Spain: Opportunities for foreign investors
After some years of negative GDP growth due to the international financial crisis and some internal distortions, the Spanish economy is enjoying a robust recovery, growing at the fastest rate among the largest European economies: GDP growth rate in 2016 (3.2%) has been higher than expected by institutions such as the European Commission, the OECD or the IMF and exceeds the average growth of the EU (1.9%) and euro area (1.7%).

Source: Ministry of Employment and Social Security
Growth is becoming more balanced and sustainable, driven not only by internal demand but also by external demand due to the increasing international activity of Spanish companies.

**Contribution to GDP of internal an external demand (%)**

![Graph showing contribution to GDP of internal and external demand]

Source: Spanish Statistical Office (INE)

**Exports an Imports (% of GDP)**

![Graph showing exports and imports as a percentage of GDP]

Source: Ministry of Economy, Industry and Competitiveness
Correction of imbalances

Spain has significantly reduced its macroeconomic imbalances.

Evolution of Public budget balance as a % of GDP

Source: IMF

Private sector Debt-to-GDP Ratio

Source: Ministry of Economy, Industry and Competitiveness
Spain: Opportunities for foreign investors

Unemployment rate

Source: Spanish Statistical Office (INE)

Current Account Balance (% GDP)

Source: State Secretariat for Commerce
Structural reforms and external factors

This economic improvement has been a result of the implementation of some relevant structural reforms, such as:

- **Financial system restructuring**: Restructuring process completed in 2013.
- **Labour Market reform**: To enhance competitiveness, flexibility and employment creation.
- **Fiscal Consolidation**: To diminish the public deficit at all levels of Public Administration.
- **Taxation Reform**: To reduce tax burdens.
- **Competitiveness reforms**: Single Market Law; Services & Product markets liberalization.

Furthermore, some external factors, shared across the euro area, also have promoted a higher growth:

- **Oil prices substantial reduction**
- **Weaker Euro**
- **Low interest rates**
- **Improved credit conditions**
Improved competitiveness

Growth is also boosted by a more competitive labour market and a better business environment.

**Evolution of unit labour costs in main European economies**

<table>
<thead>
<tr>
<th>Index (2010=100)</th>
<th>Germany</th>
<th>Spain</th>
<th>France</th>
<th>Italy</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
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<td>2016</td>
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</tbody>
</table>

Source: European Commission

**Position of Spain at Global Competitiveness Rankings**

Source: World Bank / World Economic Forum

**FDI Regulatory Restrictiveness Index**

Source: OECD
This situation has enhanced market confidence

Spanish risk premium has dramatically declined since 2012.

Evolution of risk premium on Spain’s sovereign debt (pp)

Source: Spanish Stock Exchange

FDI inflows in Spain show an upward trend since 2012. In 2016 flows remained high, falling only 1.2% YoY, in contrast with global FDI inflows decrease of between 10 and 15% as estimated by UNCTAD.

FDI Inflows: Spain vs. World

Source: Ministry of Economy, Industry and Competitiveness / UNCTAD
Spain: Opportunities for foreign investors
**Optimistic outlook**

**Spanish GDP** is forecasted to **grow over 2% in the next two years**, above the Euro Area average (1.6%). Forecasts for 2017 have been revised upwards by Spanish Government (2.7% in April 2017 versus 2.5% in December 2016) and institutions such as IMF (2.6% in April 2017 versus 2.3% in January 2017).

**GDP forecast (2017-2018)**

<table>
<thead>
<tr>
<th>% Change</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU average growth</td>
<td>-2%</td>
<td>4%</td>
<td>0%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Official data</td>
<td>-2%</td>
<td>4%</td>
<td>0%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>

**Source:** European Commission

**Foreign sector** is expected to maintain a **key role in growth**.

**Exports of goods and services forecast**

<table>
<thead>
<tr>
<th>Country</th>
<th>% Change</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>0</td>
<td>-2%</td>
<td>4%</td>
</tr>
<tr>
<td>EU-27</td>
<td>0</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>Eurozone</td>
<td>0</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>France</td>
<td>0</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Italy</td>
<td>0</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Germany</td>
<td>0</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>UK</td>
<td>0</td>
<td>3%</td>
<td>4%</td>
</tr>
</tbody>
</table>

**Source:** European Commission
Why invest in Spain

Infrastructure and Technology

- Spain is a major hub for routes linking the Americas and Africa to Europe, with an exceptional airport network of 46 airports that handle more than 200 million passengers per year.
- Spain has the 3rd largest worldwide high-speed train network with more than 2,500km in service.
- Spain has the 1st largest EU highway network with 14,701 km.
- Spain boasts a solid telecommunications network, with fiber optic cable network covering the country almost in its entirety, and being one of the world’s largest undersea cable networks and satellite link-ups spanning the five continents.
- More than 80 Technology Parks, hosting over 6,200 companies.
- Excellent maritime connections with 3 ports among the top-20 ports of containers in Europe.

Labour market

- Spanish Unit Labour Costs are more competitive than main European economies with an increase in the Spanish advantage since 2011.
- Spanish Labour Productivity is better than EU-28 countries.
- Highly skilled labour force (Spain has 3 of top 25 Business Schools in the world), with a level of population with tertiary education above countries like Germany or Italy.
- Spain ranks 3rd in Europe in number of persons with a scientific/technical tertiary education.

Highly internationalized economy

- Spain is the 12th largest recipient in FDI in the world (the 5% in the EU) and the 13th largest investor (6% in the EU).
- Spain is the second recipient in Europe of FDI Greenfield investment.

Source: IMF, UNCTAD, OECD, Invest in Spain, European Commission, Business Insider
Spain: Opportunities for foreign investors

Incentives to Innovation

- Spain has the most favorable fiscal incentives for R&D among OECD countries.
- Spain is a country with a relatively moderate tax burden (34.4% GDP).
- Patent box regime, that exempts from tax 60% of revenues coming from the transfer of intangible assets.
- Corporate income tax rate of 25%. Lower effective tax rate based on taxes allowances on incentives reductions for investments, employment and R&D activities.
- The Spanish Strategy for Science and Technology and for Innovation for the 2013-2020 period, aims to promote the scientific, technological and business leadership of the Spanish economy.

Business platform for other regions

- Spain is the 2nd largest investor in Latin America and has companies with strategic position in key sectors in Latin America.
- In Latin America Spain has 19 Agreements to Avoid Double Taxation and 15 Agreements to protect reciprocal investment.
- Nearest European market for doing business with North Africa.
- The US and the UK are the two first destinations of Spanish FDI.

Quality of life

- Spain is the 2nd country in Europe in terms of quality of life for expats and 4th worldwide.
- Excellent weather, first-class gastronomy, wide range of cultural leisure activities.
- There are currently 198 international schools in Spain.
Investment opportunities: some sectors of interest

Automotive

- Spain is the 2nd largest manufacturer in the EU and 8th worldwide. Vehicle manufacturing in Spain rose 5.6% in 2016 (2.9 million units).
- Spanish automotive parts industry ranks 6th in the world in terms of turnover.
- Leadership in European Industrial Innovation-Mobility.
- Highly qualified human resources with competitive Unit Labour costs, lower than EU average.

ITC

- Spain is one of the most important ICT markets by volume in Europe.
- More than 30,000 ICT companies, including digital content, operate in Spain, employing almost half a million people.
- Collaboration opportunities to access new markets (EU, North of Africa and Latam).
- Availability of skilled human resources, at a very competitive cost.

Real Estate

- The sector started recovery in 2013 after a strong price correction, with record levels of investment volumes since 2015 (above €10,000 Mn yearly) explained by relevant operations from international funds.
- The Spanish real estate market is currently being analyzed by the vast majority of international investors due to positive KPI forecasts for the real estate market and high returns expectations.

Energy & Natural Resources

- Leading position in the world rankings in many fields, mainly in power and utilities and renewable energies.
- The contribution from renewable energies to the generation mix has already reached close to 40%.
- The Iberian Peninsula is considered to be the most mineralized zone in the European Union as it includes the volcanic massive supplied deposits of the Iberian Pyrite Belt.

Source: Invest in Spain / KPMG
The Spanish Football League is recognized as the number one worldwide, due to the presence of the teams and players most awarded around the world.

Many of the clubs of the Spanish first division are open, or may be open, to changes in their shareholding/ownership.

KPMG Sports department has been involved in many transactions.

International visitors in Spain exceeded 75 million in 2016, 10% more than the previous year.

Strategic international positioning of Spanish tourism companies, especially in Europe and Latin America.

Worldwide point of reference for tourism know-how and management.

Mature pharmaceutical industry (around 425 companies, 60% with foreign capital).

Spain is 5th EU15 by scientific production and 10th world scientific power and ranks 2nd with the highest number of biotechnology-related companies in the world.

Leading private R&D spending and high qualified workforce (12% of all R&D employment in Spanish industry).

Spanish Infrastructure Groups lead the sector in Europe, with a portfolio of international contracts exceeding 75,000 million euros.

The infrastructure sector presents several opportunities mainly in fields like: privatizations of municipalities infrastructure (i.e. water sector); development of key corridors of trans-European networks; liberalization of passenger rail transport; participation through PPP model in the Plan for Infrastructure, Transport and Housing 2012-2024.
In a nutshell

- The Spanish economy is emerging within the euro area as a result of the implementation of some relevant structural reforms (financial system restructuring, labour market, fiscal consolidation, pension system, administrative burden) and some external factors shared across the EU (oil prices reduction, weaker euro, low interest rates and improved credit conditions).

- Since 2013 the Spanish economy has accumulated twelve consecutive quarters of positive growth, reaching 3.2% in 2016 (higher than the EU average: 1.9%). A consolidation of growth is expected in the coming years pushed not only by the domestic demand, but also by the foreign sector.

- Unemployment remains as the main imbalance of Spanish economy, but since 2013 the labor market is progressively improving, coming from 26.9% in 2013 to 18.6% today (is expected to decrease to 17.5% in 2017).

- Public deficit has decreased significantly: from 10.4% in 2012 to 4.3% in 2016 (is expected to fall to 3.2% in 2017).

- Positive evolution of exports has allowed a historical adjustment on current account balance: from a deficit of 10% of GDP in 2007 to a 2% surplus now.

- Exports dynamism reflects improvements in productivity and labour competitiveness.

- Spain offers investment opportunities in high added value sectors with strong growth potential.
Our support for foreign investors

Strategy

KPMG, through its Global strategy Group, provides full scope of services in (1) quantifying the level of attractiveness of the Spanish market for the investor and in (2) defining the best strategies to effectively enter the market.

1. Attractiveness of the Spanish market:

The aim of KPMG is to provide a solid analytical basis for assessing the viability of a company entering the Spanish market.

In particular, to evaluate the potential of the internationalization project, KPMG develops in detail:

– Analysis of current and potential demand.
– Analysis of the competitive environment and product trends.
– Characterization of alternatives, prioritization and business case.

2. Entry strategy definition:

The purpose of KPMG approach is the definition of detailed actions, through an internal and external analysis, that allows a clear definition of competitive strategies to accomplish business goals.

In order to define the client’s value proposition, KPMG develops a comprehensive analysis that begins with the diagnosis of the current situation of the client and ends with the elaboration of an action plan with priority measures.

– Review current customer situation.
– External market analysis and definition of key elements of the Plan.

Legal

– KPMG provides full scope of services in mercantile and company law, financial services, public law, labor law and litigation. Our team includes more than 15 partners and 200 professionals highly specialized located in Madrid, Barcelona, Seville, Valencia, Bilbao and the Canary Islands.

– Our services in mercantile and corporate law include General Commerce Law services, M&A, Project Finance, Asset Finance, Structured Finance, Restructuring and Real estate. Our professionals have experience in cross-border transactions and manage complex services and deals in several jurisdictions.

– Our litigation team provides general Litigation services; it is very active in Bankruptcy and insolvency services and is leader in the provision of Corporate Crime Prevention services.

– KPMG labor department expertise includes service on collective Agreements, Redundancy –Collective dismissals (ERE’s), international coordination services (including International labor compliance and proceedings follow-up for inpats and expats) and labor litigation.

– Our public law professionals provide regular public law services in relation to public procurement, Infrastructures, public service concessions, litigation and urban planning. Our professionals are very active in the energy, telecom. Transport and water sectors.
<table>
<thead>
<tr>
<th>Currency</th>
<th>Exchange Rate</th>
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<tr>
<td>AUD</td>
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<tr>
<td>AUD</td>
<td>1.2368</td>
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<tr>
<td>EUR</td>
<td>100.6300</td>
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<td>AUD</td>
<td>0.5351</td>
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<tr>
<td>AUD</td>
<td>1.0784</td>
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</tbody>
</table>

These quotes are delayed market rates sourced from...
Tax

KPMG International Taxation area is formed by a team of professionals with high specialization offering a methodical, effective and quality service in the area of international tax planning, and the legal and tax consequences derived from it, helping our clients to reduce the tax burden, in compliance with the current tax system.

Furthermore, our extensive international network of tax practitioners enables us to coordinate global advice to our clients, identifying existing tax planning opportunities and risks of excessive taxation.

We support foreign investors by defining a tax-efficient investment scenario that minimizes the global tax burden both in Spain and abroad.

This would include:

- **Minimizing the tax leakage** connected with the investment, including also transaction costs.
- **An analysis of the tax implications of the investment** on a daily basis, exploring opportunities to minimize the overall tax cost.
- **The design of tax-efficient exit alternatives.**

Economics and Regulation

We assist our clients in defining the most beneficial strategies for them, in mitigating possible risks and in adapting their strategies when changes occur so as to potentiate and consolidate their competitive advantages. The services provided by the Economics & Regulation practice include, among others:

- Elaboration of proposals on energy policy and regulation design.
- Expert Witness reports on economic, regulatory and competition issues in the context of judicial and arbitral disputes.
- Regulatory framework and market dynamics analysis to identify risks and opportunities for private companies/investors, complemented with advice in the design and development of adequate strategies and business plans and models.
- Regulatory due diligences in the context of commercial transactions.
- Impact assessments of regulatory changes.
- Benchmark analyses.
- Development of analytical models to be used as decision-support tools, based on different methodologies such as econometrics, optimization or game theory.
- Support in internationalization processes of private companies defining adequate strategies.
- Elaboration of economic and technical reports on energy sectors.
Spain: Opportunities for foreign investors
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