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November 9, 2020

Statement by Mr. Fanizza and Ms. Mateus on Spain
(Preliminary)
Executive Board Meeting
November 11, 2020

We thank staff for the informative reports and Mr. Moreno, Mr. Lopez and Ms. Moral Betere for the insightful Buff statement. The Spanish authorities have taken forceful measures to support the economy and address the public-health conditions. Spain needs to continue treading the path of taming the spread of the disease and creating the conditions to grow out of the pandemic in a more inclusive and green fashion, fully benefiting from the European funds. We associate ourselves with the gray by Mr. Poso. We also broadly share the staff's appraisal and policy recommendations, and offer the following additional comments.

- **The recent evolution of the pandemic is a stark reminder that fiscal support must continue to endow the health system, sustain livelihoods, and create the conditions to foster growth**. The Spanish economy experienced a deep contraction in 2020H1, but the policy response was commensurate to the challenge and contributed to the better than expected rebound in 2020Q3. The ongoing second wave of the pandemic requires continued steadfast and adaptive policy support. Sustained fiscal support should first aim at supporting income and liquidity to households and firms to protect the existing productive capacity and contain the contraction in domestic demand. As conditions permits, we believe policy support should better target people, firms and sectors that need it the most. We remain concerned by the adverse impact the pandemic may have on Spain's growth potential, so fiscal policy should aim at creating the conditions for boosting productivity. Hence, we fully agree that fiscal adjustment should only restart once the economy is in a clear and entrenched strong recovery path.

- **We are glad to see that the authorities intend to use the EU funds to foster the transition to a more climate-friendly and digitalized economy, but also to address**

structural vulnerabilities. If well used, the EU funds can help unleash potential growth by focusing on "future-oriented" sectors, digitalization and investments that help the transition toward renewable energies. The current challenging circumstances constitute an opportunity for the authorities to address lingering vulnerabilities, such as too many precarious employees, inequalities in income and gender, and regional disparities. While we understand the difficulty to garner political consensus around some of these matters, they can bring about substantial benefits.

- **We support the authorities' use of countercyclical financial sector regulations that have facilitated credit intermediation in the current juncture** by releasing buffers, refraining from paying dividends, and implementing accounting and prudential regulations flexibly and transparently. We welcome the authorities' consideration of possible new actions to avoid cliff effects from withdrawing measures; we also encourage them to continue improving the insolvency and debt restructuring frameworks.