



Consejo Empresarial  
para la  
Competitividad



## Report Presentation

“Spain, a land of opportunities”

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March 2013

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Doubts about Spain begin to dissipate

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Spain must continue driving through reforms

**Spain is a very attractive country for investors.**

**Crisis has not affected real flows and perception about FDI.**

**Spain has always been competitive...  
...even more so now.**

**Unprecedented external adjustment, without currency devaluation.**

**Primary structural fiscal adjustment unseen until now, gaining credibility.**

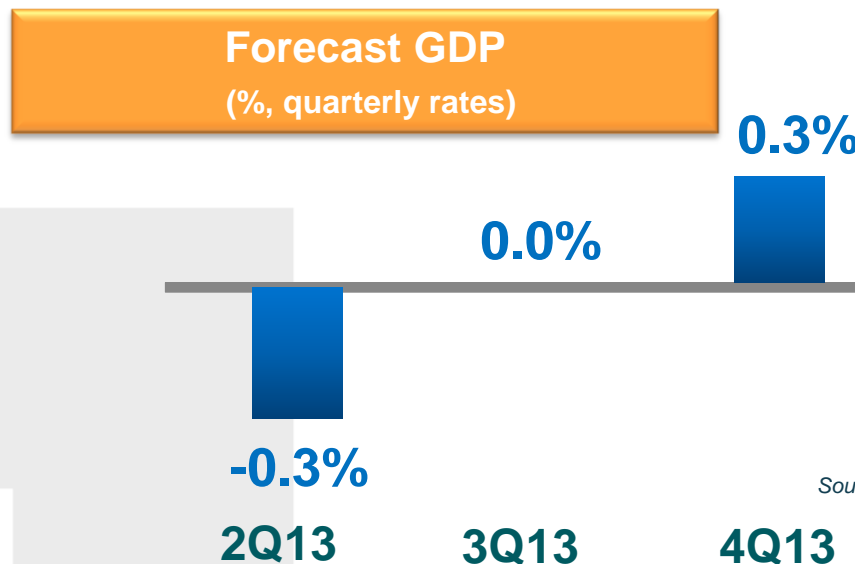
**Intense private sector deleveraging, which is now a net saver.**

**Clearly defined reform agenda to boost medium-term growth.**

**Cleaned up financial sector and labour market first signs of change.**




# Growth will return in fourth quarter 2013

Gradual recovery during 2013, leading to a positive growth rate in 4Q13.



Source: CEC.

## Correction factors will lose steam:

-  Export sector will remain buoyant.
-  Less severe public deficit cuts through the year.
-  Less pronounced negative housing sector impact.

Rebound in economic growth will **positively impact employment in 2014.**

## Spain is competitive and innovative

- 🔄 Innovative corporates generate 73% of sales and 65% of jobs.
- 🔄 Knowledge-based economy is growing.
- 🔄 Favourable climate for doing business:
  - 🔄 Attractive labour force with productivity growth rates two or three times higher than the European average.
  - 🔄 Cutting-edge infrastructure and strategic location for accessing emerging markets.

## Spain is well positioned with strategic valuable sectors which are gaining in relative strength

- 🔄 Buoyant key strategic sectors with growth potential.
- 🔄 Tradable services gaining ground due to the sharp rise in non-tourist services and underpinning by tourism.
- 🔄 Spanish multinationals with increasing leadership.

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## One year ago, markets had serious doubts about the Spanish economy

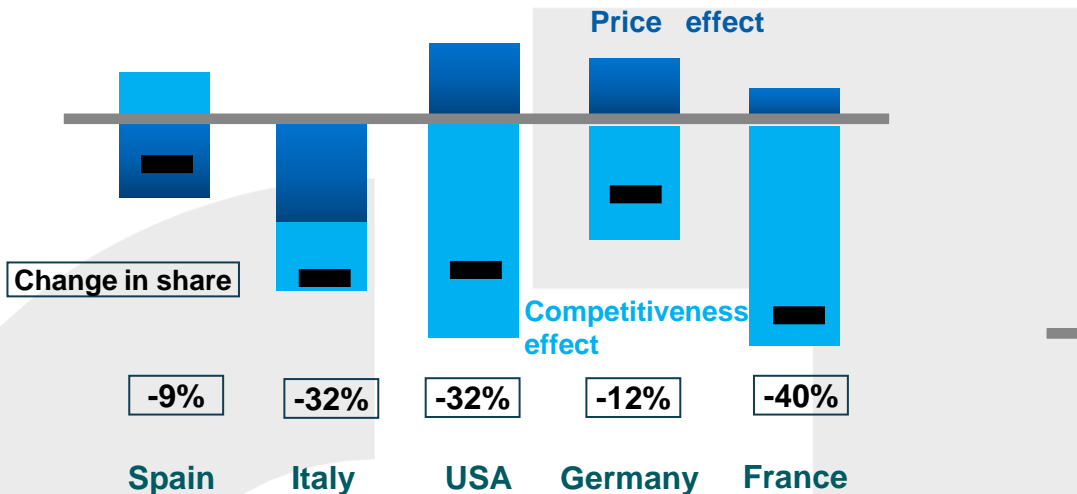
- 🔄 **“Spain is not a competitive economy”.**
- 🔄 **“Spanish debt is high”.**
- 🔄 **“Spain is not able to adjust its fiscal deficit”.**
- 🔄 **“Banking sector is not solvent”.**
- 🔄 **“Spain is not committed with reforms”.**

# Spain has always been competitive...

## Internationalization of businesses have been key

### Spain, country with lowest decline in export share

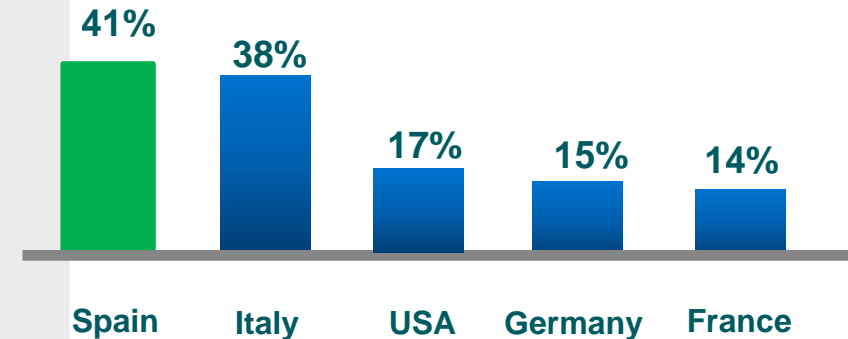
(variation in world export share, total and components, 1999-2011)



Source: BBVA Research.

### International expansion bolstered productivity

(productivity of medium and large businesses compared to the country average)

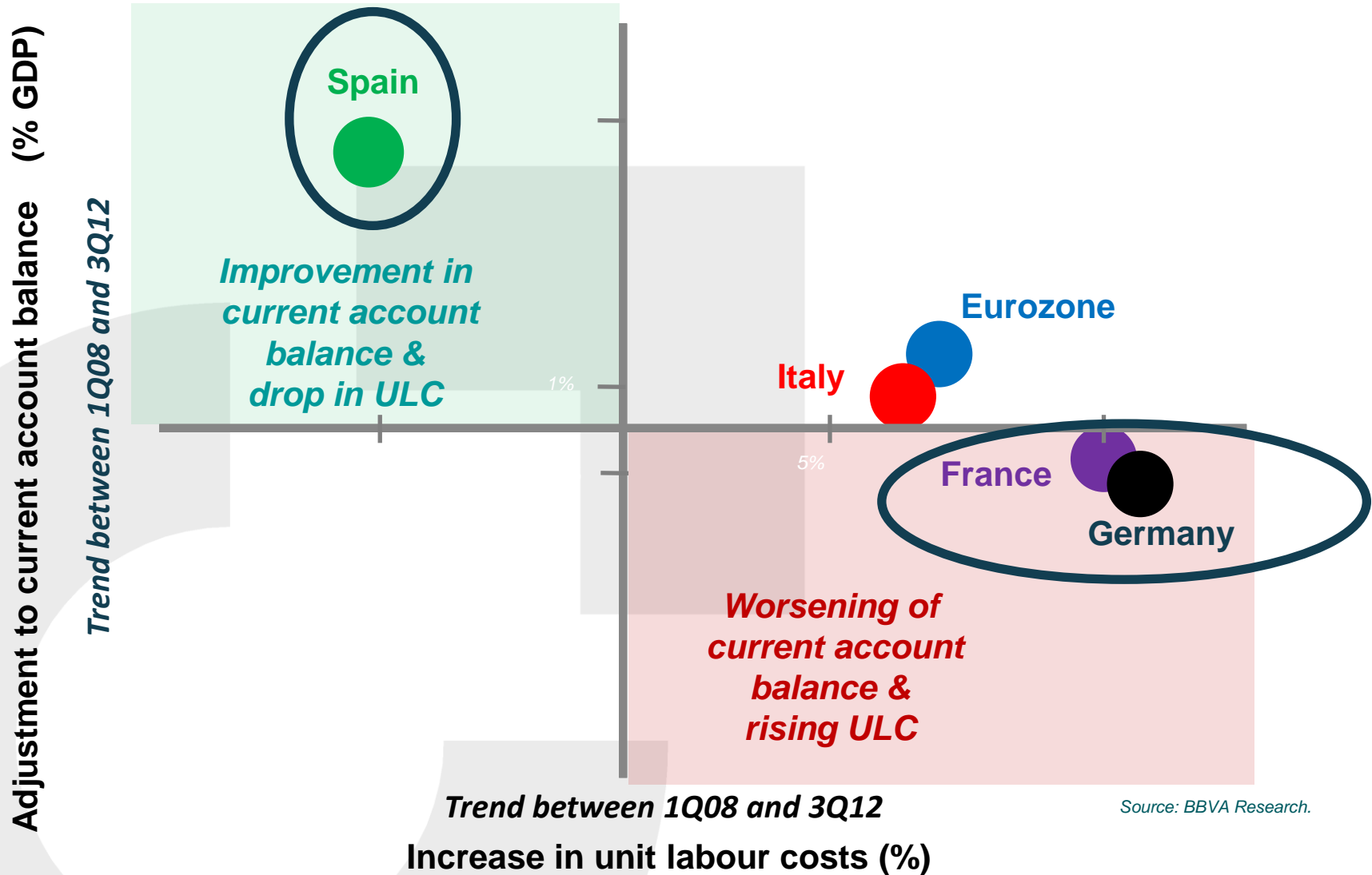


Source: BBVA Research.

- Spain reports the lowest decrease in global market share compared to other developed countries (-9% vs. -28% for Germany, France and Italy).
- Spain the only country where competitiveness effect has avoided a decline in share.
- Uptick in productivity thanks to internationalisation of businesses accounts for much of this.



# Sharp price effect correction drives record current account balance adjustment



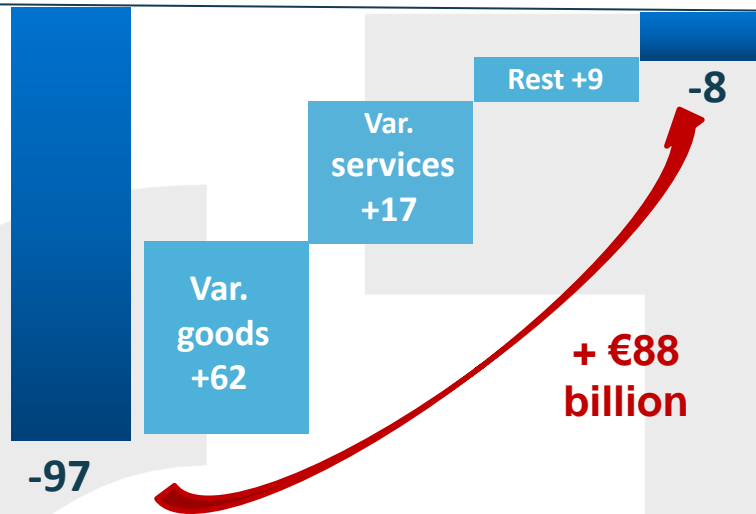
Since 1Q08, unit labour costs have risen by 15 pp less in Spain than in Germany, France and Italy.

# Hitherto unheard-of upturn in exports thanks to growth in sales

Exports reach €255 billion, 25% up from pre-crisis levels

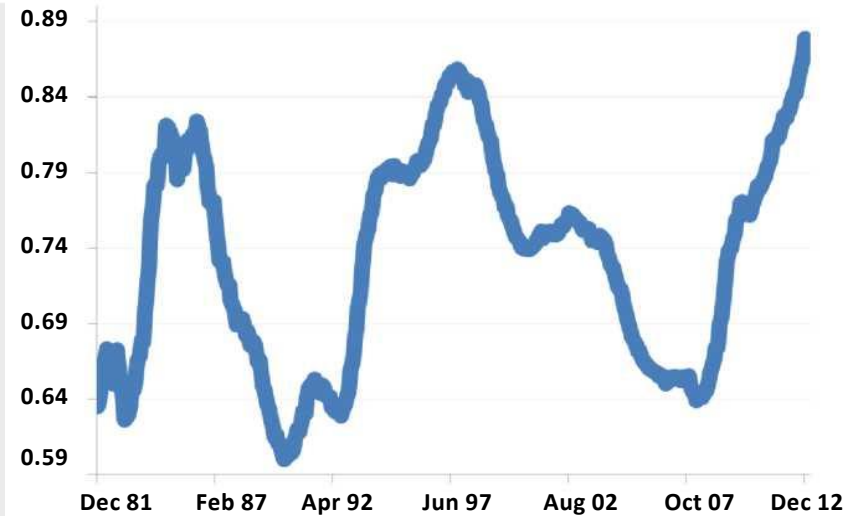
Historic current account balance adjustment  
over five years (€ billion)

2006-2007 2012



Source: Bank of Spain.

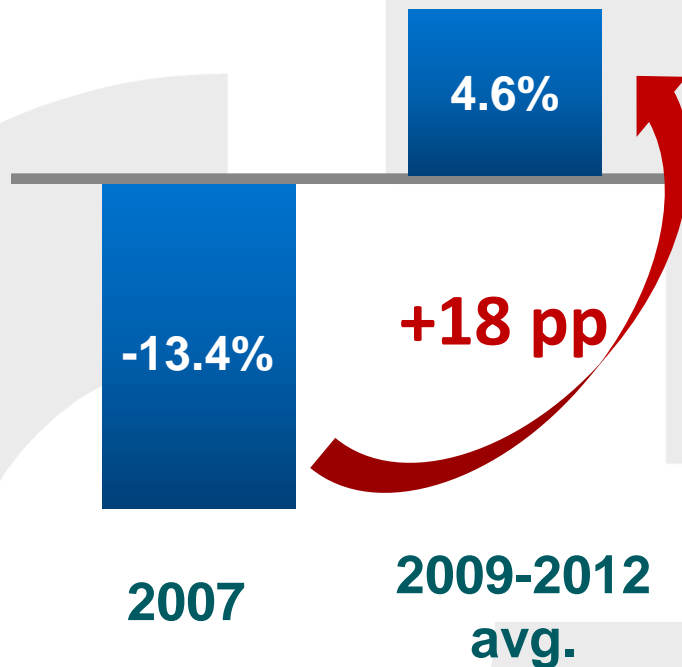
Exports as a percentage of imports  
at all-time high



Source: Bank of Spain.

- 📌 Growing diversification in exports towards high-growth countries: in 2012, sales to Africa up 31%, to Latin America (15%) and to Asia (12%). First ever trade surplus with eurozone: €8 billion.
- 📌 Historic adjustment in export/import coverage ratio without devaluation.

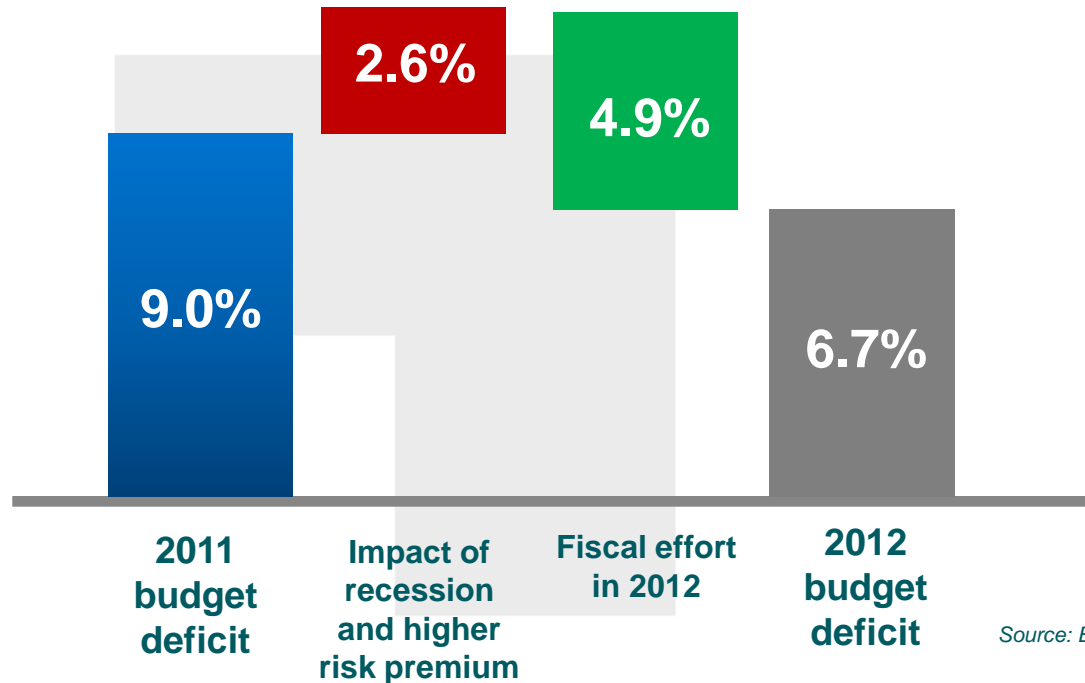
Financing requirements of private sector  
compared to rest of the world  
(% of GDP)



Source: BBVA Research.

- Private sector financing needs down 18 pp (as a % of GDP) since 2007.
- Leverage ratio of businesses still high compared to GDP, but...
  - In relation with assets, the ratio is similar to the European average and the same as Germany's (40%).
  - Situation not the same across sectors since only 20% are over-indebted (40% in 2007).

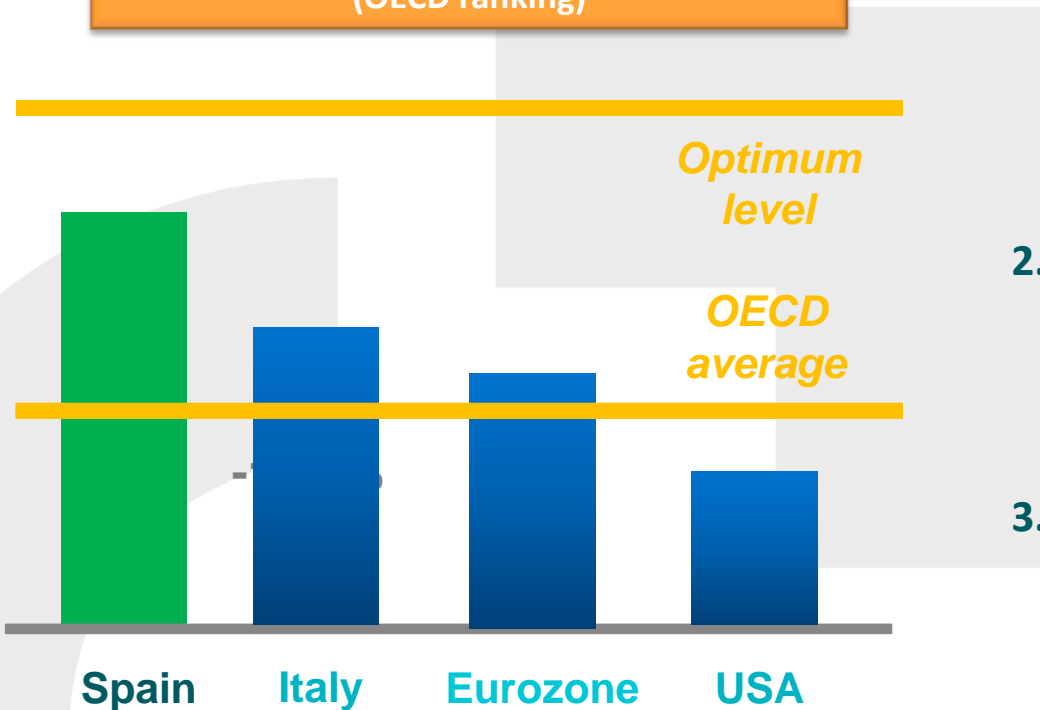
2012 fiscal adjustment (% of GDP)



Source: BBVA Research.

- 🔗 In 2012, fiscal deficit target almost achieved and public administrations commitment with transparency and coordination, bolstering Spain's credibility.
- 🔗 Since 2009, primary structural fiscal adjustment equivalent to 10 pp of GDP, reaching 0% of GDP in 2013.
- 🔗 2013 will be softer from a fiscal perspective, with financing requirements dropping by 17%.

Spain, the nation most committed with reforms within developed world (OECD ranking)



Source: OECD "Going for growth".

### Reforms focused in three areas:

#### 1. Providing flexibility to the economy:

- 🔄 Labour market reform.
- 🔄 Deregulation of professional services.
- 🔄 Opening up of new businesses.
- 🔄 Market unity.

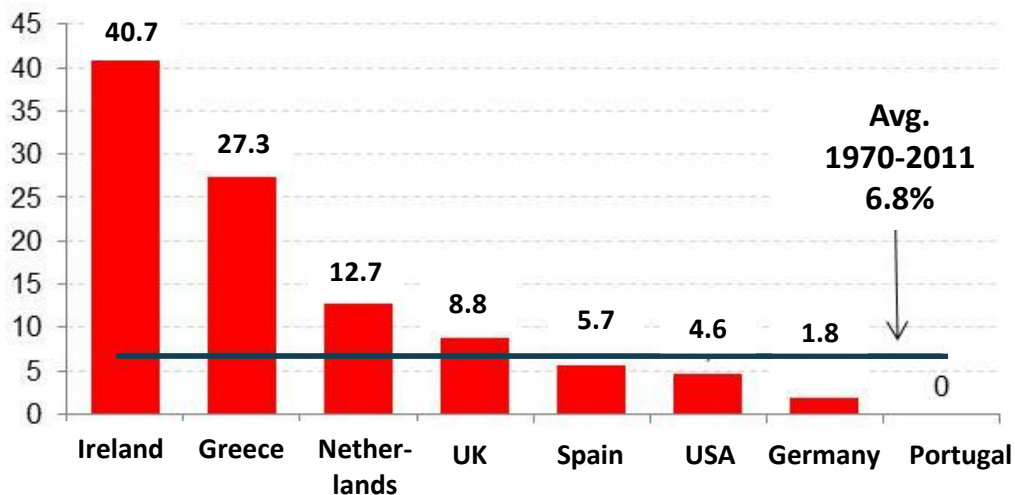
#### 2. Assuring medium term sustainability:

- 🔄 Pension reform.
- 🔄 Budget stability.
- 🔄 Public spending rationalization.

#### 3. Ramping up growth:

- 🔄 Digital agenda.
- 🔄 Energy sector reform.
- 🔄 Boosting lending to SMEs.
- 🔄 Encouraging international expansion.

## Fiscal cost of banking crisis (% GDP)



Source: Luc Laeven and Fabián Valencia "Systemic banking crises database: An update". Working paper IMF, 12/163, June 2012 and Bank of Spain, February 2013.

-  Capital needs less than expected even in a stressed scenario (€ 60 bn).
-  7 out of 10 banks are solvent.
-  Gross public cost around 5% of GDP, less than other European countries.
-  Number of entities reduced by 1/3 and 10% decrease in capacity.
-  Provision of credit focused on solvent demand: more productive sectors and corporates.

### Net FDI inflows (€ millions)

26,886



Pre-crisis

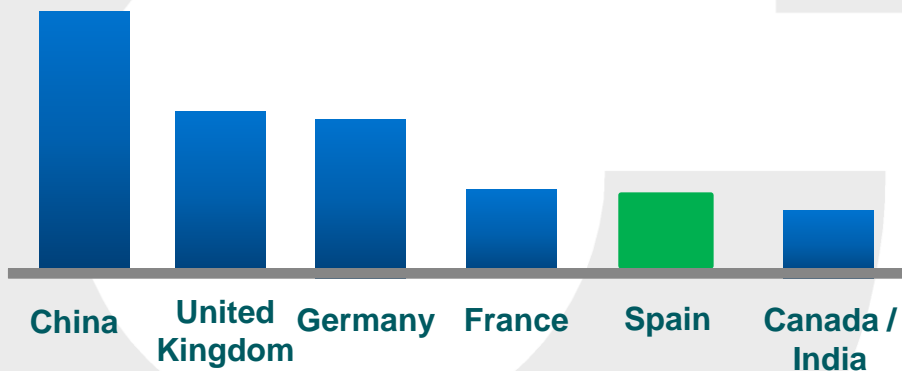
24,611



2008-2012






Source: Bank of Spain.

Spain: country with the fifth highest improvement in FDI attractiveness\* in the world compared to 2010



\* Percentage change in references to the country as a potential destination for FDI.

Source: World Investment Report.

-  Practically no impact on FDI inflows.
-  Spain continues to be an attractive destination for FDI.
  -  60% increase in number of projects.
  -  Spain in global Top 10 of "promising countries" for FDI, having improved its image despite the crisis.
-  Business creation & destruction in line with European turnover rates.

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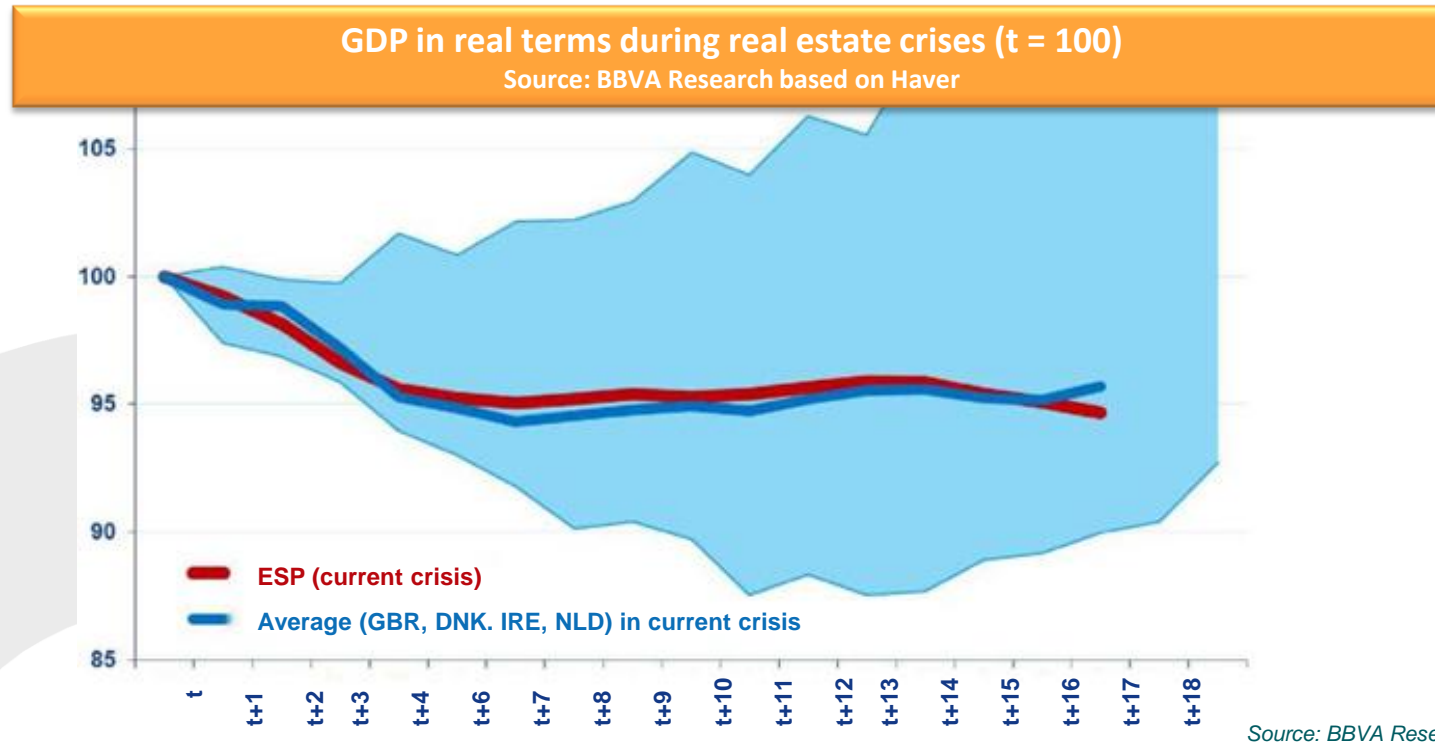
Spain must continue driving through reforms



## 2012, better than initially expected...





03

Growth rate 1.3 pp higher than would have been expected given budget deficit adjustment



 GDP performance in line with other European nations since 2008.

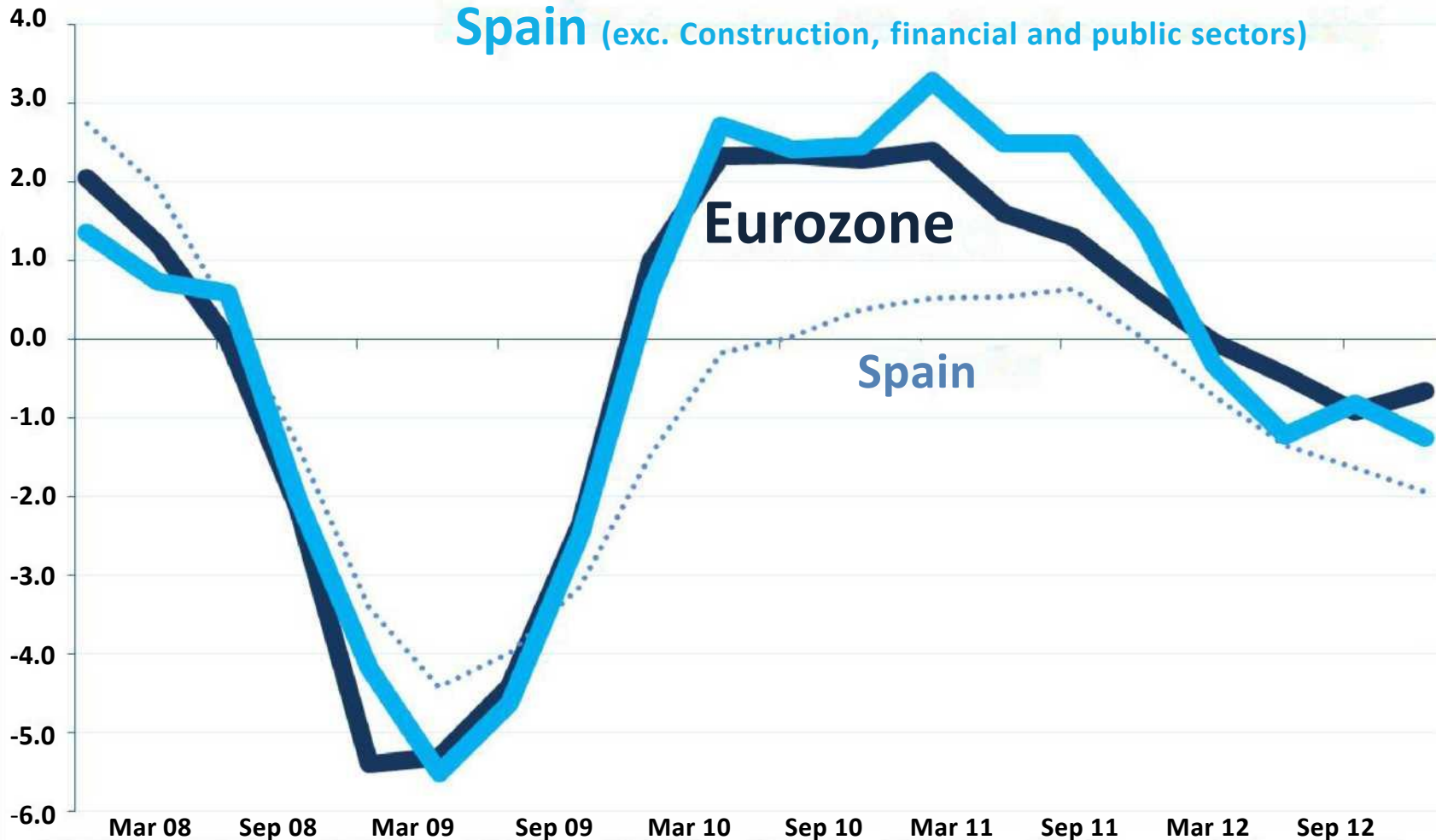
 2012, better than expected due to:

-  Robust exports offsetting weak internal demand.
-  Supplier Payment Plan having +1pp impact on growth.
-  National Reforms Plan drives up certainty and avoids greater private sector correction.
-  Notable improvement in confidence related to Euro crisis.

# ...removing adjustments, Spain in line with the rest of Europe

## Two-thirds of the economy managed to grow despite the challenging environment

### Growth in Spain and eurozone (y-o-y)



Source: BBVA Research.

# Spain will bottom out in 3Q13

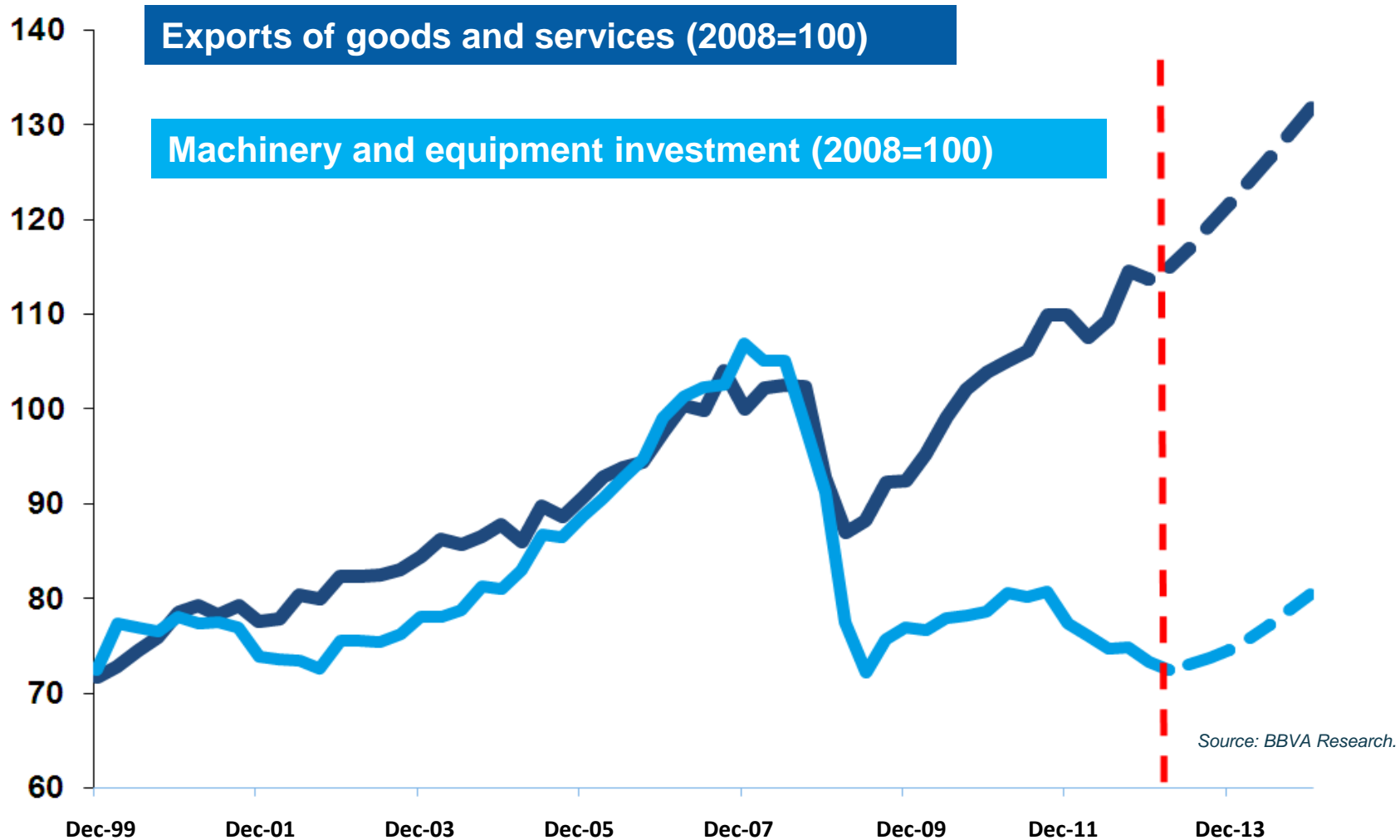
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## Internal demand recovering in 2014



Source: CEC.

- Export sector will be able to offset negative contribution of internal demand in 4Q13.
- Fiscal and private sector adjustment to moderate negative contribution to growth along 2H13 and 2014.



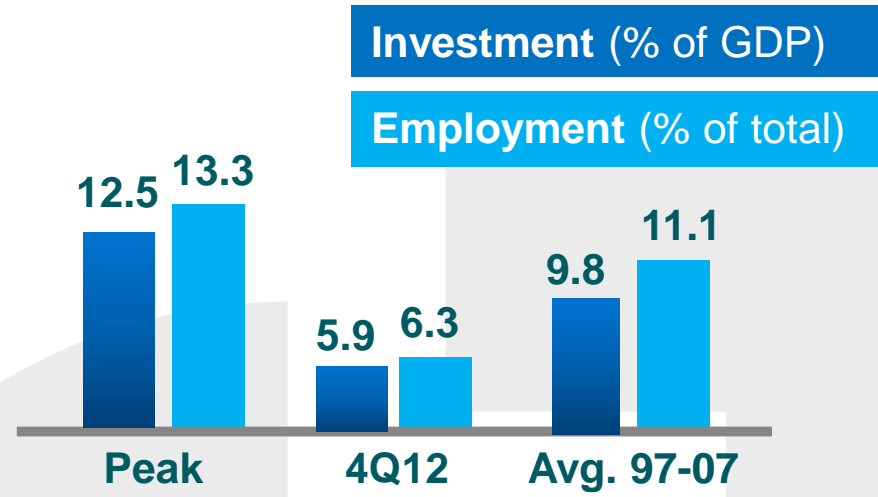
Dynamic export sector, supporting machinery & equipment investment.

In 2014, positive growth rates reinforced by internal demand.

# Housing market squeeze coming to an end

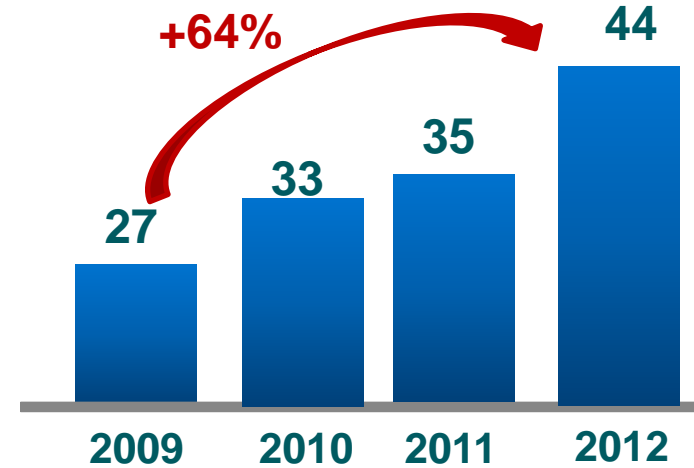
## Positive growth rate in 2014 after seven years of contraction

### Construction: downturn in activity & employment



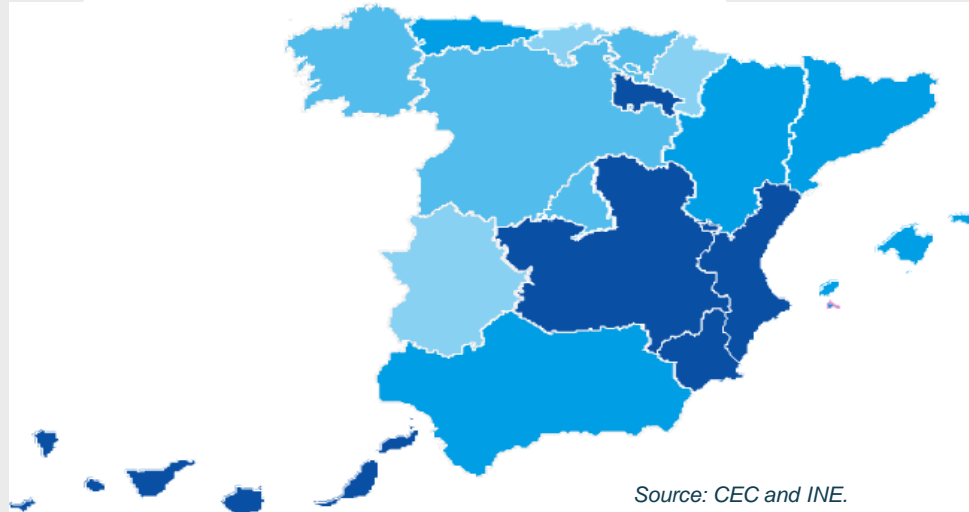
Source: National Institute of Statistics (INE).

### Sales of housing to foreigners (thousands of units)



Source: BBVA Research.

### Oversupply by Region (as % of total stock)



Source: CEC and INE.

📌 Housing stock close to optimum level (1.5% of stock) in several Regions.

>4.5%

Between 3 and 4.5%

Between 1.5% and 3%

<1.5%

Labour market, annual 3M average, %

Permanent contracts

Temporary contracts

+10.5%

-9.1%

-3.5%

-2.6%

Pre-reforms

Last 6 months

Source: SEPE.

### Incipient impact of labour market reform:

- Companies <50 employees: +122k in 2012.
- Self employment: +80k in 2012, positive first time since the beginning of the crisis.
- Salary levels contained in new wage agreements.
- Greater importance of partial contract suspensions and objective dismissals.

Net employment creation and lower unemployment rate in 2014.

Adding 1 million jobs (net\*) by 2020, most of them skilled workers.

\* CEDEFOP forecasts for the European Commission.

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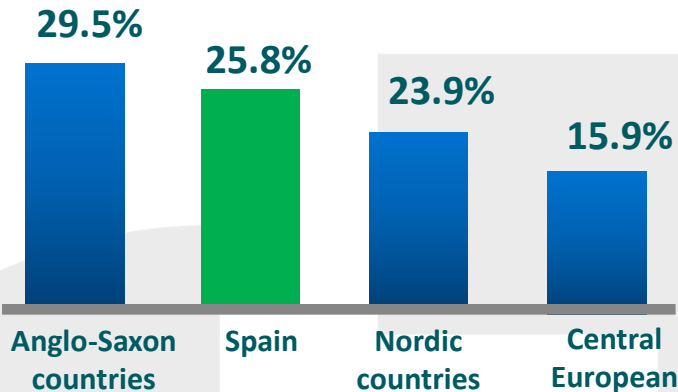
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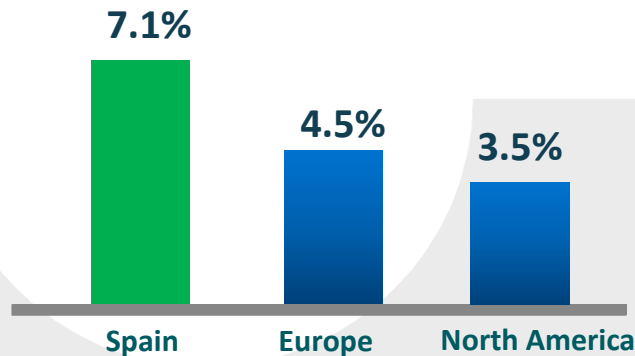
### Knowledge-based assets (% of GDP)



Source: Ábaco Observatory based on Eurostat.

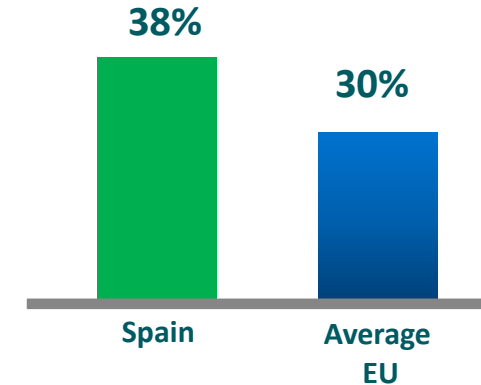
### 10<sup>th</sup> in terms of scientific output

Average annual growth in scientific output  
(1996-2010)



Source: Spanish Foundation for Science and Technology (FECYT).

### % of people in work with a university degree



Source: Eurostat 2011.

-  **Innovative business sector: 73% of sales and 65% of jobs.**
-  **4 of the Top 20 business schools in the World are Spanish.**
-  **21 Spanish companies among those investing the most in R&D in Europe.**
-  **Growing importance of entrepreneurship in Spanish business.**



# Spain has an attractive business environment

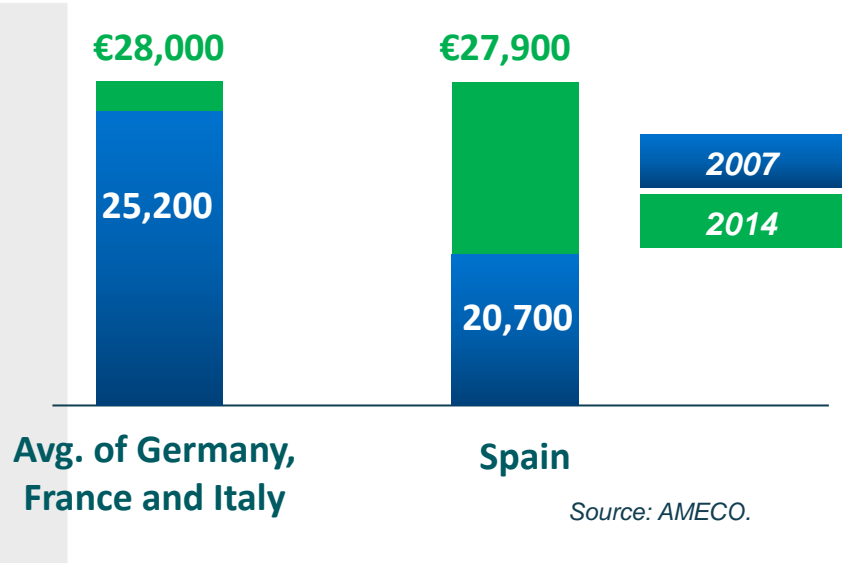
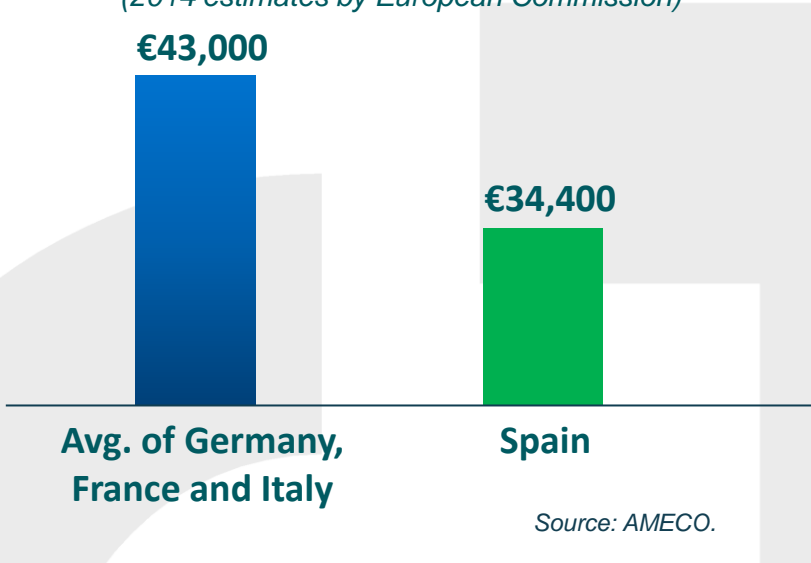
## More productive and affordable labour force than in Europe

Labour force 12-30% cheaper than our neighbouring countries

High business productivity on the rise

Compensation per employee  
(2014 estimates by European Commission)

GDP per employee - compensation per employee  
(2014 estimates, European Commission)



- Flagship telecommunications and infrastructure network in Europe.
- Energy prices for industrial businesses 3-10% lower than European average.
- Key geostrategic location to reach emerging markets.

# Key added value sectors driving international expansion... Generating 35% of GDP and employing over 2 million people

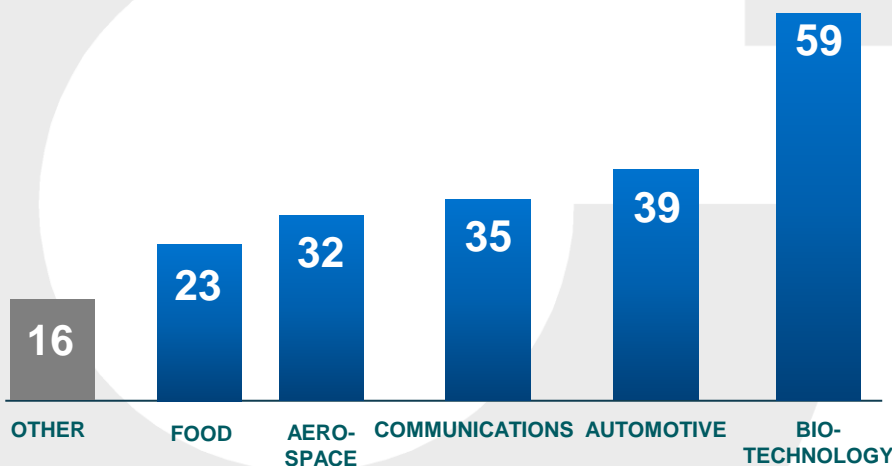
	Sectors with potential*	Total sectors
Turnover/employee	182	103
Annual growth over last 2 years	2.9%	-0.6%
Exports/output	36%	29%

Spanish companies among Europe's TOP 5 in terms of output and exports.

\*Automotive, biotechnology, industrial aerospace, ITCs, machinery-tooling and food and agriculture

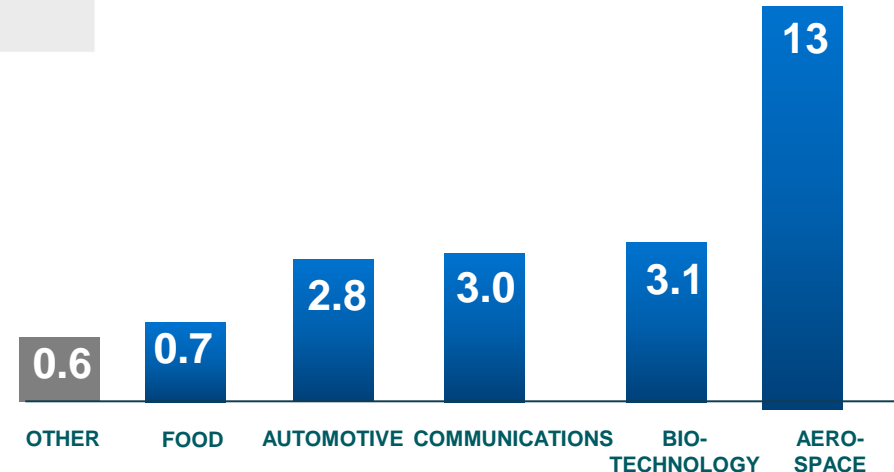
Source: Telefónica based on data from INE, Ministry of Agriculture, Food and Environment, ICEX (Spanish trade and investment department) and information from industry associations.

**Innovative companies**  
(% of total companies)



Source: National Institute of Statistics (INE).

**Innovation intensity**  
(innovation expenditure as a % of total turnover)

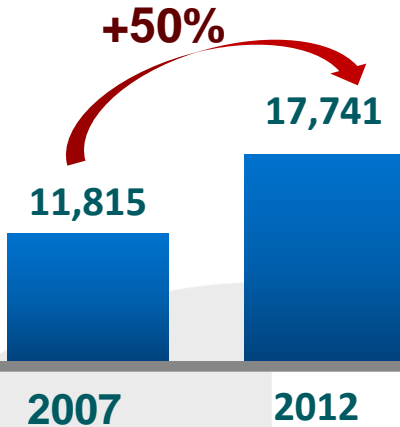


Source: National Institute of Statistics (INE).

# ...with a very positive domestic and export impact

## Great potential according to international projections

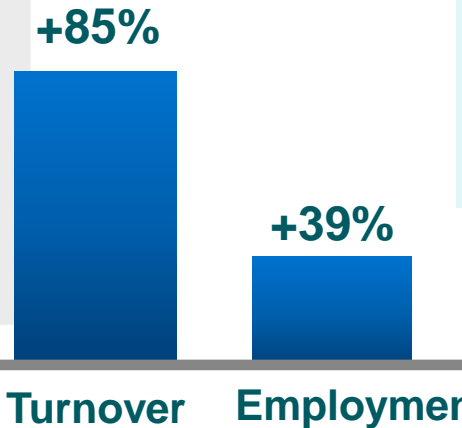
### Nº exporters related with automotive sector



25% skilled  
workers vs.  
13% in Europe

Source: DATACOMEX.

### Biotechnology (growth over last 2 years)



Over 250 new  
businesses  
since 2008

Source: Spanish Bioindustry Association (ASEBIO),  
latest available annual report.

### Food and agriculture exports (€ billion)



8<sup>th</sup> largest  
exporter  
worldwide

Source: DATACOMEX.

# The engine of tradable services...

## Surplus in non-tourism services for the first time in 20 years

Surplus in services 65% higher than in 2006-2007

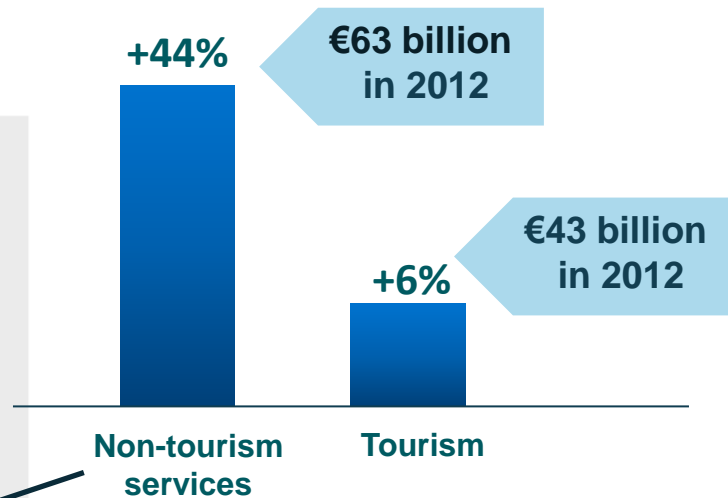
(€ billion)

€+17 billion  
(75% non tourism services)



Source: Bank of Spain.

Exports growth, 2006-2012 (%)



Source: Bank of Spain.

Average annual growth, 2006-2012

Construction: 21%

Cultural services: 13%

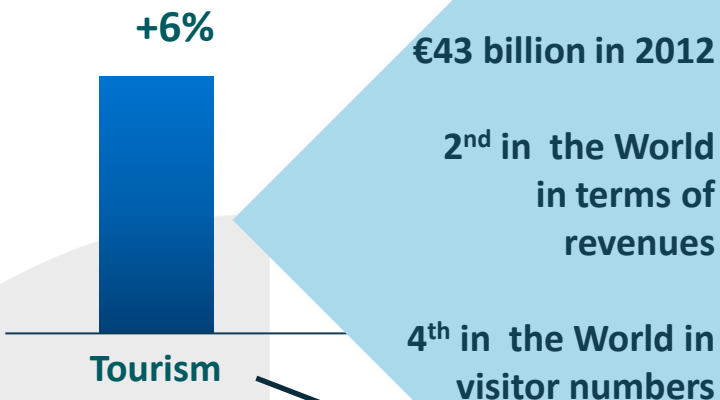
Insurance services: 11%

IT and corporate services: 9%

Source: Bank of Spain.

LatAm: +32%  
Africa: +21%  
Asia: +16%

### Tourism export growth 2006-2012 (%)



Source: Bank of Spain.

🔄 **Improvement in competitiveness**, especially compared to other destinations in the Mediterranean and American continent.

🔄 **80% of visitors from largest markets come back again.**

### Great potential in key niche markets

- ❖ 2<sup>nd</sup> in the World in cultural heritage.
- ❖ 3<sup>rd</sup> in the World for business trips.
- ❖ Growing tourist inflows from emerging countries.

### Growth in revenues per tourist, 2012

Approximately 6% revenue growth from traditional markets.

21% revenue growth from US and 13% from Nordic countries.

17% revenue growth from non-traditional markets on the American continent and 13% rise in revenue from non-traditional European markets.

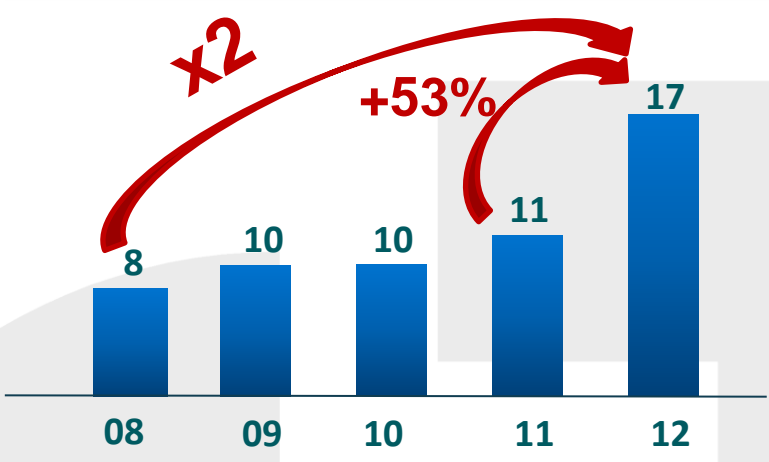
**Average daily spend of tourists from BRIC 44% higher than the average.**

- ✚ Continue to post **impressive productivity** levels, 10% higher than Germany's and 20% above the United Kingdom's:
  - ✚ Turnover in excess of €500 billion.
  - ✚ Employ more than 2.5 million people.
  
- ✚ **Continue to expand** into new countries:
  - ✚ 40% operate in more than 21 countries.
  - ✚ 12% of these are already present in over 100 countries worldwide.
  
- ✚ **World leaders** in strategic sectors with major growth potential:
  - ✚ Infrastructure, energy and telecommunications.
  - ✚ Engineering, renewable energy and environmental technologies.
  - ✚ Financial services, transport and distribution.
  - ✚ Food, tourism.
  - ✚ Textiles and fashion.

# ...and powerful Spanish franchise network

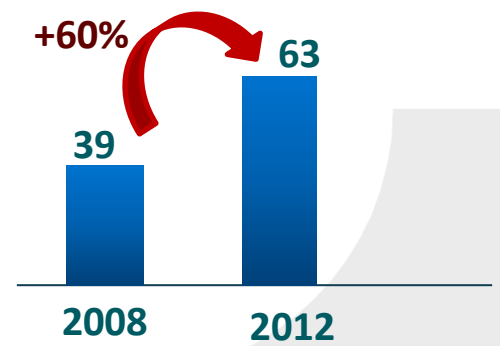
Number of establishments doubled in just 4 years

**Franchises: N° of establishments outside Spain (thousand)**



Source: Spanish Franchise Association (AEF).

**N° of establishments outside Spain per franchise**



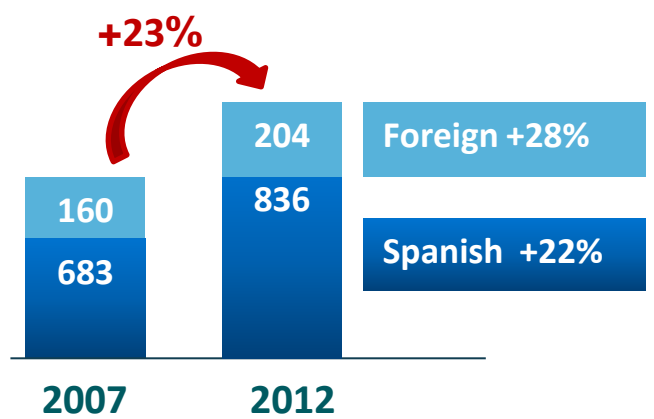
Source: Spanish Franchise Association (AEF).

272 Spanish franchises outside Spain in 2012 (+12 % vs. 2011 and +30% vs. 2008).

Present in 108 countries; growing share in emerging markets.

Fashion, travel, food, and beauty the most dynamic: number of franchises >20% in 2012.

**N° of franchises in Spain, 2007-2012**



Source: Spanish Franchise Association (AEF).

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- 🔄 **Public administration reform**, giving priority to productive public investment.
- 🔄 **Additional amendments to labour laws** to simplify contracts, reduce tax burden, and encourage efficient, proactive policies for job creation.
- 🔄 **Policies that continue to boost the knowledge economy** in all the areas of activity:
  - 🔄 Education reform, particularly focused on secondary education and professional training.
  - 🔄 Efficient collaboration between business, universities and research community.
  - 🔄 Promoting policies that increase the average size of Spanish companies.



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