

SU/22/24

February 14, 2022

**The Acting Chair's Summing Up
Spain—2021 Article IV Consultation
Executive Board Meeting 22/15
February 14, 2022**

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' comprehensive policy response to the pandemic, which, bolstered by successful vaccination campaigns, mitigated the economic fallout. While a recovery is ongoing and employment has recovered strongly, output remains below pre-pandemic levels and the outlook is clouded by elevated uncertainty and risks. Directors noted that support to the economy should remain flexible until the recovery is broadly entrenched, and prudent policies are needed over the medium-term to support macro-financial stability and promote sustainable, greener and inclusive growth.

Directors emphasized that fiscal policy should remain supportive in the short-term and become increasingly targeted to support the vulnerable. As the recovery takes hold, public debt should be gradually reduced to rebuild fiscal space to respond to future shocks. They noted that an early formulation of a credible medium-term fiscal consolidation plan could help build the necessary social consensus and support investor confidence. Directors also highlighted the importance of ensuring the sustainability of the pension system.

Directors observed that the financial sector has weathered the crisis well and agreed that close monitoring is needed to ensure continued resilience. In this regard, they encouraged the authorities to be forward-looking in their assessment and supervision, and to ensure adequate buffers and prudent levels of provisioning in the banking sector. Directors appreciated the efforts to strengthen the macroprudential toolkit and the private debt resolution frameworks.

Directors commended the authorities' comprehensive structural reform and investment agenda. They observed that Next Generation EU (NGEU) funds provide an exceptional opportunity to support the recovery while promoting a transition to a more productive, inclusive, greener, and digital economy. Directors highlighted the importance of establishing a framework to ensure a transparent and efficient use of the investment funds.

Directors welcomed the recently approved labor reform aimed at addressing long-standing deficiencies and balancing increased protection for workers and preserving flexibility for firms. They noted the high level of ownership derived from the broad dialogue with social partners. Directors stressed the importance of strengthening education and active labor market policies to facilitate upskilling of the workforce and sectoral reallocation, and

underscored the importance of coordination to ensure effectiveness. They considered that the impact of these reforms, including on public finances, should be closely monitored and saw as important making permanent contracts more attractive to firms.

Directors welcomed the recently adopted ambitious climate mitigation objectives. They saw merit in increasing carbon pricing in a gradual and predictable way, while protecting vulnerable households. Complementary policies will be essential to address sector-specific mitigation challenges, and Directors welcomed the authorities' plans to leverage the NGEU funds to support green investments.

It is recommended that the next Article IV consultation with Spain be held on the standard 12-month cycle.