

Country Report
Spain

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1. Introduction

1.1 General Information

Spain currently occupies an area of 505,992 km² which makes it the 4th largest country in Europe. Currently, Spain has population of more than 46.4 million. Madrid is the largest city and capital of the country. Spanish is the official language of the country. Spain is well known for its bullfight, soccer, flamenco music, dance, rich Muslim architecture, hot beaches, delicious fruits and delicious food.

1.2 Research Outline

The main focus of this report is to study the current economic and political developments taking place in the Spain. It will also study the impact of these economic and political developments in shaping the business environment of Spain over next few years. Moreover, this report will also analyze the current economic data to predict the short term and long term future of political, economic, and business environment of the country.

1.3 Report Outline

The country report will consist of following important parts

1.3.1 Introduction

The first part of report will consist of introduction about the country and it will lay down the scope of the report

1.3.2 Macroeconomic situation

The Second part will contain information about the macroeconomic situation of the Spain. Moreover, it will analyze various macroeconomic factors and how these factors will shape the future of the Spanish economy.

1.3.3 Investment conditions

This part will contain information about the investment climate of the country along with different investment related indicators. It will predict the immediate future of the investment climate of the country.

1.3.4 Economic risk

This part will talk about the economic risk faced by the Spanish economy due to various external and internal factors.

2. Macroeconomic Situation

2.1 Introduction to Macroeconomic Situation

Spain is one of the most important members of the European Union. Its economy is world's 13th largest economy and it can be categorized as a high income country as it is included in the list of countries with high human development score. It is listed 26th in the UN development index and 30th in GDP per capita. The structure of the Spanish economy is mixture of capitalism and socialism. Currently, Spain is 18th largest exporter in the world. Spain has the world's 10th highest quality of life.

The Spanish economy has showed a continued strong balanced economic growth in the year 2018. The country has showed a strong employment growth which has decreased unemployment and provided support to households (Oecd, Economic Survey of Spain, 2018). According to the economic analysts, range of structural economic reforms carried out in 2017 has helped in the economic recovery. These reforms have also helped economy to decrease its private debt and make its financial system stronger. Spain has to maintain its structural reforms in labor and product markets to create growing and resilient future economy.

Table 1: Selected Parameters 1

Parameters	Figures \$
Gross Domestic Product	1. 940 trillion (PPP), 1.39 trillion (nominal)
Gross Domestic Product/Per capita	29961 (nominal), 41,592 (PPP)
inflation (CPI)	0.684%
Unemployment	14.2%
Exports	313.7 billion
Imports	338.6 billion
Government expenditure	0.588336 trillion
Household consumption	620511 millions
Inequality	34.30 %
Environment	Stable

2.2 Selected Parameters

2.2.1 GDP growth

The GDP growth rate of the Spanish economy was 2.166 % last year , marking the fifth consecutive year of robust economic growth and by far the fastest growth rate of all Eurozone countries . International Monetary Fund has revised its GDP projections for the Spanish economy as it has projected that it will grow with 1.84 % in the year 2020 .

Table 2: Spanish GDP growth over 1



In addition to that, Spain is fastest growing economy in the Eurozone for last five years. Since, it is now the greatest single contributor to Eurozone growth.

2.2.2 GDP per capita

According to the Trading economics research analysts, GDP per capita of the Spain is expected to reach 33600.00 USD in 2020 . The long-term GDP per capita may cross the 34600.00 USD mark at the end of the year 2020.

2.2.3 Unemployment

The unemployment rate of the country has showed a gradual decline in last two years.

Table 3:Economic Outlook Spain 2019-2020 1

	2018	2019	2020
Gross domestic product (GDP)	2.6	2.2	1.9
Private consumption	2.4	1.8	1.5
Government consumption	2.1	1.6	1.3
Gross fixed capital formation	6.1	3.8	3.8
Exports of goods and services	1.6	2.8	4.0
Imports of goods and services	3.5	2.9	4.1
Unemployment rate	15.3	13.8	12.5
Consumer price index	1.9	1.9	1.7

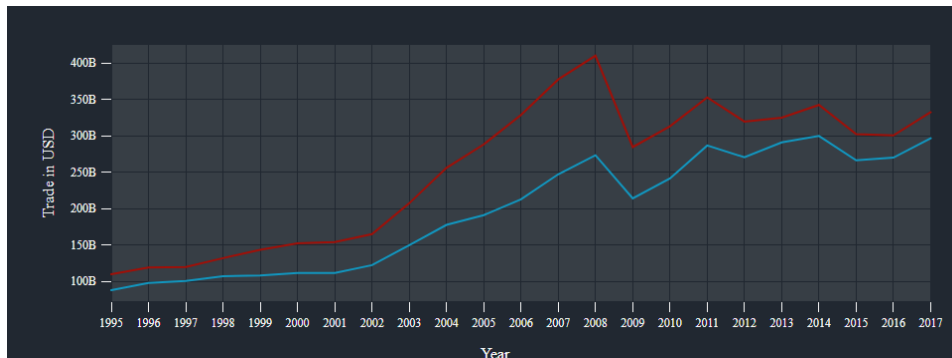
Source: OECD, Economic Outlook (database).

The unemployment rate of the country has decreased from 15.3 percent in 2018 to 13.8 percent in 2019.

2.2.4 Exports and imports

Spain is the 16th largest exporter of goods in the world. In addition, it has 28th most complicated economy as per Economic Complexity Index (ECI).

Table 4: Exports and imports of Spain 1



Source: OECD

In the year 2017-18, Spain imported \$332 B and exported \$296 B. This means that Spain had a negative trade balance of \$35.7B (oec, 2017).

2.2.5 Inflation

The Spanish monetary policy is bearing its results as inflation has showed a considerable decrease in last three years. Since, it has decreased from 1.956% from 2017 to 0.684 % in 2019.

Table 5: Economic Indicators Spain 2019 1

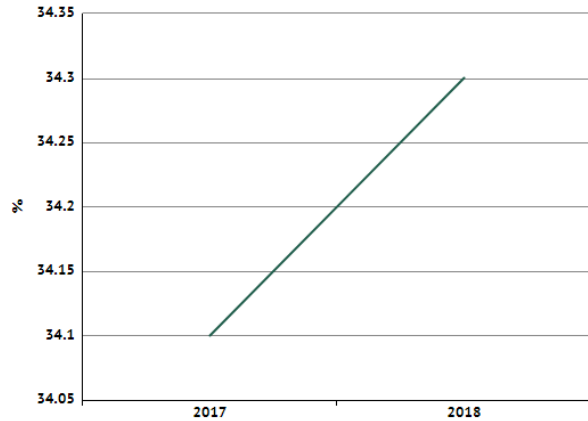
Country	Subject Descriptor	Units	Scale	Country/Series-specific Notes	Shaded cells indicate IMF staff estimates					
					2016	2017	2018	2019	2020	2021
Spain	Gross domestic product, constant prices	Percent change			3.169	2.983	2.579	2.175	1.847	1.702
Spain	Gross domestic product, current prices	U.S. dollars	Billions		1,237,998	1,317,104	1,427,533	1,397,870	1,440,399	1,503,508
Spain	Gross domestic product, current prices	Purchasing power parity; international dollars	Billions		1,692,470	1,775,784	1,865,967	1,940,539	2,015,608	2,092,228
Spain	Gross domestic product per capita, current prices	U.S. dollars	Units		26,681,567	28,381,056	30,733,168	29,961,105	30,734,119	31,937,225
Spain	Gross domestic product per capita, current prices	Purchasing power parity; international dollars	Units		36,476,429	38,264,747	40,172,154	41,592,343	43,007,499	44,442,693
Spain	Inflation, average consumer prices	Percent change			-0.203	1.956	1.675	0.684	1.049	1.427

Source: IMF

2.2.6 Inequality

Gini index measures the extent of income inequality in the country.

Table 6 : Gini Index of Spain 2019 1



Source: knoema

The gini index 2019 score of Spain is 34.30 % which shows that there is considerable inequality in the country (Knoema, 2019).

2.2.7 Environment

The economic environment of the country is very conducive and stable for the industrial development and economic growth.

Conclusion Macroeconomic Situation

According to the projections made by the bank of Spain, Spanish economy is expected to grow with the rate of 2 % in the year 2019. Moreover, it is also expecting an economic slowdown in the year 2020. The Standard and poor's has upgraded the credit rating from A from A-. The upgrading helped provoked a rally in the country's bonds, driving 10-year yields down to 0.13%.

Spanish economy is an export oriented economy, so it has to show continuous exports growth which is very important for swift economic recovery. Therefore, government has to offer export oriented benefits to exporters to keep exports expanding. In addition to that, government must also increase its funding for the research and development sector. Spain's research and

development budget currently resides at just 1.2 percent of GDP which is below of the EU standards. Moreover, Spanish government must revamp its economic policies to reduce income inequality in the country. Therefore, government must increase the minimum wages and income tax net which will help it to decrease the income inequalities within the economy.

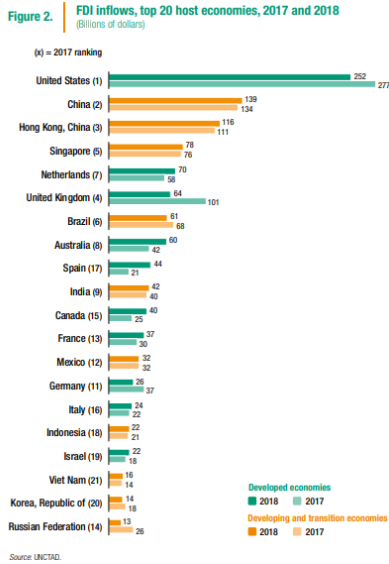
3. Investment Condition

3.1 Overview on Investment regime

Spain's economy has been consistently outperforming European Union economies since it recovered from a 5-year slump in 2013. The Bank of Spain believes that Spanish economy will perform well in the medium term mainly due to better competitiveness and good financing conditions. Meanwhile government is still following a policy of accommodative monetary policy despite a gradual slowdown in economic growth.

According to the 2019 World Investment Report published by UNCTAD, Spain is currently the 9th largest recipient of the FDI inflows worldwide (Unctad, 2019). The FDI inflows have increased mainly due to increased investor confidence and competitiveness in the Spanish economy. Spanish economy received additional FDI inflows amounting \$ 43 billion which shows an increase of 108% as compared to the 2017 . The economic growth in last few years have attracted foreign investors and now they are more confident about the future of Spanish economy.

Table 7 : 2019 World Investment Report 1



FDI stocks increased by 2.1% from 2017 to 2018, and they reached USD 659 billion (around 46.2% of GDP). According to data provided by the FDI Intelligence, the country has received 385 Greenfield FDI projects in 2017. These investments were made in sectors such as tourism, automotive, and manufacturing, automotive etc .

Spain is currently ranked 30th out of 190 countries in the World bank's report titled "Doing Business report 2019". The Spanish economy has lost 2 positions as compared to the last year. The Spanish economy has restructured its financial, tourism, transport and renewable energies structure and that helped it to attract number of Spanish multinational companies.

3.1.1 Financial Account Statistics

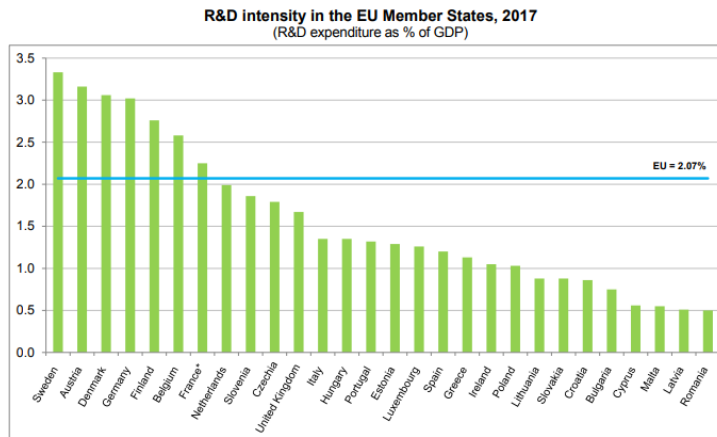
The financial account data of Spain reveals that it has positive balance of 6,182.000 EUR MN at the end of month of August 2019. This records shows that country has made significant improvement as compared to last month.

3.2 Domestic investment

3.2.1 Research and development spending

The R & D spending of Spain is one of the lowest in the world as it touched 1.2% of GDP in the year 2017-18. Spanish government must increase to at least 3 % of GDP in the next few years.

Table 8: Research & development spending 1



Source: Eurostat

3.2.2 MHT spending

According to the World health organization, mental health expenditures by the government health department ministry are 5.0% of the total health budget. Moreover, the central government has spent approximately 9 million Euros over the last four years in funding the implementation of various projects within the individual provinces of Spain.

3.2.3 Sectoral investments

The latest research study done by Spanish government has revealed that manufacturing sector gets the highest amount of investment by the domestic investors. It should be noted that automotive industry contributed 10 % in the gross domestic product of the country in the year 2017 - 18.

3.3 Expectation and thrust in investments

3.3.1 Credit scores

The long-term sovereign credit ratings of Spain have been upgraded recently to A from A- by S&P . The economic outlook has been upgraded to stable from positive. The improvement in the ratings reflects a resilient and strong economic performance, despite of the slowdown in the euro zone (local, 2018).

3.3.2 Doing business

The latest doing business index released by World Bank shows that Spanish economy has failed to show any improvement as compared to last year as far as doing business is concerned. The current ranking of Spain is 30 with score of 79 (economy, 2019).

Table 9 : Doing Business index 1

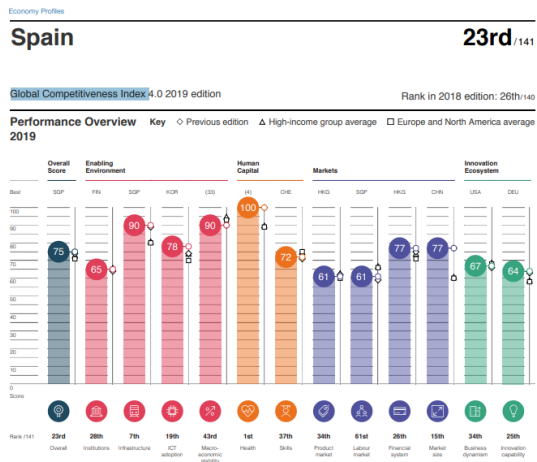
Spain - Doing Business Index											
Date	Doing Business Index	Doing Business	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Credit	Minority Investors	Taxes	Trading	Contract
2019	77.68	30°	86°	78°	48°	58°	73°	30°	34°	1°	2
2018	77.02	28°	86°	123°	42°	53°	68°	24°	34°	1°	2
2017	75.73	32°	85°	113°	78°	50°	62°	32°	37°	1°	2
2016	75.02	33°	79°	111°	71°	50°	60°	30°	45°	1°	3
2015	73.61	34°	78°	97°	12°	66°	132°	30°	6°	50°	
2014	69.50	32°	115°	104°	68°	71°	45°	30°	70°	29°	7
2013	70.19	46°									
2012	70.13	42°									
2011	68.22	49°									
2010	68.18	62°									
2009		49°									
2008		38°									
2007		39°									

Source: Country economy

3.3.3 Competitive index

The current ranking of the Spain is 75.3 which is vast improvement from last year ranking of 74.2. Right now, Spain is the 23rd most competitive country in world.

Table 10 : Competitive index 1



Source: World Bank

3.3.4 HDI index

Spain is included in the list of countries with high development as Spain has scored 0.891 points in the year 2017 which shows that Spain is a country with high level of education, economic progress and social justice. It's current position is 26th in the list (Hdr, 2019).

Table 11 : HDI index Spain 1

Table 1. Human Development Index and its components										
HDI rank	Country	Human Development Index (HDI) Value	SDG 3		SDG 4.3		SDG 4.6		SDG 8.5	
			Life expectancy at birth (years)	Expected years of schooling (years)	Mean years of schooling (years)	Gross national income (GNI) per capita (2011 PPP \$)	GNI per capita rank minus HDI rank		HDI rank	
							2017	2017		2017
VERY HIGH HUMAN DEVELOPMENT										
1	Norway	0.953	82.3	17.6	12.6	60,012	5	1		
2	Switzerland	0.944	83.6	16.2	13.4	67,626	8	2		
3	Australia	0.939	83.1	22.9	12.9	43,960	16	3		
4	Ireland	0.938	81.6	19.6	12.5	53,764	8	4		
5	Germany	0.936	81.2	17.0	14.1	46,136	13	4		
6	Iceland	0.935	82.9	19.3	12.4	46,910	13	6		
7	Hong Kong, China (SAR)	0.933	84.1	16.3	12.0	56,420	2	8		
7	Sweden	0.933	82.6	17.6	12.4	47,766	9	7		
9	Singapore	0.932	83.2	16.2	11.6	62,903	-6	8		
10	Netherlands	0.931	82.0	18.0	12.2	47,900	5	10		
11	Denmark	0.929	80.9	19.1	12.6	47,918	3	10		
12	Canada	0.926	82.6	16.4	13.3	43,433	10	12		
13	United States	0.924	79.6	16.5	13.4	54,941	-2	12		
14	United Kingdom	0.922	81.7	17.4	12.9	39,116	15	14		
15	France	0.920	81.6	17.6	12.4	41,002	10	15		
16	New Zealand	0.917	82.0	16.9	12.6	33,970	16	16		
17	Belgium	0.916	81.3	19.8	11.9	42,166	6	16		
17	Liechtenstein	0.916	80.4	14.7	12.6	97,336	-16	16		
19	Japan	0.909	83.9	15.2	12.8	36,986	9	19		
20	Austria	0.908	81.8	16.1	12.1	46,416	0	20		
21	Luxembourg	0.904	82.0	14.0	12.1	66,016	-13	26		
22	Israel	0.903	82.7	16.9	13.0	32,711	13	21		
22	Korea (Republic of)	0.903	82.4	16.6	12.1	36,948	8	22		
24	France	0.901	82.7	16.4	11.6	39,264	2	23		
25	Slovenia	0.896	81.1	17.2	12.2	30,694	12	24		
26	Spain	0.891	83.3	17.9	9.8	34,288	7	26		

Source: Undp

3.3.5 Government indicators

Government indicators show that Spanish economy is slowly and gradually recovering from the 2008 global recession.

3.4 Environment and sustainability

Spain has a very modern, transparent and clear institutional framework which has employed best practices and norms of the OECD. Spanish economy has undergone through various far-reaching structural reforms which have improved the competitiveness of the business climate, and they have also increased the labor market flexibility needed for development and growth.

3.5 Conclusion on investment

There are more than 12,300 foreign companies who are representing various sectors of economy such as industry, services and information. According to Forbes, 70 of the 100 leading global leaders have made investments in Spanish economy. In addition to that, according to Thomson Reuters, 90 of the 100 major world R & D companies have made investments in the Spain.

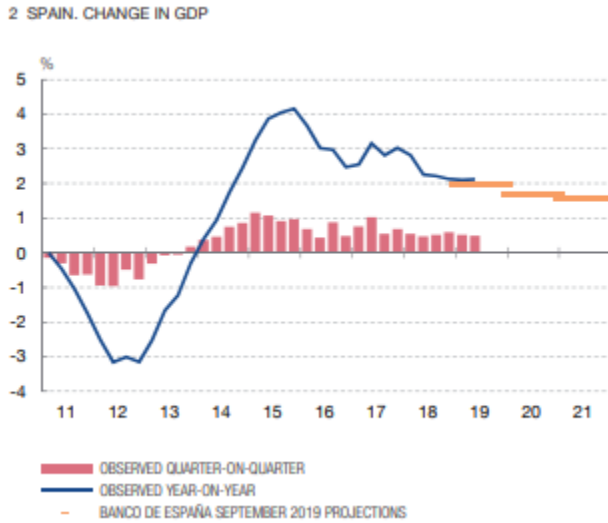
Currently, Spain is a member of the EU and that is a big advantage for investors planning to invest in the economy as European Union is world's largest market of with a population of 500 million and a per capita income of 35,990 USD (spain, 2019).

According to the FDI Regulatory Restrictiveness Index of the OECD, Spain is currently ranked ninth country in the list of countries with open regulations related to domestic and foreign investment (Oecd, FDI Regulatory Restrictiveness Index, 2019). Spanish economy has one of the highest recipient of the foreign investments as it is ranked 13th in that list. Therefore, it can be said that Spain is most ideal investment location for domestic and foreign in whole EU.

4. Economic risk

Spanish growth has really slowed in last one year and it is expected that Spanish economy will slow down further in 2020. The labor market is expected to show some signs of recovery as there is a trend of decreasing unemployment in the country.

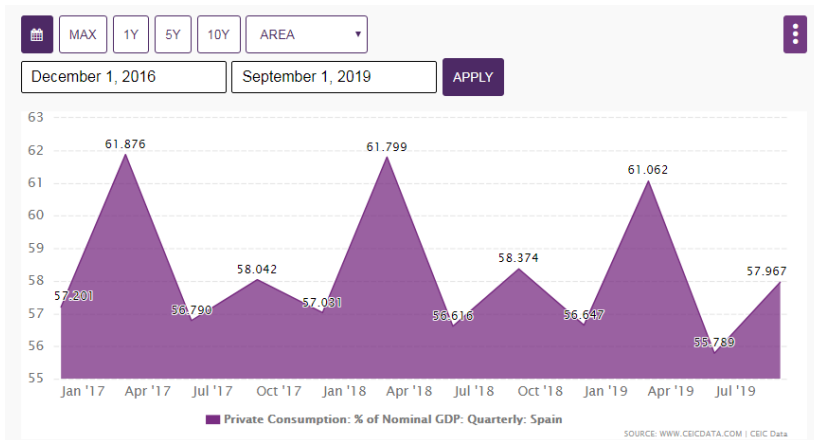
Table 12 : Economic risk 1



Sources: Banco de España

However, job creation will be less dynamic. It is expected that disposable income will show some improvement due to minimum wage hike and the increase in public sector pensions, and it should lead to a rise in disposable income. Private consumption will decline especially in the consumer goods industry (Ceicdata, 2019).

Table 13: Spain Pvt Consumption: % of GDP 1



. Source: CEICDATA

Moreover, favorable financing conditions will benefit the construction industry in the long term. The real estate sector will witness a surge in the investment and that will help in the growth of the GDP. The external economic environment will remain to be uncertain mainly due to gloomy economic outlook and increase protectionism. The exports will also show a strong comeback especially after the euro appreciation. Spain also aspires to become one of the world's key research actors. However, country has very high level of public and private debt which increases the country risk for investors. In addition to that, Spain has high levels of structural unemployment and negative external account. .

The economic environment of the country will remain competitive and favorable for external investors. Therefore, it can be concluded that Spain has a moderate country risk as compared to other European countries.

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