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November 9, 2020

**Statement by Mr. Zhang and Mr. Huang on Spain  
(Preliminary)  
Executive Board Meeting  
November 11, 2020**

We thank staff for the set of insightful reports and Mr. Moreno, Mr. Lopez, and Ms. Moral Betere for their helpful Buff statement. The Spanish economy has witnessed five years of strong growth before being hit by the pandemic. The economic activities showed signs of rebounding after the reopening but was once again depressed by the second wave of coronavirus. The recently released GDP growth rate in the third quarter is inspiring, but the economic outlook is highly uncertain. We agree with staff that near-term priorities remain to be controlling the pandemic and mitigating its economic impact. As the crisis abates, efforts should be shifted to ensure a sustainable, inclusive, and green recovery. We broadly agree with staff's appraisal and would limit our comments to the following for emphasis.

**Controlling the new wave of infection is the key to bring the economy back to the path of recovery.** We commend the authorities' decisive actions to cope with the second wave of COVID-19, including a new state of emergency and more stringent restrictions. Experience shows that while a strict lockdown may incur some immediate economic costs, it will enable the economy to recover earlier and faster. We agree with staff's suggestion that measures to support the heavily impacted households and firms should remain in place until the recovery is firmly under way. The extension of the short-time work scheme (ERTE), which proves to be successful in protecting jobs and providing households with income support, is welcome. We take positive note that the majority of public loan guarantees that the authorities provided for firms went to SMEs and the self-employed.

**As the pandemic abates, supporting measures should shift from mitigating impact to fostering recovery.** Efforts need to shift from protecting jobs to protecting workers. More should be done to further expand the coverage of unemployment benefits while providing incentives for job searching and skill upgrading. We take note that some firms may need equity support. It is important to ensure that the support is transparent, temporary, well-

targeted to viable firms, and with an exit strategy in place. *Could staff comment on the authorities' criteria to identify solvent strategic firms who need equity support and the safeguard measures to ensure that the funds are used appropriately?* We join staff in encouraging the authorities to further improve the corporate insolvency system.

**The financial sector is in sound grounds but faces increasing risks.** We take positive note that the banking sector entered the crisis with a stronger balance sheet and has provided strong support to the real economy during the crisis. However, risks and uncertainties remain. We note with concern that under some negative scenarios, the depletion of capital buffer could be significant, and solvency of banks might be materially affected. In this regard, liquidity support from the ECB and strong bank supervision should continue. Like staff, we encourage the authorities to keep vigilant watch over the banking sector and take further actions if needed. The profitability of banks remains another source of concern. We encourage the banks to take advantage of the crisis to further advance digital transformation.

**In the long run, more should be done to ensure a sustainable, inclusive, and green growth.** We regret to see that limited progress has been made in rebuilding fiscal buffers during the boom time. The public debt to GDP ratio is expected to stand at over 120 percentage points by the end of 2020. We concur with staff that a credible fiscal adjustment plan is needed once the economy is on a firmly strong growth path. The authorities' commitment to resume the fiscal consolidation in the medium term is commendable in this regard. We welcome the authorities' plan to raise tax revenue by increasing progressivity of the personal income tax and introducing new green taxes. *Could staff provide more details on the proposed new taxes on digital services, which is mentioned in Mr. Moreno's Buff statement?* Like staff, we encourage the authorities to make good use of the EU recovery and resilience facility. The EU fund could help to finance much needed labor market reforms, digital transition, and the climate agenda.

With these remarks, we wish the authorities every success in their future efforts.