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January 15, 2023

**Statement by Mr. Zhang and Mr. Liu on Spain
(Preliminary)
Executive Board Meeting
January 18, 2023**

We thank staff for the well-written report and Mr. De Ramon-Laca Clausen, Mr. Lopez, and Ms. Moral Betere for their helpful Buff statement. Despite headwinds and elevated external uncertainties, the Spanish economy maintained robust recovery in 2022. Inflationary pressure was also well contained, compared with peers in the euro zone. We broadly concur with staff's appraisals and would like to limit ourselves to the following points.

We agree that steadfast implementation of fiscal consolidation is essential for enhancing Spain's fiscal sustainability. In particular, we share staff's view that an early formulation of credible medium-term fiscal consolidation is crucial to put public debt on a downward path. In the near term, to improve fiscal efficiency the authorities should phase out blanket energy subsidies and implement more targeted measures to provide support to the vulnerable, which will also allow for a better transmission of price signals to incentivize energy conservation. We take note of staff's assessment that pension reforms are expected to raise annual pension outlays by at least 3.25 percent of GDP by 2050. *Could staff elaborate on the implications of the pension reforms on the fiscal sustainability of Spain?*

We share staff's concern that worsening macroeconomic outlook and tightening financial conditions may add to financial vulnerabilities. Given the high concentration of variable-rate mortgage, the authorities should watch closely if future rate hikes may compromise households' repayment capacities. Considering Spanish banks' capitalization is below peers on a risk-weighted basis, *we are wondering if the authorities would be better off requesting banks to strengthen their capitalizations with increased interest incomes, rather than apply new levies on them. Staff's comments are welcome.* Recent amendments to the private debt resolution framework are welcome developments, and the authorities' progress in implementing the 2017 FSAP recommendations is also commendable. We encourage the

authorities to continue keeping a vigilant eye on the development of the financial sector and take precautionary actions to address potential vulnerabilities should conditions warrant.

We take positive note that the implementation of the Recovery, Transformation and Resilience Plan (RTRP) has accelerated, and the envelope of Next Generation EU (NGEU) for Spain has been expanded to 77.2 billion EUR. We are also encouraged that the authorities are further amending the RTRP to tap NGEU loans. Considering the importance of the RTRP for Spain's medium-term economic development, we share staff's concern on the lack of information on RTRP's execution. We recommend the authorities to seriously consider staff's call for establishing a system of regular, data-driven, outcome-based evaluation on RTRP's implementation.

Low labor productivity has been a long-standing issue for the Spanish economy. Hence, a comprehensive structural reform agenda will be critical to sustain the economy's medium-term competitive edge. We support the reform priorities identified by the authorities, namely improving business climate, supporting innovation, enhancing education, and promoting digitalization. *We would like to know if the authorities also have any specific plans to further enhance market competitions? Staff's comments are welcome.*

Last but not the least, we commend the authorities' significant progress in transitioning to renewable energy. With the strong support of the NGEU funds, the target of generating 74 percent of electricity with renewable sources by 2030 and 100 percent by 2050 seems within the authorities' reach. Efforts should also be made to further enhance electricity interconnectivity in line with the EU target, since this will help to boost energy efficiency not only in Spain but also across EU in general.

We consent to continue conducting Spain's Article VI consultation on a standard cycle, and we wish the Spanish authorities success in their future endeavors.