

SU/23/8

January 19, 2023

**The Acting Chair's Summing Up
Spain—2022 Article IV Consultation
Executive Board Meeting 23/4
January 18, 2023**

Executive Directors agreed with the thrust of the staff appraisal. They commended Spain's economic resilience and strong labor market performance in the context of successive shocks. Directors noted, however, that the outlook is subject to significant uncertainty given vulnerability to spillovers from Russia's war in Ukraine, weaker global demand, tighter financial conditions, and elevated energy prices. Against this background, they underscored the importance of flexible and carefully calibrated macroeconomic policies as well as strong implementation of the structural reform agenda to support sustainable, inclusive growth.

Directors commended the authorities for their timely policy support to help households and firms deal with surging energy prices. They welcomed the recent steps toward better targeting and greater preservation of price signals in the support package approved for 2023. Directors considered that continued progress to overcome fossil fuel dependency is necessary in the medium term.

Directors noted the improvement in public finances since the pandemic and welcomed the moderately contractionary fiscal stance envisaged in the 2023 budget. They emphasized that a gradual and sustained fiscal consolidation, underpinned by a medium-term consolidation plan, will be needed in coming years to create space for responding to future shocks. Directors also highlighted the importance of adopting additional measures to preserve the sustainability of the pension system.

Directors observed that the financial sector has weathered the pandemic and the fallout from the war in Ukraine well so far, and encouraged its close monitoring to ensure that it remains sound and resilient. They noted that the deterioration of the macroeconomic outlook and the rise in interest rates will likely erode borrowers' repayment capacity, and called for banks to continue to be forward-looking in their assessment of loan quality and to maintain adequate levels of provisions. Directors also stressed the need to closely monitor the impact of the new temporary banking sector levy on the provision and cost of credit. They commended the progress in addressing the 2017 FSAP recommendations and steps taken to strengthen the private debt resolution framework.

Directors welcomed the progress on the Recovery, Transformation and Resilience Plan and the acceleration of the execution of Next Generation EU (NGEU) funds, which

should reduce barriers to productivity growth. They stressed that establishing a system of regular, data-driven, outcome-based evaluation of the reforms will be crucial. To ensure an effective use of NGEU funds, Directors underscored the need to improve coordination at all government levels and with the private sector, and to enhance the collection and reporting of data on execution.

Directors acknowledged the positive initial results from recent labor reforms, with a significant share of workers shifting from temporary to permanent contracts. They noted the importance of continued monitoring to evaluate reform effectiveness and the need to revamp active labor market policies to improve labor matching efficiency and address skill mismatches.

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