of 13th and 14th monthly salaries in the public sector, a tax-free subsistence level of €12,000, and an increase in the minimum

wage to €751.

The government's activist measures must be seen against the backdrop of the approaching elections, which will take place sometime between September 2022 and spring 2023. Relief for the population in the form of direct subsidies to households through petrol vouchers (the 'petrol pass') is in progress: the next round is expected to flush up to €100 into the pockets of 3.1 million drivers. The government had previously announced that the 'Power Pass Program' would reduce electricity bills by up to €600 for needy households. The SYRIZA opposition party accused the government of duping consumers because the average pay-outs have been much lower. In addition, the government is also likely to offer another 'inflation cheque'. This, according to media reports, could be available to needy households with an annual income of up to €7,200 and assets of less than €200,000. This will create another gap of €250 to €300 million in the budget.

This is one way to counter rising prices, but what if the supply of Russian gas is interrupted? If Russia turns off the gas, between 40 and 50 per cent of the gas supply will go missing. New gas supplies from the eastern Mediterranean from Israel and Egypt are still a thing of the future. In the short term, the country's energy supply is to be partially replaced by the TAP pipeline, which supplies gas from Azerbaijan, and by liquefied natural gas. In addition, new liquefied gas terminals are under construction and old ones are being expanded.

The main pillar of Greece's power supply whilst in crisis mode is the boost of lignite production over the next twelve months, even though coal-fired power generation was supposed to be phased out by 2028. Now the return of lignite is in full swing. Six power plants returned to full operation in June. Lignite accounted for 34 per cent in the energy mix of the state-owned electricity company DEI in June, compared to 19.9 per cent in May.

'Economise!' is otherwise the motto for the population. One particularly unconventional measure has been introduced: anyone who replaces their old air conditioner with a new, energy-efficient unit will be reimbursed half of the purchase price by the state – and can look forward to lower electricity bills in the future. Subsidies are also available for the purchase of new refrigerators and freezers. According to the government, around 200,000 households will receive such subsidies, saving €150 to €300 per family household per year.

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