Consejo Empresarial
para la
Competitividad

Conclusions of the third report on the Spanish economy presented by the Business Council for Competitiveness

SPAIN: A LAND OF OPPORTUNITIES FOR INVESTMENT AND ENTREPRENEURS

GDP set to grow in the fourth quarter this year

- The Spanish economy is benefiting from waning doubts surrounding the euro's break-up.
- Spain has proven that it can make economic adjustments and it is competitive, laying the groundwork for foreign direct investment (FDI) confidence to remain upbeat on the country's economic prospects.
- Stronger economic activity, coupled with the reforms adopted, will have a positive effect on job creation in 2014.

Madrid, 19 March 2013.- Economic adjustment in Spain and waning doubts surrounding the break-up of the euro have shored up Spain's attractiveness as an investment destination. It is once again a land of opportunities for starting and doing business. Spain has become more competitive, boasts an innovative business landscape and a highly qualified labour force.

This is one of the main conclusions of the third report by the Business Council for Competitiveness (CEC, for its initials in Spanish) about the Spanish economy entitled *"Spain: a land of opportunities*", which looks at the country's economic adjustments and the structural reforms adopted that should improve the outlook considerably for the next few years. In fact, the report suggests that Spanish gross domestic product (GDP) will begin recovering in the fourth quarter of 2013 and estimates that the improvement in activity will have a positive effect on job creation as early as 2014, thanks also to the positive impact of the labour market reform.

The report presented in Madrid today and prepared by CEC's company experts and analysts, states that Spain already enjoys significant advantages in key areas of competitiveness and innovation that will make it a "**success story**" offering attractive opportunities for investment, particularly foreign investment. In fact, one of the country's greatest strengths is its **high percentage of skilled staff**; its 32% tertiary education level is among Europe's highest and ranks ahead of Germany and France, among others. This means that 38% of professionals working in Spain today are highly skilled, 8 percentage points above the European average. This makes Spain a knowledge-intensive country.

In addition to high levels of professional qualification, other indicators for Spain guarantee a propitious environment for starting and doing business: three-quarters of the country's total turnover is generated by innovative companies; it boasts cutting-edge infrastructure and telecommunications networks; high levels of excellence in scientific output and a key geostrategic location as a springboard for access to markets with strong growth potential, such as Latin America. Finally, Spain's productivity growth is accelerating, and should double the euro area average growth in the next two years and outstrip Germany's in 2014.

All this, together with the renewed confidence in the Spanish economy and the increasing weight of internationally focused fast-growing and innovative sectors within its economy, guarantees that Spain will remain at the economic forefront going forward.

Key to understanding today's economy in Spain

This report, the third of its kind released by the Business Council for Competitiveness in its two years of existence, is predicated on the clear signals from Europe that the euro is not just an economic project, but above all, a political project. It looks at the firm backing of the European Central Bank through its contingent sovereign bond purchase programme and concludes that, while 2013 will still present challenges, **the risk of the euro's break-up has disappeared completely.** It states that the European project has been reinforced and that considerable inroads have been made towards economic, financial, fiscal and political integration, starting with the banking union.

Against this backdrop, the report assesses the reform schedule for the Spanish economy and underscores that **Spain has been able to make several economic adjustments successfully**, emerging stronger as a result. It highlights, among other things, the excellent performance of the trade balance –Spain showed a trade surplus in the second half of 2012– and the resilience of Spanish exports –export values are currently up 26% from pre-crisis levels-. Looking strictly at exports, these have diversified more into economies with stronger growth prospects, with increases of 15% in exports to Latin America, 31% to Africa and 12% to Asia.

At the same time, according to CEC experts, the various structural reforms undertaken on a number of fronts (e.g. fiscal, financial, labour market) have been carried out in a balanced manner so as to not only prevent growth from being undermined, but also to drive growth over the medium and long term. Tangible achievements include a reduction in the primary structural budget deficit of 10 percentage points of GDP since 2009. The economy has become more flexible and the financial system revitalised, with banks now starting to offer loans in response to more "solvent demand", concentrated mostly in faster growing and profitable industries.

According to the report, the schedule of reforms has been crucial for creating **a receptive investment environment** and, as a result, underpinning **foreign investor confidence** in the Spanish economy. Certain indicators back this assertion: inward foreign direct investment (FDI) flows in Spain over the last five years have averaged €25 billion a year, nearly back to pre-2008 levels. Spain also enjoys a good reputation and the strengths indicated previously should keep it among the world leaders in received FDI in the medium term.

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Return to growth

In the report, CEC's experts expect GDP momentum to perform differently in 2013 compared to 2012, gradually improving throughout the year and showing **positive growth rates in the fourth quarter**. Net trade should be the main driver, with forecasts pointing to acceleration in 2013-2014. **On top of that**, domestic demand should have an increasingly less negative impact on economic growth as most of the adjustments being made are ending, especially those affecting residential real estate investment, corporate indebtedness and public sector debt. In fact, most components of internal demand should post growth in 2014.

Moreover, with the economy expected to improve and labour reforms to have a positive impact, the report suggests employment will rise and the **unemployment rate will fall slightly, especially in the second half of 2014**. The experts also conclude that Spain will be able to create jobs in the medium term, estimating that there will be a million more net jobs by the end of 2020 than in 2010, mostly involving skilled workers.

Lastly, the CEC's third report on the Spanish economy contains an extensive chapter analysing the sectors of activity in which Spain is more competitive and that are currently the most dynamic, characterised as being innovation intensive, geared towards exports and having high output levels. It also looks at the strong **growth of service exports, led by tourism and the boom of other tradable services, and at growing business innovation environmen**t, resulting in major scientific discoveries and enabling Spanish companies to break ground in sectors of the new economy.

Specifically, it notes that Spain is **achieving strong dynamism and European leadership in activities related to the automotive, biotech, ICT, agri-food, aerospace and machine tool industries**. These economic sectors do have a turnover around35% of Spanish GDP and export around 42% of the country's overall exports. They have generated more than two million jobs and play a key role in enabling Spain's economic recovery to gain momentum.

Conclusions

In summary, with all the issues analysed above, the report gives an upbeat assessment of Spain's economic outlook from mid-2013 and expects the economy to pick up steam gradually in 2014. It paints the country as a land of opportunities, with buoyant ahead-of-the-curve areas of activity, leading companies throughout the value chain in strategic industries and a set of factors of production that afford a competitive advantage which, alongside the reforms undertaken and the changes underway, should enable Spain to remain at the forefront of the global economy.

About Business Council for Competitiveness (CEC)

The Spanish Business Council for Competitiveness, was created in February 2011. It is made up of 15 companies and Instituto de Empresa Familiar (Family Business Institute). CEC companies employ more than 1.7 million workers and their aggregate turnover represents 35% of Spanish GDP. CEC was set up as a think tank that puts commitment and effort into its proposals for enhancing competitiveness, contributing to economic recovery and strengthening international confidence in Spain.

CEC companies include Acciona, ACS, Banco Santander, BBVA, El Corte Inglés, Ferrovial, Grupo Planeta, Iberdrola, Inditex, La Caixa, Mango, MAPFRE, Mercadona, Repsol and Telefónica

Representatives of Instituto de la Empresa Familiar include Grupo Barceló, Havas Media Group and Osborne