

SPAIN, A LAND OF OPPORTUNITIES

March 2013



Consejo Empresarial
para la
Competitividad



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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**

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

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

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

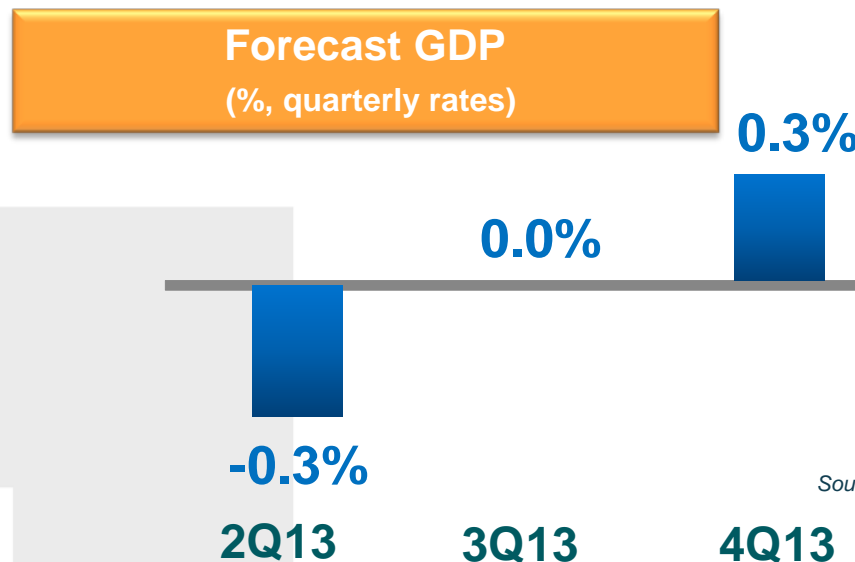
**Unprecedented external
adjustment, without currency
devaluation**

**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 thorough 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

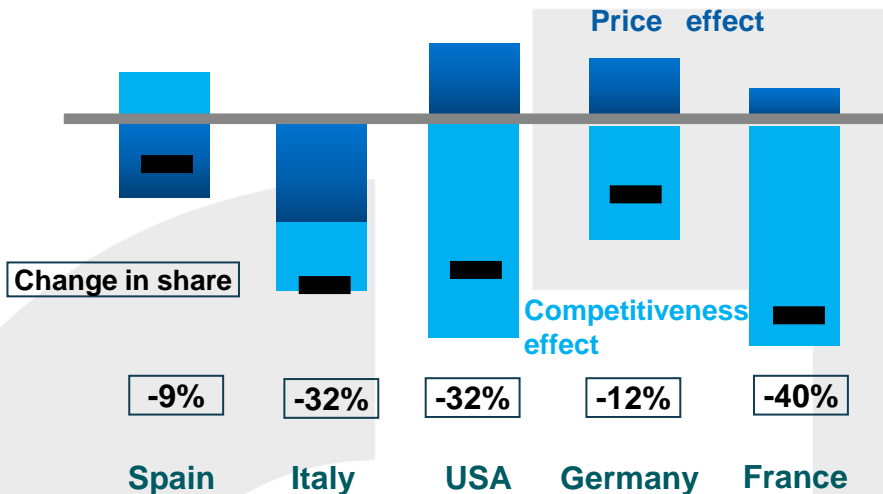
- 🔄 “Spain is not a competitive economy”
- 🔄 “Spanish debt is high”
- 🔄 “Spain is not able to adjust its fiscal deficit”
- 🔄 “Banking sector is not solvent”
- 🔄 “Spain is not committed with reforms”

Spain has always been competitive...

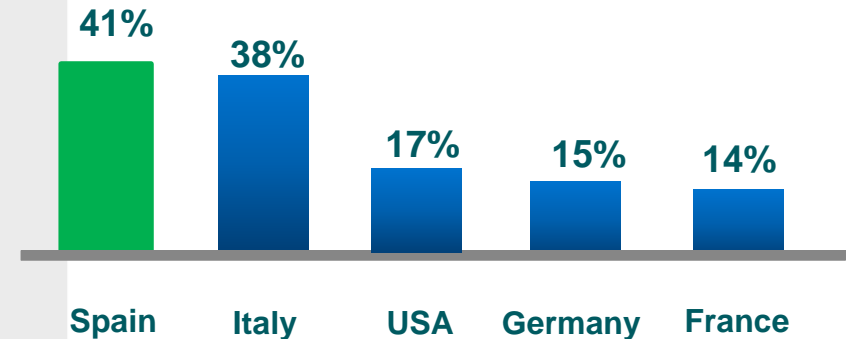
Internationalization of businesses have been key

Spain, country with lowest decline in export share
(variation in world export share, total and components, 1999-2011)

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

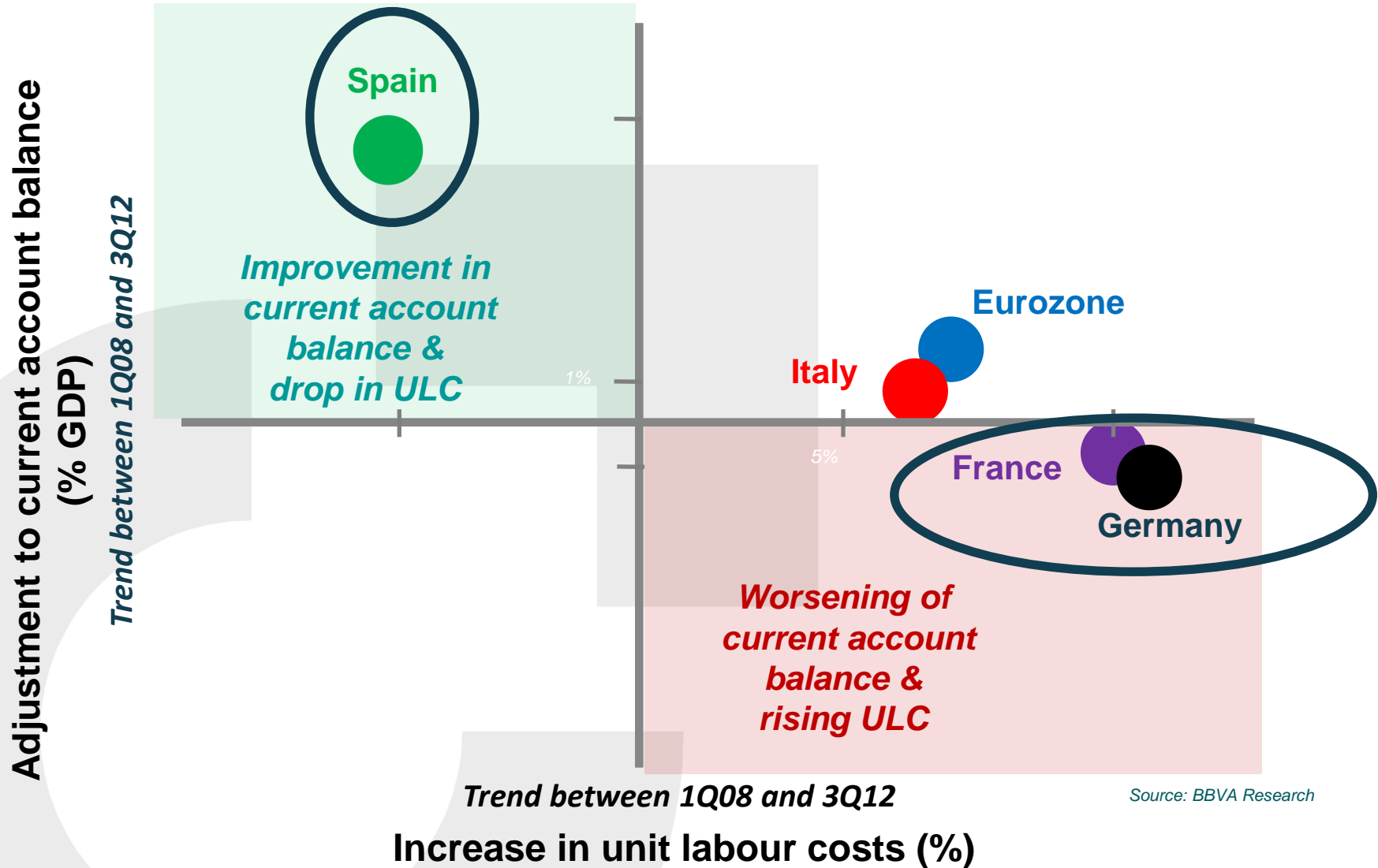


Source: BBVA Research



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



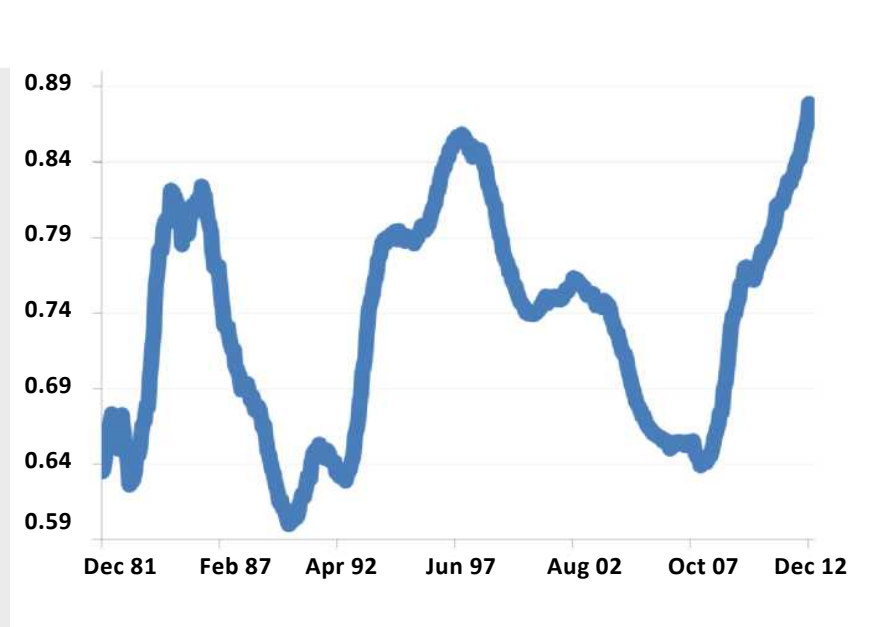
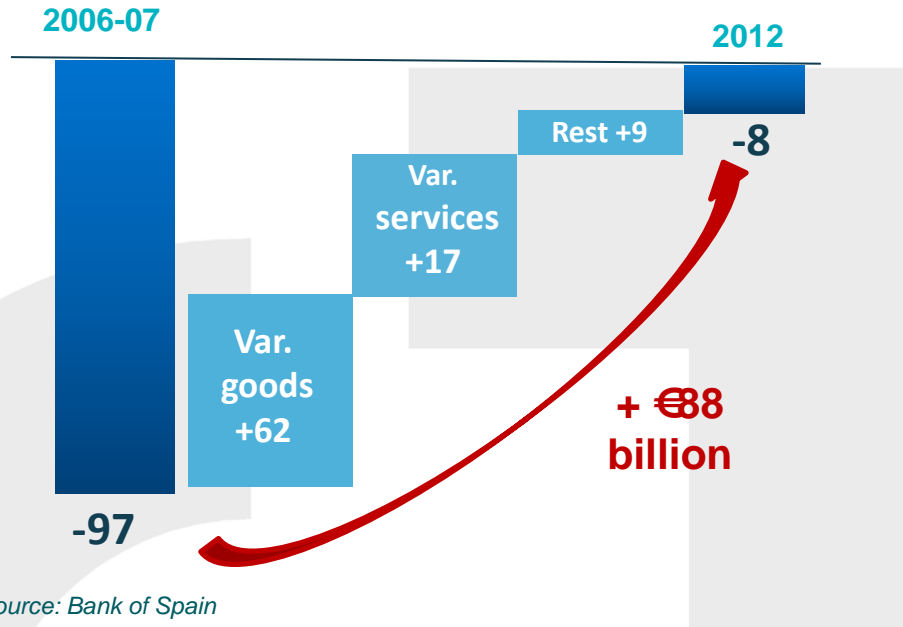
 Since 1Q08, unit labour costs have risen by 15 pp less in Spain than in Germany, France and Italy

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)

Exports as a percentage of imports at all-time high



🔄 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

Historic private sector adjustment, which is now a net saver

Indebted businesses concentrated in specific sectors but with high levels of assets

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

-13.4%

2007

4.6%

2009-13
avg.

+18 pp

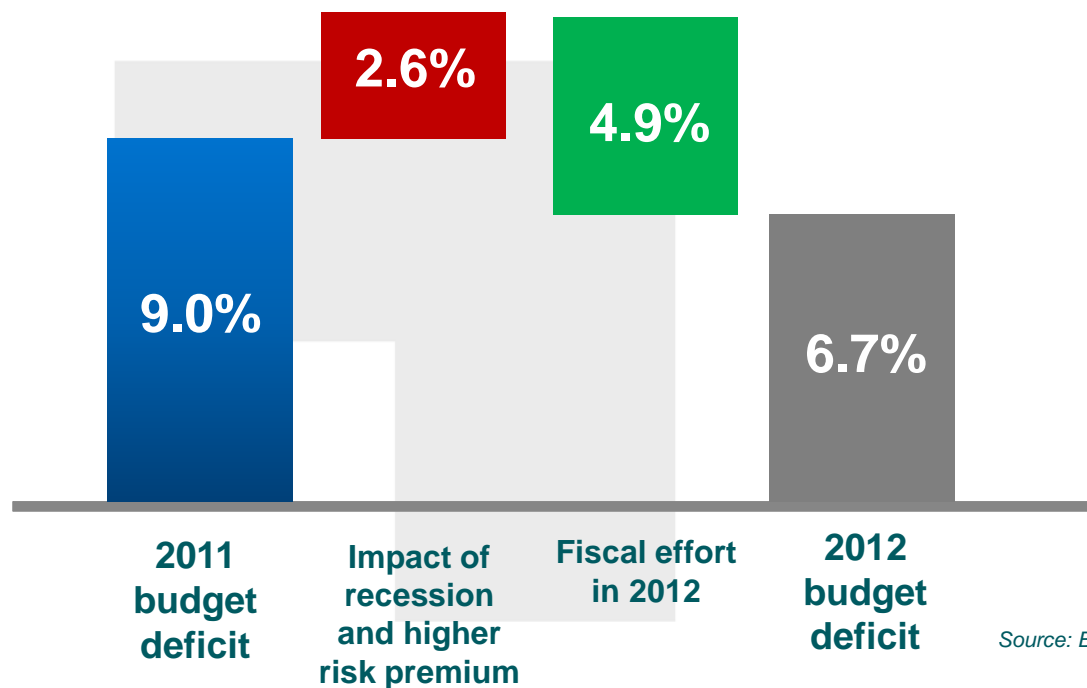
- Private sector financing needs down 18 pp (as a % of GDP) since 2007
- Leverage ratio of businesses still high compared to GDP, but...
 - In relation with assets, the ratio is similar to the European average and the same as Germany's (40%)
 - Situation not the same across sectors since only 20% are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

Source: BBVA Research

Fiscal adjustment has been and remains possible in Spain

With no measures budget deficit would have climbed to over 11.5% of GDP

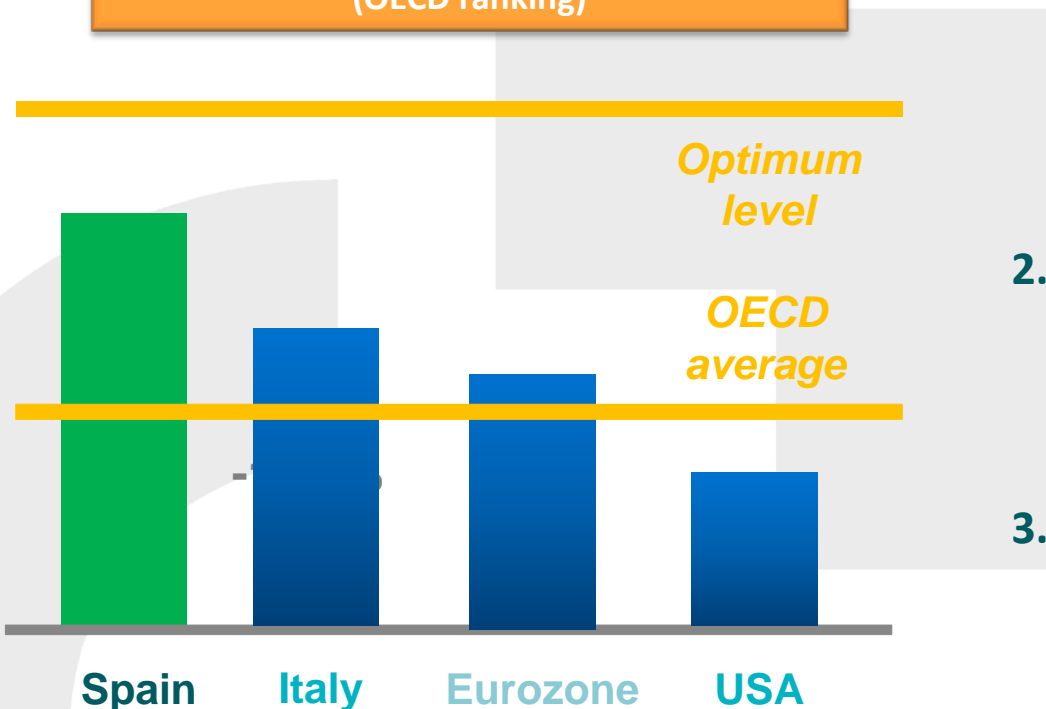
2012 fiscal adjustment (% of GDP)



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

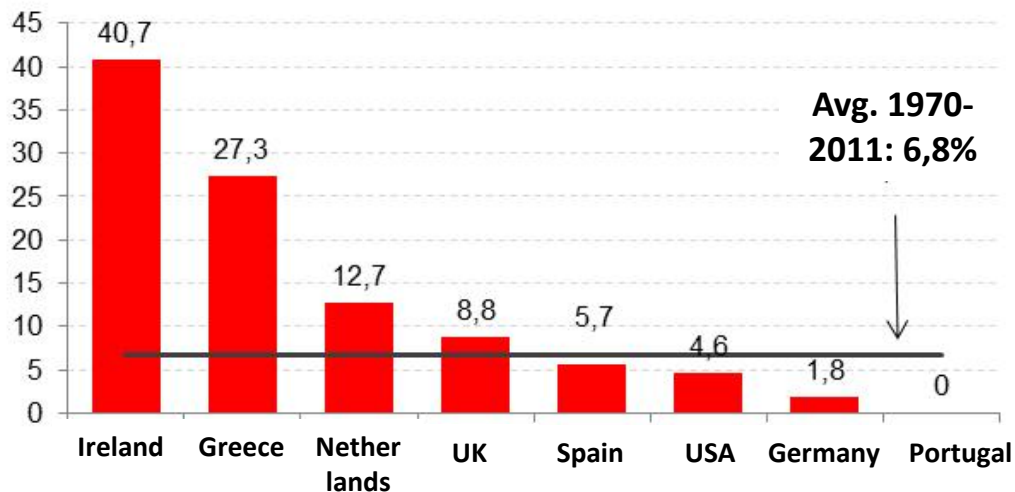
2. Assuring medium term sustainability:

- 🔄 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)



- 🔄 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

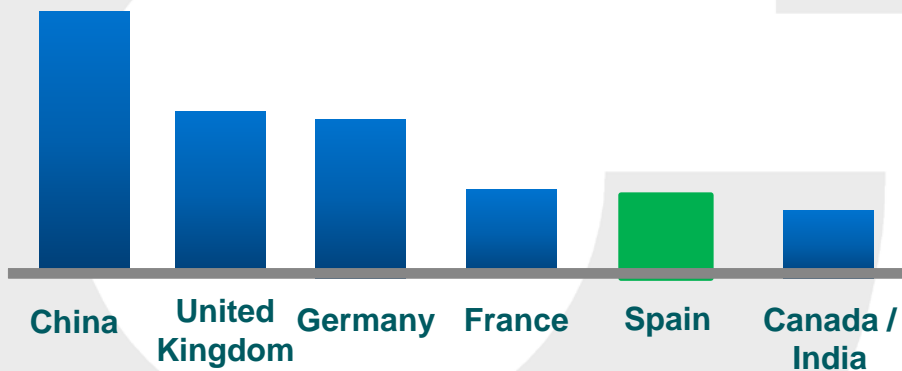
24,611



2008-12





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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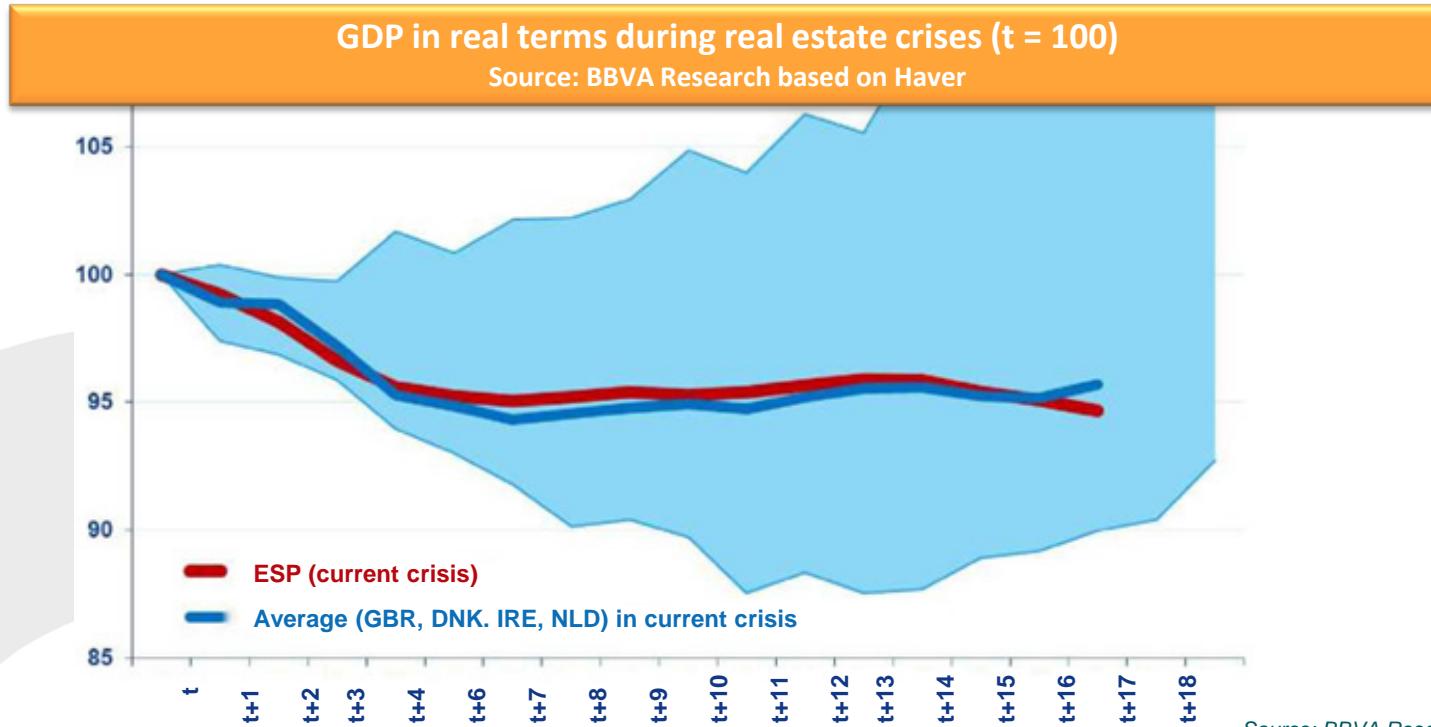
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Spain must continue driving through reforms

2012, better than initially expected...

03

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



Source: BBVA Research

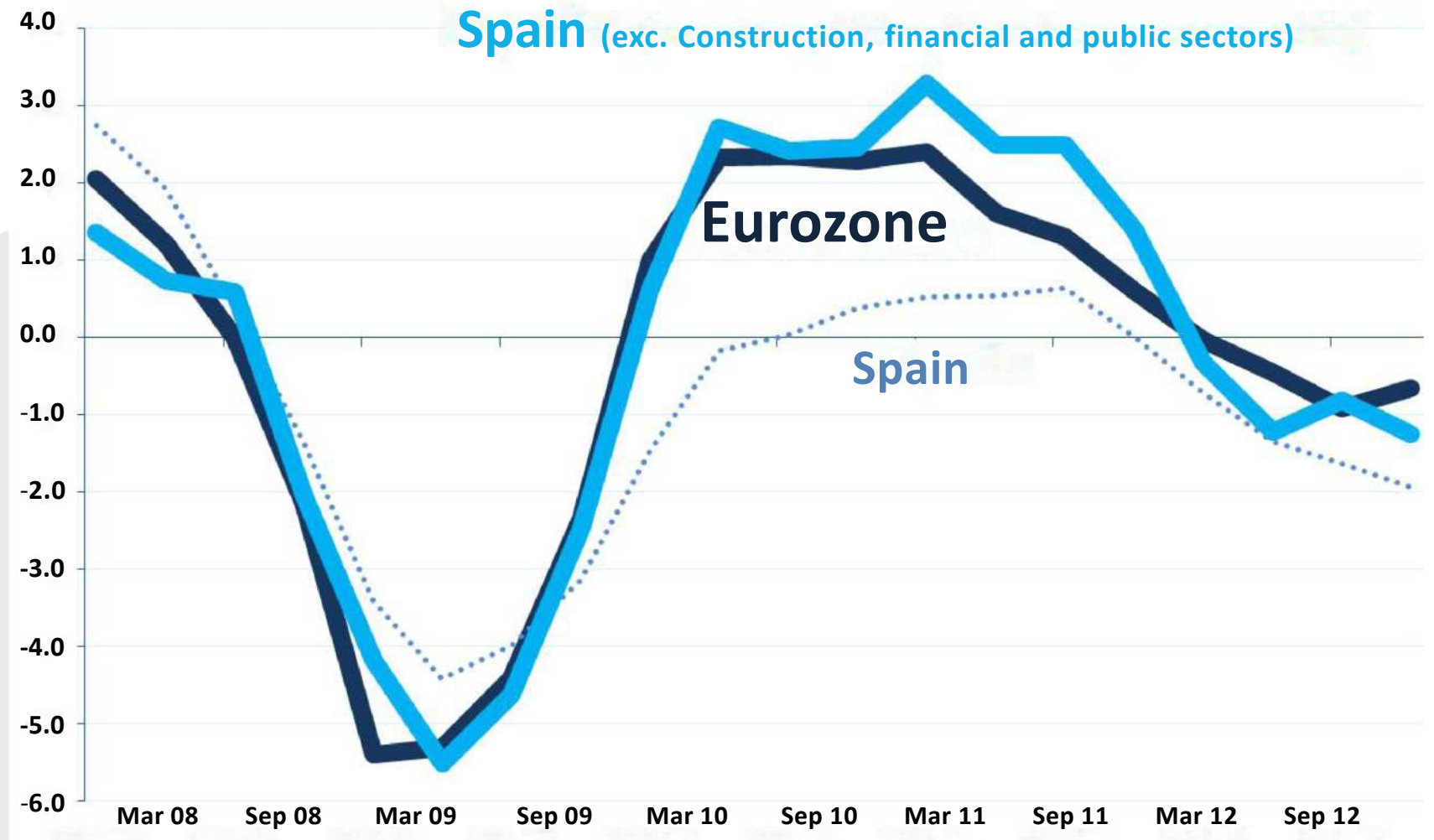
🔄 GDP performance in line with other European nations since 2008

🔄 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

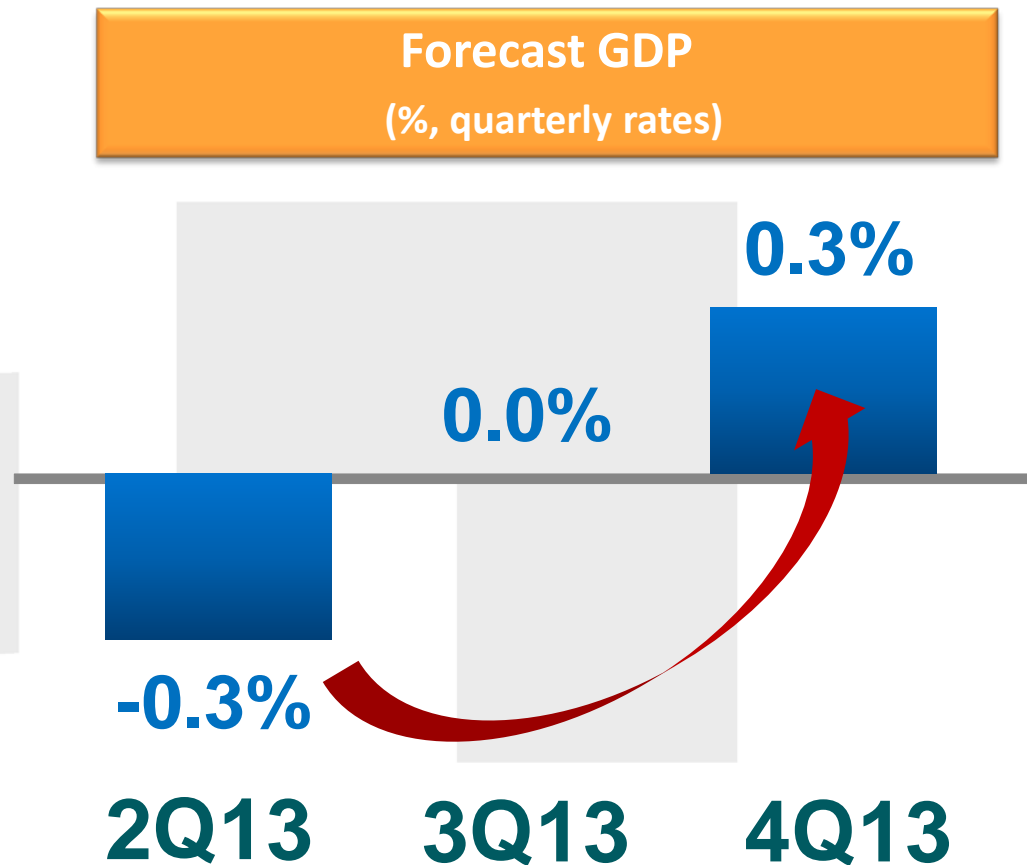
Two-thirds of the economy managed to grow despite the challenging environment

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



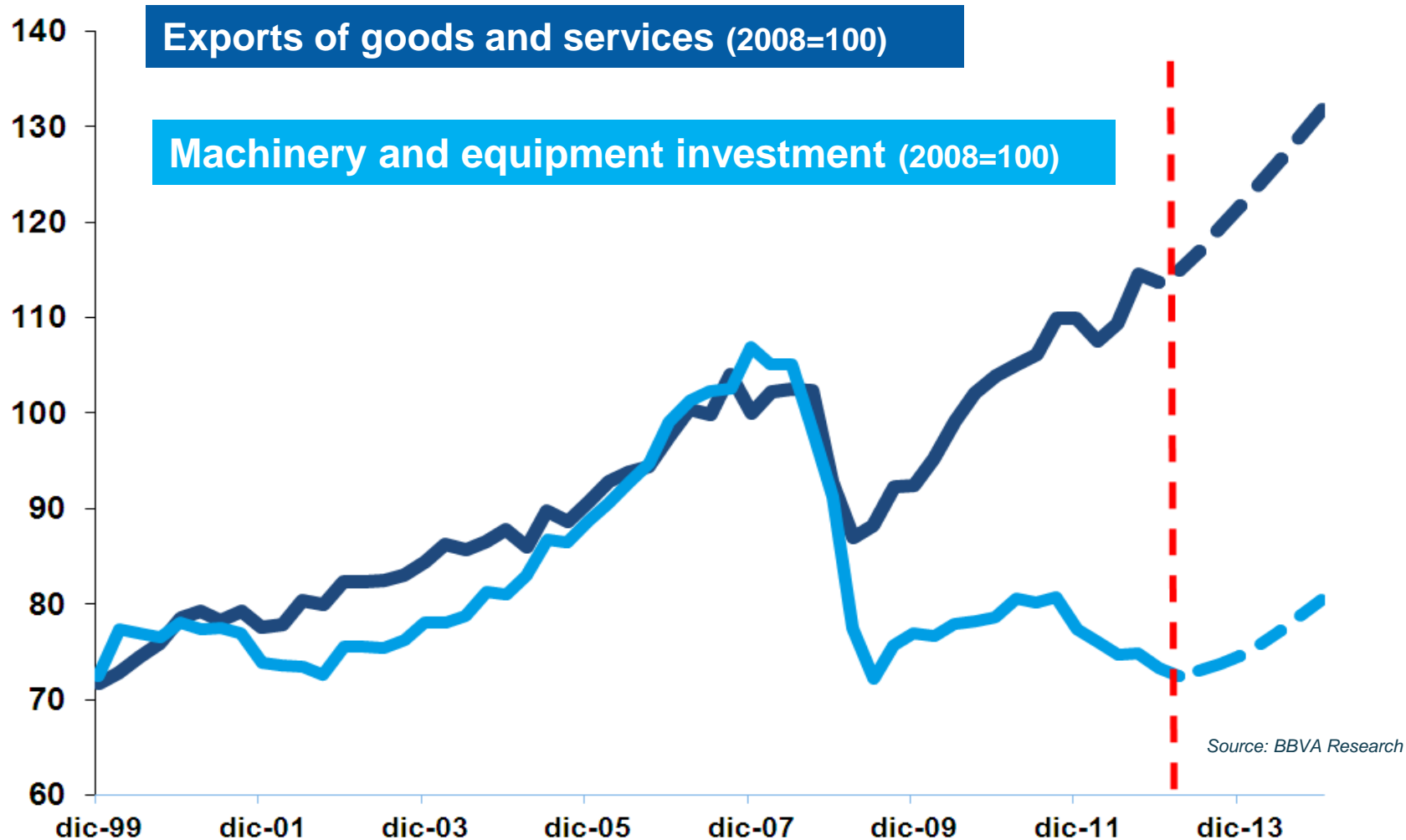
Spain will bottom out in 3Q13

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

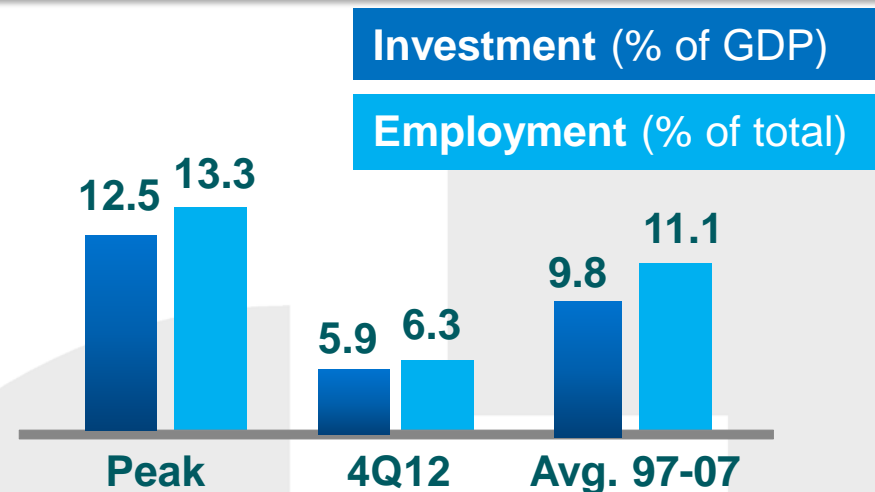
In 2014, positive growth rates reinforced by internal demand

Housing market squeeze coming to an end

03

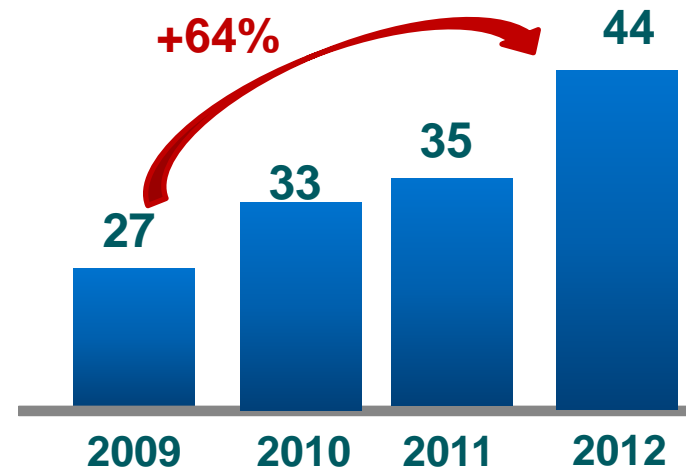
Positive growth rate in 2014 after seven years of contraction

Construction: downturn in activity & employment



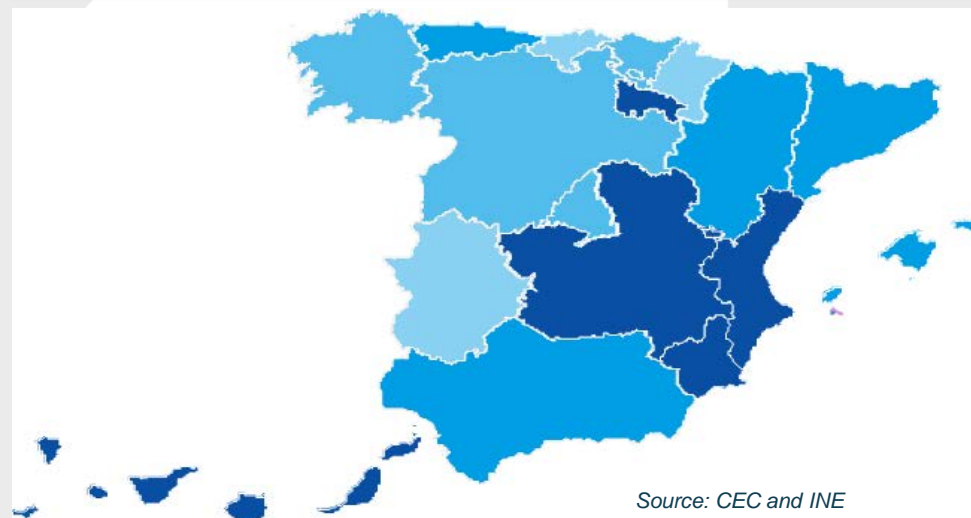
Source: National Institute of Statistics (INE)

Sales of housing to foreigners (thousands of units)



Source: BBVA Research

Oversupply by Region (as % of total stock)

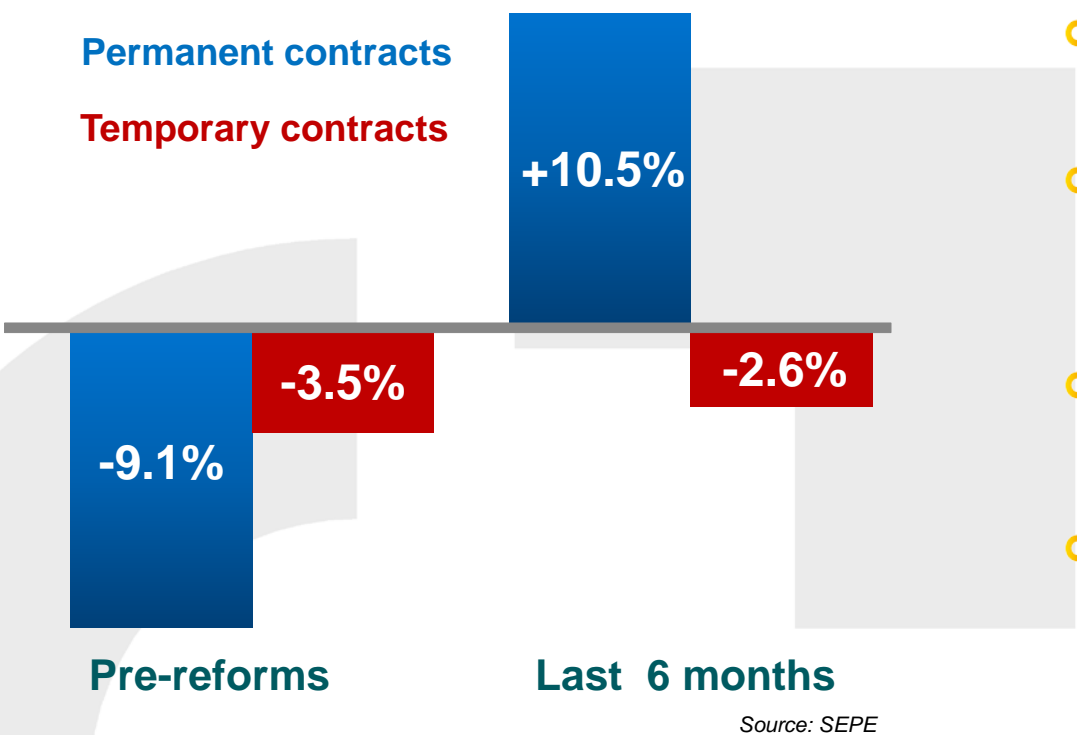


Source: CEC and INE

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, %



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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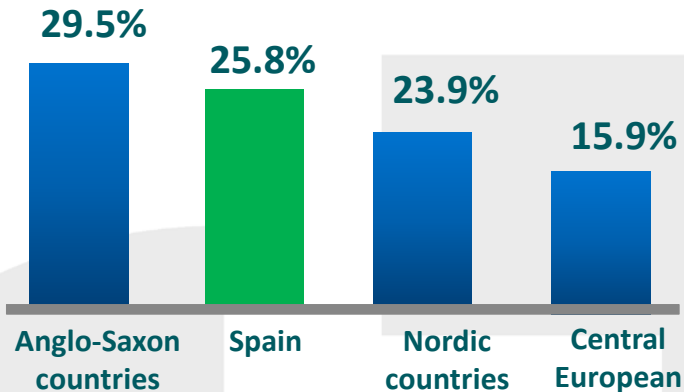
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Spain is competitive and innovative

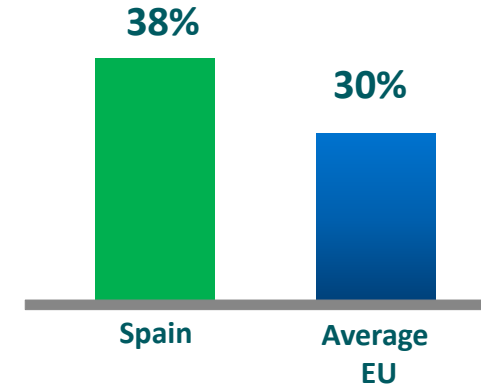
Solid position in the World in terms of knowledge and innovation

Knowledge-based assets (% of GDP)



Source: Ábaco Observatory based on Eurostat

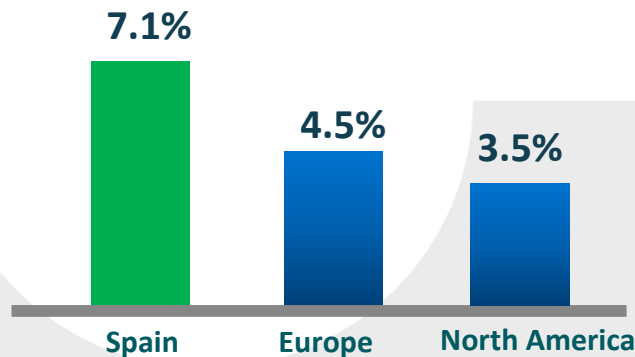
% of people in work with a university degree



Source: Eurostat 2011

10th in terms of scientific output

Average annual growth in scientific output
(1996-2010)



Source: Spanish Foundation for Science and Technology (FECYT)

- 🔄 **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

Compensation per employee
(2014 estimates by European Commission)

€43,000



€34,400



Avg. of Germany,
France and Italy

Spain

Source: AMECO

High business productivity on the rise

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

€28,000



Avg. of Germany,
France and Italy

€27,900



Spain

Source: AMECO

2007

2014

- 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

*Average of Germany, France and Italy

Key added value sectors driving international expansion...

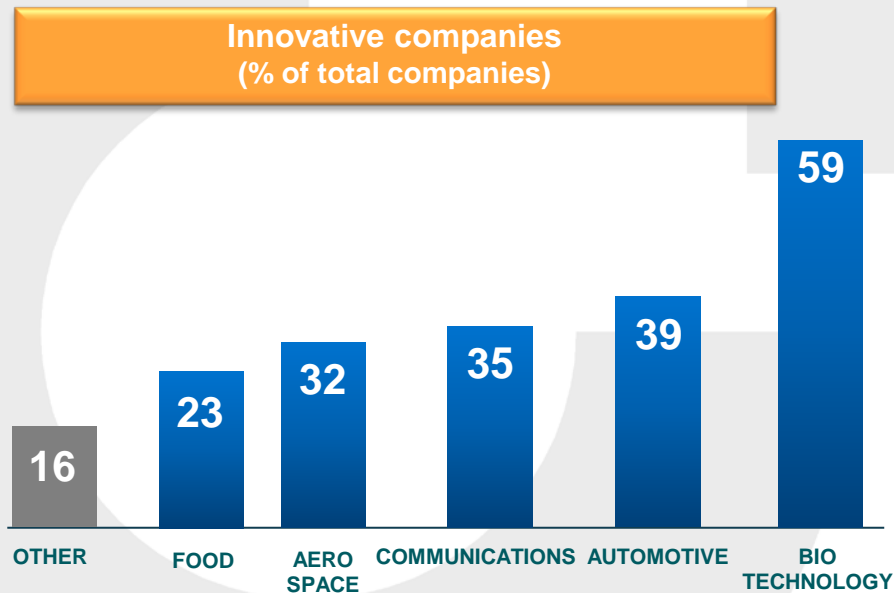
Generating 35% of GDP and employing over 2 million people

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

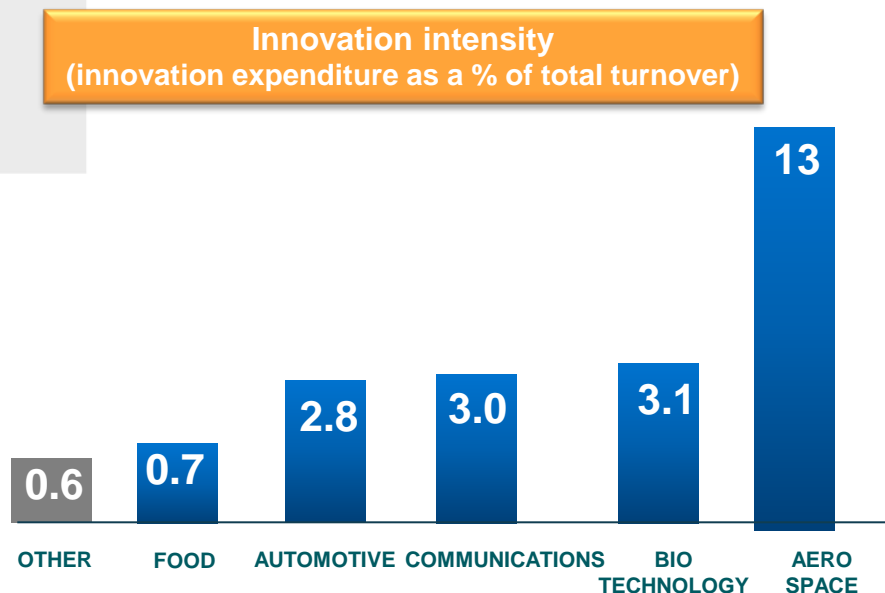
Spanish companies among Europe's TOP 5 in terms of output and exports

*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



Source: National Institute of Statistics (INE)



Source: National Institute of Statistics (INE)

Nº exporters related with automotive sector

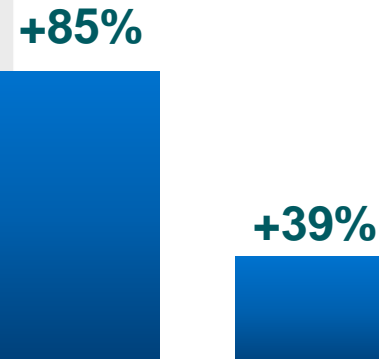


+50%

 25% skilled
workers vs.
13% in Europe

Source: DATACOMEX

Biotechnology (growth over last 2 years)


 Over 250 new
businesses
since 2008

Turnover Employment

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

Food and agriculture exports (€billion)



+36%

 8th largest
exporter
worldwide

Source: DATACOMEX

The engine of tradable services

04

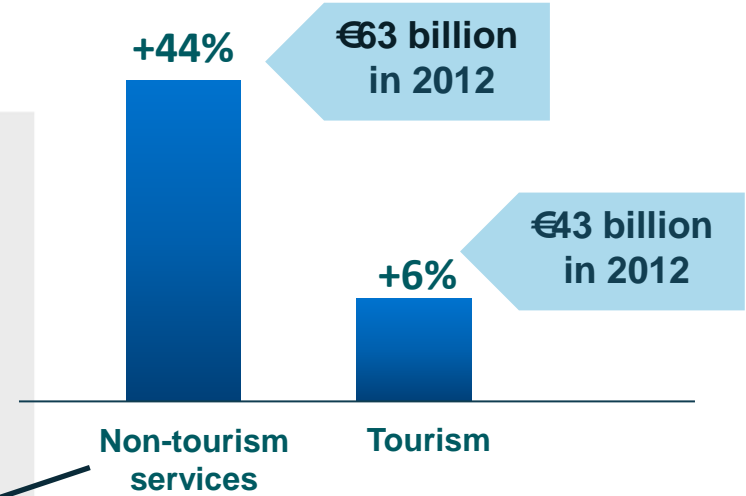
Surplus in non-tourism services for the first time in 20 years

Surplus in services 65% higher than in 06-07
(€ billion)



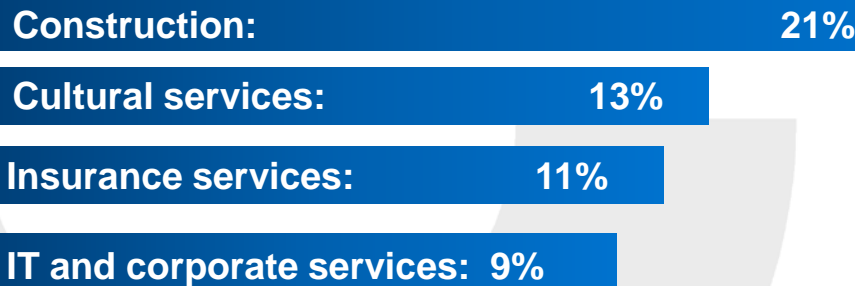
Source: Bank of Spain

Exports growth, 2006-2012 (%)



Source: Bank of Spain

Average annual growth, 2006-2012



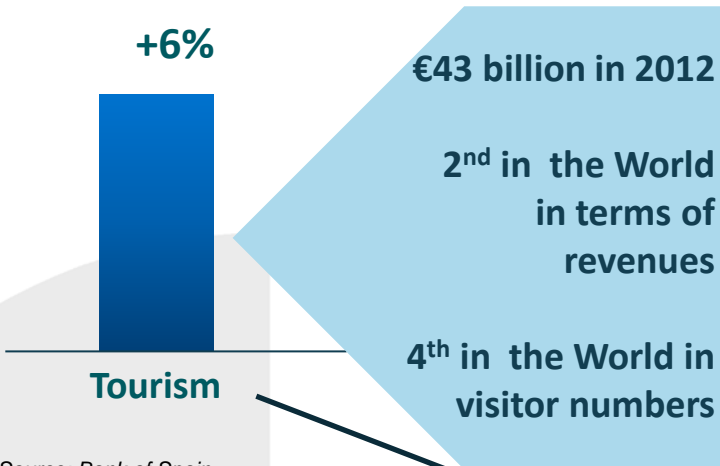
Source: Bank of Spain

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

... and robust leadership in tourism sector

Strong growth of visitors from emerging countries

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

- ❖ 2nd in the World in cultural heritage
- ❖ 3rd 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**

Spanish multinationals, World market leaders

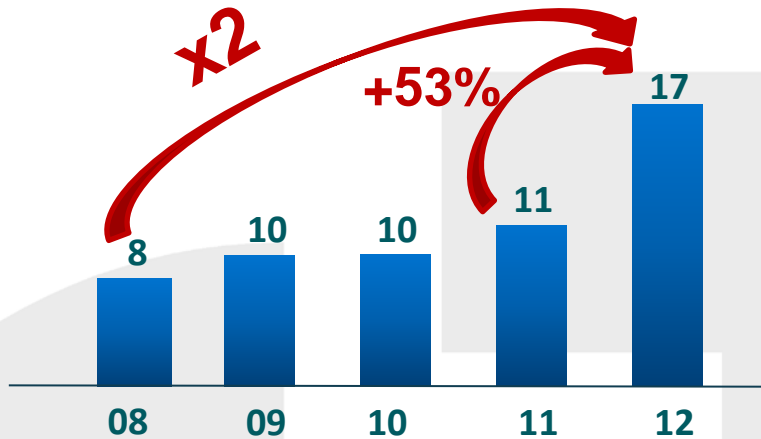
Worldwide leadership in 1/3 of key activity sectors

- 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

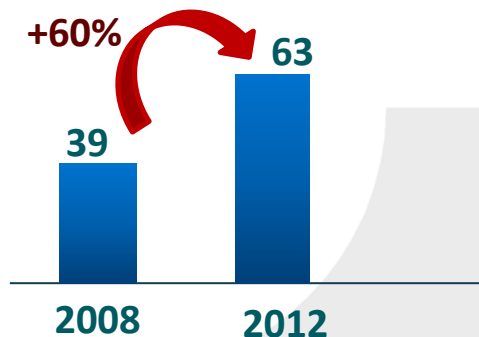
Number of establishments doubled in just 4 years

Franchises: N° of establishments outside Spain
(thousand)



Source: Spanish Franchise Association (AEF)

N° of establishments outside Spain
per franchise



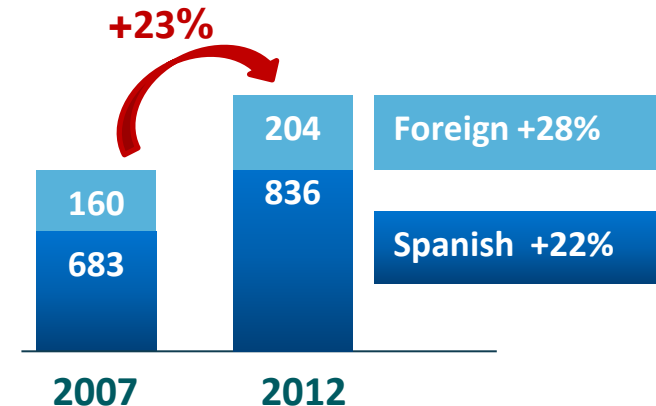
Source: Spanish Franchise Association (AEF)

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, 2007-12



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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