

EVENTO 'SUSTAINABLE BUSINESS' - REUTERS

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Evento digital

How does the Spanish Government see the digital and green transition as a foundation for Spain and the EU to lead to a transformative economy? What opportunities and challenges do you see ahead?

Thank you very much. It is a real pleasure to have a chance to share some thoughts with all those accompanying us today on the key challenges ahead and the top priorities for the Spanish Government going forward.

By way of introduction, let me say that we are coming out of a very difficult, very challenging year. The pandemic has hit all countries, but some more than others. And obviously Spain has been one of the economies that has suffered the most. Due, in particular, to the important weight of the tourism and other hospitality sectors.

But all indicators are showing that the Spanish economy has moved into a new phase and the recovery is under way. We just got data yesterday, very positive data on the labour market in May, which show that there is a strong recovery of employment. Also workers under short-term work schemes are accelerating the pace of exit, and that is also a very good sign. All indicators are showing that the recovery is under way.

Now, what we want is that this is not only a bouncing back of the economy, but a strong and sustainable recovery. And it means that we need it to be sustainable from the economic and financial point of view, also from the social point of view and the environmental point of view. And, moreover, the pandemic has also accelerated some trends that were already under way but which have really increased exponentially in the last twelve months. In particular, digitalization but also the awareness about the potential impact of other kind of natural disasters and the

challenge of climate change. I think that this has made us more aware of the urgency of tackling these challenges.

All of this is coming together into a mid-to-long-run plan that the Spanish Government has put forward. We sent on April, 30th to the European Commission our Recovery Plan. And we want it to be extremely ambitious from the point of view of investments, also from the point of view of reforms. So that between 2021 and 2023 we have really set in place the basis for a new growth model, which is, as I was saying, more sustainable from the triple perspective –financial, social and environmental--.

This is very ambitious. It means the country invests around EUR 70 billion by 2023, that is public investment. We want to mobilise even more money, four time as much, in private investment with a view to really undergoing a very serious modernization of the economic tissue, our industry. And to have a more modern, more proficient, more efficient and productive economic model going forward.

Let me just finish with a couple of numbers. We put our money where our mouth is, and so 40% of investment foreseen in the Recovery Plan is going into the green transition, around 30% will go into digital. And there are two other top priorities that are permeating the whole of the Recovery Plan: that is social and territorial cohesion and gender equality, which we think are also two important levels for sustainable growth going forward.

Let me stop here and I am happy to take your questions.

What are the big challenges that you see for the Recovery Plan to improve wellbeing, inclusivity and social cohesion?

Two remarks in this regard. First, I think that it is worth noting than for the first time in a long period –I would say, for the first time ever—there is a total alignment in terms of the economic policy discourse at least at a national level in Spain, also at the European level and worldwide. All institutions –the IMF, the OECD—are right now talking about inclusive and sustainable growth. And ten years ago this was not

at all the narrative. And I think it is because of this increased awareness of the need for growth to be sustainable not only from the financial point of view, but also from the social point of view. We see societies are more and more unstable and we need to ensure that growth means also prosperity for all, that we don't leave anyone behind. And that's the need to think about inclusiveness and sustainability from the environmental point of view, also thinking about next generations.

This would be my second remark in this regard. Due to the response to the pandemic, --and I think our response has been the right one to the pandemic, and international cooperation has been instrumental in minimizing the negative impact and avoiding a potential scarring or structural impact of the pandemic from the economic point of view. That has been very important and we have done the right things, I think, since March last year--, but it is obviously requiring us to increase significantly our public debt issuance. So we are going to issue around EUR 150 billion more between 2020 and 2021. We hope that our debt to GDP ratio will start decreasing this year, this is our plan, as well as our deficit to DGP ratio, thanks to a strong growth foreseen for Spain. But obviously this can be jeopardizing progress of future generations if we do not make sure that we invest the money in the right manner. And that is why I think it is key that we set the right priorities. In the case of Spain, the challenge is even more pressing, because we have a number of imbalances that have been dragging our productivity and growth for decades. For example, the high structural unemployment, low productivity growth, the investment gap, which has been more important than in other countries since the financial crisis, in 2008. And so we need to really overcome all these imbalances from the past and correct them as fast as possible. And, secondly, I think that in the case of Spain the young people have been hit particularly hard by the financial crisis and also now by the pandemic, in terms of their precariousness and the sectors where they are usually working. And we need to make sure that we invest this money in the right manner, with a view to making sure that we leave them with better prospects on the professional point of view and on the personal point of view.

And that explains the ambition of our Recovery Plan. I think that Spain is probably, of the whole EU, the country that is most ambitious in terms of volume of investment by 2023, the speed, the ambition of structural reforms... Because we think that this Recovery Plan is really a one-off opportunity that we simply cannot miss.

What will you be looking at when making the decisions on where to invest, what to back?

On our case, we are absolutely committed to this green access and the green targets. We want to be as ambitious as possible in this fair transition. We were committed to this before the Recovery Plan, so this is not something imposed on us. Actually, for the last three years we have already embarked in a quite deep reform of the energy sector in terms of supporting a circular economy, we have a quite ambitious energy and environmental plan. Our Parliament has just approved the Climate and Energy Law. So this is not something that has just come to our minds. For the last three years we have systematically embarked in this very programmed transition. And that puts us now in a good position to profit from this massive investment effort, to try to put the money and support the process.

From this point of view, we need to land the taxonomy and to make this more concrete in terms of the standards, to ensure that all countries are following the same principles. We have also subjected our whole Recovery Plan to a very tight and demanding 'do not significant harm' requirements for all the investments. We worked very closely with the European Commission to make sure that this is the case. And we will be, in the second part of the year, issuing for the first time a green bond. We have already done it with the national development public bank, but not the Treasury of the Kingdom of Spain. We will be issuing a green bond, and I really think and I support very strongly initiatives to make sure that Europe is one of the leaders in terms of green bond issuance. Because we are the leaders in terms of green transition, and that needs to show in financial markets. So we are also working with the national capital markets regulator –la Comisión Nacional del Mercado de Valores--, with Bolsas y Mercados –the national stock exchange—to see how we

can contribute to creating this strong market for sustainable finance, which obviously is going to create the right incentives for all of us to move in the same direction.

What is your approach regarding tourism and real estate when you look at rebuilding back greener? What changes and opportunities do you see?

Indeed, I think that these changes are affecting the whole of society and it is bringing to the forefront a number of debates, which need to take place. Right now in Spain we are debating the price of electricity, the cost of CO₂, who should bear the cost of CO₂, the emissions trading scheme that we have set for ourselves, incentives, how to deal with those sectors that have been most directly hit... And, just before I go into tourism and real estate, let me say that, for example, for the last three years we have been able to embark in a process of closing all the coal mines and the closure of the coal fired plants. And I think this has been exemplary, because we have negotiated with the workers, it has not been a conflictual process, but rather one where we are working hand in hand with the different stakeholders to ensure that the process takes place in the smoothest possible manner and the most positive manner. So this process is already going in. Likewise for the industry. We are creating all incentives for the energy industry to move to greener technologies, etc.

When it comes to tourism and real estate, these are two important sectors in Spain. Actually, real estate, after the financial crisis, diminished half, more or less, the weight in the Spanish economy. It moved from around 12% of jobs to around 6%, so its importance has somewhat diminished. But what we want to focus on is not so much on greenfield buildings but rather on renovation. And here, again, we are absolutely aligned with the approach of the European institutions. This renovation wave opens ample opportunities for the development of new technologies, new materials, new skills, and moving to a healthier, cleaner and more sustainable kind of environment in cities but also in our villages. So we are very committed, and Spain has a very strong building industry, which is one of the leading at world-wide level. And I think that we can build on that basis, so that we really move to a different stage in terms of energy efficiency of buildings. We are also supporting that for public buildings, we

will use part of the Recovery Plan money for that. So renovation wave I think is the answer.

And for tourism, likewise: we want to focus all our support to investments going into the direction of digitalization and sustainability, and I think the sector is fully committed to moving to this higher quality tourism industry. Again, Spain has one of the largest tourism in the world and we are looking forward to welcoming back the around 80 million tourists that come to Spain every year. But we are looking forward to welcoming them to a higher quality, greener, more sustainable kind of tourism. We are on that track, and I think is good news for everyone.

What plans does the Spanish Government have to support the digital transformation in developing countries?

Two things. First of all, indeed digitalization is part of my responsibilities in my Ministry, so this is something I am thinking about 24 hours a day, a bit chunk of my time. Spain, maybe you do not know it, has the largest broadband network to the home in Europe. Actually, the broadband network is larger than the sum of France, Italy, Germany and the UK. We have for the last decade invested very heavily, the public sector and the private sector, in having this high-speed connectivity, which has proven to be essential during the pandemic. So it has allowed Spanish companies and citizens to work from home, study from home, talk to their loved ones from home, get to the public services, etc. So that is good news.

We want to, on these bases, be also one of the leaders of the 5G deployment. And so we have published last July our digital agenda, we have published seven detailed plans and we are working hand in hand with the stakeholders in the sectors to make sure that this investment is also accelerated and we really make a step change in the coming years to ensure that the digitalization process continues to progress. And also to make sure that all citizens have the necessary skills and companies have the digital endowments and capabilities to profit from it. So it brings more prosperity and that citizens really feel this is good for them.

I think that the Spanish companies are actually present in large parts of the world, in particular in Latin America. We have a very special relationship there. We are working closely with the multilateral institutions, like the Inter American Development Bank, the World Bank, also the Andean Finance Corporation. So we have an important role in this institutions, trying to support projects that are going in this green and digital twin transition orientation also in this part of the world. And we are supporting them from the financial point of view, notably through the financial institutions. We are working within the IMF, for example, to ensure that middle-income countries are also having access to financial support. Because many countries are maybe not the poorest in the world, but there are many poor people living in these middle-income countries, and they are the ones that can proceed with digitalization and reach a higher level in terms of productivity and potential growth. So we are quite active both bilaterally and through the multilateral institutions to support this process. And I think Spanish companies, which are leading in some of these areas, can also play an important role in the private sector in many countries.

How do you see digitalization and sustainability disrupting finance in the coming years?

Some sectors are more impacted than others by digitalization, and we have seen it in the past year. We have seen, for example, that retail distribution, trade, that is very directly impacted by digitalization. People are buying online more, and it means that retail distribution and high street shops are very directly impacted by digitalization. And likewise for financial services. A big share of people have moved to digital online banking, and the large digital platforms are also providing new services. So this is imposing a structural change in the financial sector. It is a trend that was already present before but that has been accelerated by the pandemic. I think that it is important that the sector is taking an approach which is proactive and which is ensuring also a fair transition in this area. There is a strong debate about reduction of activities and lay-offs. This is provoking a strong debate in Spain; I am sure this is taking place in other countries. And we need to make sure that this is not destroying value and human capital in the different countries.

This is in parallel accompanied by a surge of new fintech kind of opportunities and new niches of the market. We wanted to be at the avant-garde in terms of encouraging this innovation, so we have adopted last year, a sandbox regulation. We have already received the first batch of proposals, we have selected the first number of projects, together with the banking and the capital markets authorities – the Bank of Spain and the Comisión Nacional del Mercado de Valores, that I mentioned a moment ago--. So together with the Treasury, they have worked to assess the different proposals and we have selected a number, I think it is about 20 projects, that we have selected to be tested in this sandbox framework to ensure that we have a secure framework for testing new digital innovations in the area of financial services. I think the Spanish program is actually the second, after the UK, in terms of the initiatives that will be included in the sandbox, in the first wave of this sandbox analysis. And we will take it from there. Many more institutions, many more initiatives and projects were proposed, around 100. I think that it shows that there is a vibrant market there, that there are new opportunities. But we need to make sure, of course, that they are developed in full respect of the rights of the citizens (privacy, security, data, etc). And I think that if we manage to ensure that citizens have trust and confidence in these new developments in the digital sphere, we will be on the right track, also, to push ahead with the digitalization process.