



IMF Executive Board Concludes 2021 Article IV Consultation with Spain

FOR IMMEDIATE RELEASE

Washington, DC – February 16, 2022: on February 14, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Spain.

The Spanish economy is recovering from the deep recession caused by the COVID pandemic amid recurrent waves of infections. A highly successful vaccination campaign helped limit the impact of the virus on hospitalizations, mobility, and economic activity in 2021. Employment has rebounded robustly and is already above pre-crisis levels. Economic growth in 2021 was 5 percent, although output is still significantly below its pre-pandemic level due to the slow recovery of contact-intensive sectors and persistent global supply bottlenecks. Headline inflation reached a 30-year high in December, mainly driven by the strong base effect from prices declines in 2020 and the continued rise in natural gas prices.

Supportive policies have played a key role in protecting jobs, household incomes, and firm balance sheets, and financial sector risks have evolved favorably so far. Nonetheless, mitigating the impact of the pandemic on the economy has taken a toll on government finances, with the public debt ratio at about 120 percent of GDP in 2021.

Economic activity is projected to grow 5.8 percent in 2022, reaching the pre-pandemic level of output by the end of the year. The Omicron-driven wave of infections is expected to have only a moderate impact on economic activity. The recovery will be supported by robust private consumption, a boost of public investment financed in part by Next Generation EU (NGEU) funds, and a gradual normalization in international tourism flows. Headline inflation is likely to remain elevated in early 2022 due to high energy prices and supply-chain disruptions, but should moderate in the second half of the year as these factors dissipate.

The outlook is highly uncertain and will depend on the evolution of the pandemic and the persistence of global supply bottlenecks. On the upside, a faster unwinding of households' accumulated savings could boost consumption more than expected. The pace of absorption and the effectiveness of use of NGEU funds will also affect growth in the coming years.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment²

Executive Directors 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.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Spain: Main Economic Indicators)
(Percent change unless otherwise indicated)

	2019	2020	Projections 1/						
			2021	2022	2023	2024	2025	2026	2027
Demand and supply in constant prices									
Gross domestic product	2.1	-10.8	4.9	5.8	3.8	2.3	1.9	1.7	1.6
Private consumption	1.0	-12.0	5.1	4.7	3.3	2.4	3.0	2.6	2.2
Public consumption	2.0	3.3	3.2	0.9	0.3	0.4	0.4	0.4	0.4
Gross fixed investment	4.5	-9.5	3.3	7.0	7.1	3.3	0.5	0.6	1.3
Total domestic demand	1.6	-8.9	4.7	4.5	3.4	2.1	1.9	1.7	1.6
Net exports (contribution to growth)	0.5	-2.2	0.3	1.4	0.5	0.2	0.0	0.0	0.0
Exports of goods and services	2.5	-20.2	12.4	9.9	4.6	3.7	3.3	3.2	3.3
Imports of goods and services	1.2	-15.2	12.0	5.9	3.6	3.4	3.5	3.4	3.4
Real GDP per capita	1.3	-11.3	4.8	5.4	3.4	1.9	1.5	1.4	1.3
Savings-Investment Balance (percent of GDP)									
Gross domestic investment	20.9	20.7	21.0	21.2	21.6	21.8	21.4	21.1	21.0
National savings	23.0	21.5	21.4	22.5	23.2	23.5	23.1	22.8	22.7
Foreign savings	-2.1	-0.8	-0.4	-1.3	-1.6	-1.7	-1.7	-1.7	-1.7
Household saving rate (percent of gross disposable income)									
	8.3	14.9	11.0	8.3	6.5	6.4	6.3	6.3	6.3
Potential output growth									
	1.5	-2.0	1.4	1.7	2.1	2.1	1.9	1.7	1.6
Output gap (percent of potential)									
	0.5	-8.5	-5.4	-1.6	0.0	0.1	0.0	0.0	0.0
Prices									
GDP deflator	1.3	1.1	1.6	1.9	1.1	1.6	1.7	1.7	1.7
Headline inflation (average)	0.7	-0.3	3.1	3.5	1.2	1.6	1.7	1.7	1.7
Headline inflation (end of period)	0.8	-0.5	6.5	0.5	1.3	1.5	1.8	1.7	1.7
Core inflation (average)	0.9	0.7	0.8	1.8	1.5	1.6	1.7	1.7	1.7
Core inflation (end of period)	1.0	0.1	2.1	1.8	1.5	1.6	1.7	1.7	1.7
Employment and wages									
Unemployment rate (percent)	14.1	15.5	15.0	14.0	13.5	13.3	13.1	13.0	13.0
Labor productivity 2/	-0.5	-3.5	-1.5	2.8	2.6	1.6	1.3	1.2	1.2
Labor costs, private sector	2.3	4.0	0.8	3.5	1.1	1.4	1.6	1.6	1.6
Employment growth	2.3	-2.9	2.7	2.0	1.2	0.6	0.6	0.5	0.4
Labor force growth	1.0	-1.3	2.1	0.8	0.5	0.4	0.4	0.4	0.4
Balance of payments (percent of GDP)									
Trade balance (goods and services)	2.9	1.5	1.1	2.1	2.6	2.8	2.9	2.9	2.9
Current account balance	2.1	0.8	0.4	1.3	1.6	1.7	1.7	1.7	1.7
Net international investment position	-75.0	-85.5	-78.7	-69.9	-63.5	-58.0	-53.9	-50.1	-46.4

Spain: Main Economic Indicators (concluded)
(Percent change unless otherwise indicated)

	2019	2020	Projections 1/							
			2021	2022	2023	2024	2025	2026	2027	
Public finance (percent of GDP) 3/										
General government balance	-2.9	-11.0	-7.8	-5.3	-4.3	-4.0	-4.0	-4.0	-4.0	-4.0
Primary balance	-0.8	-8.9	-5.8	-3.5	-2.5	-2.3	-2.3	-2.3	-2.3	-2.3
Structural balance	-3.1	-5.7	-4.5	-4.4	-4.3	-4.1	-4.0	-4.0	-4.0	-4.0
Primary structural balance	-0.8	-3.5	-2.3	-2.3	-2.3	-2.1	-2.1	-2.1	-2.1	-2.1
General government debt	95.5	120.0	120.4	117.0	115.8	115.4	115.5	115.6	115.9	115.9

Sources: IMF, World Economic Outlook; data provided by the authorities; and IMF staff estimates.

1/ The projections incorporate allocation from the EU Recovery and Resilience Facility amounting to about 0.8 percent, 1.9 percent, 1.6 percent, and 1.3 percent of GDP from 2021 to 2024.

2/ Output per full-time equivalent worker.

3/ Fiscal projections from 2022 onwards assume an expiration of temporary COVID-19 measures and no further policy change.