

# Chapter

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## Spain: an attractive profile

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Spain is in an outstanding position worldwide in terms of the importance of its economy: the 14<sup>th</sup> largest economy in the world by GDP, the 13<sup>th</sup> country most attractive for foreign direct investment (FDI), the 14<sup>th</sup> largest issuer of FDI and the 11<sup>th</sup> largest exporter of commercial services.

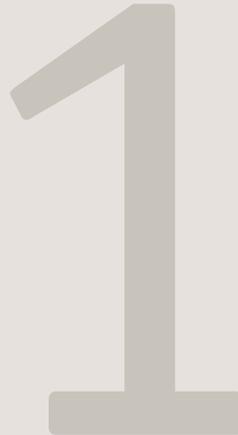
Spain has a modern economy based on knowledge, in which services represent almost 75% of business activity. It is an international center for innovation that benefits from a young and highly qualified population of a proactive nature, and competitive costs in the context of Western Europe, especially as regards graduate and post-graduate employees.

The country has worked hard to equip itself with state of the art infrastructures capable of fostering the future growth of the economy. And this has been done alongside a major commitment to R&D.

There are interesting business opportunities for foreign investors in Spain in high value-added and strategic fields such as the ICT, renewable energy, biotechnology, environment, aerospace and automotive sectors, because of the attractive competitive environment.

In addition, companies that set up business in Spain can gain access not only to the Spanish national market, an attractively large market (more than 46 million consumers) with a high purchasing power, but also to the markets of the EMEA region (Europe, Middle East and North Africa), and Latin America, given its privileged geostrategic position, prestige and the strong presence of Spanish companies in these regions.

The main characteristics of our country are described in this Chapter: demographics, political and territorial structure, economy and the foreign trade sector.



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## 1. Introduction

Spain is one of the most significant important economies in the world, ranking 14<sup>th</sup> in terms of size, and its appeal is borne out by its ability to attract foreign investment (currently ranked 13<sup>th</sup> in terms of foreign direct investment<sup>1</sup>. Spain's appeal for investment lies not only in its domestic market, but also in the possibility of operating with third markets from Spain. This is because Spain has a privileged geostrategic position within the European Union giving access to around 1,950 million potential clients in the EMEA Region (Europe, Middle East and Africa). Its strong economic, historic and cultural ties also make Spain the perfect business gateway to Latin America.

Furthermore, Spain is a modern knowledge-based economy with services accounting for 74.26%<sup>2</sup> of economic activity. The country has become a center of innovation supported by a young, highly-qualified work force and competitive costs in the context of Western Europe.

This Chapter gives a brief description of Spain's vital statistics: its population, its political and territorial structure and its economy.

## 2. The country, its people and quality of life

### 2.1. Geography, climate and living conditions

The Kingdom of Spain occupies an area of 505,970 square kilometers in the southwest of Europe, and is the second largest country in the EU. The territory of Spain covers most of the Iberian Peninsula, which it shares with Portugal, and also includes the Balearic Islands in the Mediterranean Sea, the Canary Islands in the Atlantic Ocean, the North African cities of Ceuta and Melilla and several small islands.

Despite differences among the various regions of Spain, the country can be said to have a typical Mediterranean climate. The weather in the northern coastal region (looking onto the Atlantic and the Bay of Biscay) is mild and generally rainy throughout the year, with temperatures neither very low in the winter nor very high in the summer. The climate on the Mediterranean coastline, including the Balearic Islands, Ceuta and Melilla, is mild in the winter and hot and dry in the summer. The most extreme differences occur in the interior of the Peninsula, where the climate is dry, with cold winters and hot summers. The Canary Islands have a climate of their own, with temperatures constantly around 20 degrees Celsius and only minor variations in temperature between seasons or between day and night.

Spain has an excellent quality of life and is very open to foreigners. Almost 8,000 kilometers of coastline, abundant sporting facilities and events and social opportunities are crowned by the diversity of the country's cultural heritage as a crossroads of civilizations (Celts, Romans, Visigoths, Arabs, Jews, etc.).

### 2.2. Population and human resources

The population of Spain in 2016 was almost 46.6 million people, with a population density of more than 92 inhabitants per square kilometer.

Spain is a markedly urban society (see Table 1), as evidenced by the fact that 32% of the population lives in provincial capitals.

Table 1

THE BIGGEST CITIES IN SPAIN\*

	POPULATION
Madrid	3,165,541
Barcelona	1,608,746
Valencia	790,201
Seville	690,566
Zaragoza	661,108
Málaga	569,009
Murcia	441,003
Mallorca	402,949
Las Palmas de Gran Canaria	378,998
Bilbao	345,122

\* Figures refer only to the municipal districts of each city.

SOURCE: Report on registered population of Spanish provincial capital cities at January 1, 2016. National Statistics Institute/Official State Gazette.

Spanish is the official language of the country. There are other Spanish languages that are also official in the corresponding Autonomous Communities (regions), according to their "Statutes of Autonomy". Education is compulsory until the age of 16 and English is the main foreign language studied at school.

Spain has a labor force of 22.7 million people according to the Labor Force Survey (released in the fourth quarter of 2016). Compared with other OECD countries, Spain's population is relatively young: 16% is under 16 years old, 65% is between 16 and 64 years old, and only 19% is 65 and over, according to 2016 figures. As highlighted in Table 2, Spain has a highly diverse multicultural and multiracial population.

<sup>1</sup> According to the 2016 A. T. Kearney FDI Confidence Index.

<sup>2</sup> National Statistics Institute. Data up to third quarter of 2016.

**Table 2**  
**FOREIGNERS RESIDENT IN SPAIN BY CONTINENT OF ORIGIN**

	2014	2015	2016*
Europe	2,560,408	2,654,473	2,707,026
America	947,361	904,335	883,703
Asia	382,590	392,161	401,517
Africa	1,031,612	1,027,944	1,021,734
Oceania	2,012	2,073	2,170
Unknown	1,106	1,197	1,256
TOTAL	4,925,089	4,982,183	5,017,406

\* Data at June 30, 2016.

SOURCE: Ministry of Employment and Social Security<sup>3</sup>.

Spain is particularly noted for the contribution from, and the integration of, these groups, as well as for the absence of cultural conflict.

Spain's labor force structure by economic sector underwent significant changes sometime ago, when there was an increase in the active population in the services sector and a decrease in the number of workers employed in farming and industry. Today, the services sector is by far Spain's main employer (Chart 1 and Table 3).

The labor force is highly qualified and capable of adapting to technological changes.

Lastly, in keeping with the commitment entered into with the European Union to promote job creation, the Spanish government has implemented significant reforms to the job market in recent years, introducing a greater degree of flexibility in employment.

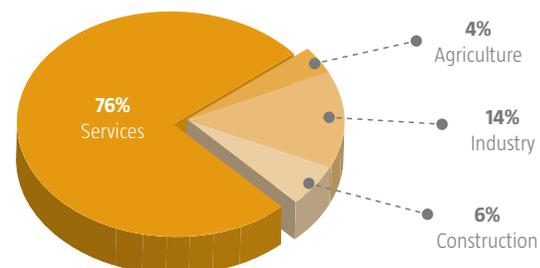
<sup>3</sup> [http://extranjeros.empleo.gob.es/es/Estadisticas/operaciones/con-certificado/201606/Residentes\\_Tablas\\_PR\\_30-06-2016.pdf](http://extranjeros.empleo.gob.es/es/Estadisticas/operaciones/con-certificado/201606/Residentes_Tablas_PR_30-06-2016.pdf)

Like our neighboring countries, and as a result of the recent global economic crisis and the changing economy, which has moved away from labor-intensive sectors towards highly technological sectors, the unemployment rate in Spain has also increased. In order to definitively overcome the consequences of the crisis, Spain launched an ambitious program of structural reform with a view to boosting economic growth and creating jobs.

In recent years, the Spanish Government, in keeping with the commitments entered into by the European Union to promote employment, has implemented major labor market reforms in line with the trends observed in neighboring countries and the proposals made by various economic agents and institutions and international economic advisers. The reforms aim to introduce greater flexibility, reduce the dual nature of the job market and improve the employability of workers.

A number of procedures have also been introduced to facilitate the entry, residence and permanence in Spain, for reasons of general interest, of foreigners who plan to invest and create jobs in Spain or who are highly qualified professionals.

**Chart 1**  
**LABOR FORCE STRUCTURE BY ECONOMIC SECTOR IN 2016**



SOURCE: National Statistics Institute.

**Table 3**  
**EVOLUTION OF LABOR FORCE STRUCTURE BY ECONOMIC SECTOR (Percentage)**

	2014	2015	2016
Agriculture	4.1	4.3	4.4
Industry	13.9	13.6	14.0
Construction	5.9	5.9	5.8
Services	76.1	76.2	75.8

SOURCE: National Statistics Institute. 2016. *Labor Force Survey*.

### 2.3. Political institutions

Spain is a parliamentary monarchy. The King is the Head of State<sup>4</sup>, and his primary mission is to arbitrate and moderate the correct functioning of the country's institutions in accordance with the Constitution. He also formally ratifies the appointment or designation of the highest holders of public office in the legislative, executive and judicial branches<sup>5</sup>.

The Constitution of 1978 enshrined the fundamental civil rights and public freedoms as well as assigning legislative power to the *Cortes Generales* (Parliament)<sup>6</sup>, executive power to the Government of the nation, and judicial powers to independent judges and magistrates.

The responsibility for enacting laws is entrusted to the *Cortes Generales*, comprising the *Congreso de los Diputados* (Lower House of Parliament) and the *Senado* (Senate), the members of which are elected by universal suffrage every four years.

<sup>4</sup> <http://www.casareal.es/EN/Paginas/home.aspx>

<sup>5</sup> [http://www.poderjudicial.es/portal/site/cgpj/?Template=default&vgnnextlocale=en&lang\\_chosen=en](http://www.poderjudicial.es/portal/site/cgpj/?Template=default&vgnnextlocale=en&lang_chosen=en)

<sup>6</sup> <http://www.congreso.es/portal/page/portal/Congreso/Congreso>

The *Cortes Generales* exercise the legislative power of the nation, approve the annual State budgets, control the actions of the Government and ratify international treaties.

The Government<sup>7</sup> is headed by the *Presidente del Gobierno* (President of the Government) who is elected by the *Cortes Generales* and is, in turn, in charge of electing the members of the *Consejo de Ministros* (Council of Ministers).

The members of the Council of Ministers are appointed and removed by the President of the Government at his or her discretion.

For administrative purposes, Spain is organized into 17 Autonomous Communities (Regions) each of which generally comprises one or more provinces, plus the Autonomous Cities of Ceuta and Melilla in Northern Africa, and the total number of provinces is 50.

Each Autonomous Community (Region) exercises the powers assigned to it by the Constitution as specified in its “Statute of Autonomy”. These Statutes also stipulate the institutional organization of the Community concerned, consisting generally of: a legislative assembly elected by universal suffrage, which enacts legislation applicable in the Community; a Government with executive and administrative functions, headed by a President elected by the Assembly, who is the Community’s highest representative; and a Superior Court of Justice, in which judicial power in the Community’s territory is vested. A Delegate appointed by the Central Government directs the Administration of the State in the Autonomous Community (Region), and coordinates it with the Community’s administration.

The Autonomous Communities (Regions) are financially autonomous and also receive allocations from the general State budgets.

As a result of the structure described above Spain has become one of the most decentralized countries in Europe.

<sup>7</sup> <http://www.lamoncloa.gob.es/lang/en/Paginas/index.aspx>

### 3. Spain and the European Union

Spain became a full member of the European Economic Community in 1986. In this connection and according to figures published by the European Commission, Spain fully complies with the objectives established by the European Council.

A major impact of European Union membership for Spain, and for the other Member States, came in the mid-nineties with the advent of the European Single Market and the European Economic Area, which created a genuine barrier-free trading space.

Since then, the EU has advanced significantly in the process of unification by strengthening the political and social ties among its citizens. Spain, throughout this process, has always stood out as one of the leaders in the implementation of liberalization measures.

Since July 1, 2013, with the addition of Croatia, the European Union now has 28 Member States<sup>8</sup>.

With the aim of strengthening democracy, efficiency and transparency within the EU and, in turn, its ability to meet global challenges such as climate change, security, and sustainable development, on December 13, 2007, the then 27 EU Member States signed the Treaty of Lisbon, which entered into force – subject to prior ratification by each of the 27 Member States – on December 1, 2009. The European Parliament elections took place between June 4 and 7 of that year<sup>9</sup>.

Spain holds significant responsibilities within the EU, evidenced by the fact that it is, along with Poland, the fifth country in terms of voting power in the Council of Ministers. In 2010, Spain assumed the Council Presidency of the European Union for the fourth time, for the period from January to June.

<sup>8</sup> [http://europa.eu/about-eu/countries/member-countries/index\\_en.htm](http://europa.eu/about-eu/countries/member-countries/index_en.htm)

<sup>9</sup> [http://europa.eu/european-union/law/treaties\\_en](http://europa.eu/european-union/law/treaties_en)  
[http://europa.eu/about-eu/eu-history/index\\_en.htm](http://europa.eu/about-eu/eu-history/index_en.htm)

The introduction of the Euro (on January 1, 2002) heralded the start of the third Spanish presidency of the European Council and represented the culmination of a long process and the creation of a veritable array of opportunities for growth for Spanish and European markets. Since January 1, 2015, with the addition of Lithuania, Eurozone membership now stands at nineteen.

The euro has led to the creation of a single currency area within the EU that makes up the world’s largest business area, bringing about the integration of the financial markets and economic policies of the area’s Member States, strengthening ties between the Member States’ tax systems and bolstering the stability of the European Union.

Furthermore, the adoption of a single European currency has had a clear impact at an international level, raising the profile of the Eurozone at both international and financial gatherings (G-7 meetings) and within multilateral organizations. The economic and business stability offered by the euro have contributed to the growth of the Spanish economy, as well as its international political standing. In addition, measures are being implemented to strengthen the European economy; for example, the Euro-Plus Pact designed to consolidate the coordination of the economic policy in the Economic and Monetary Union, and an EU multiannual spending plan (2014-2020) to stimulate growth. Spain remains committed to structural reforms under the Europe 2020 Strategy and the Compact for Growth and Jobs which will boost economic growth, investment and employment, based on a more competitive European Union.

Spain has traditionally benefitted from EU funding from the Structural Funds and the Cohesion Fund and is the third largest recipient of funding from the Structural Funds and the Cohesion Fund. It is estimated that between 2014 and 2020 European funding from the ERDF and financing for Trans-European Transport Networks (through the Connecting Europe Facility) will make a positive contribution of an estimated €2.5 billion to certain regions and priority areas.

European institutions are tasked with encouraging and supporting technological research and development. Horizon 2020 is the EU Framework Program for Research and Innovation for the period 2014-2020 (with funding of €76,880 billion) which will directly tackle the main societal challenges set out in Europe 2020 and contribute to its flagship initiatives. It will also boost industrial leadership in Europe and strengthen the excellence of its science base, which is essential to the sustainability, prosperity and wellbeing of Europe in the long term.

In this respect, the 2011 Science Law, in keeping with the Europe 2020 Strategy, contributed measures to the current framework (e.g., implementation in the Autonomous Communities, increasing European dimension, qualitative and quantitative increase in public resources, consolidation of a professionalized and competitive scientific and technical community open to the world, and transition towards an economy based on knowledge and innovation).

The promotion and fostering of excellence and the strengthening of scientific research institutes constitutes one of the cornerstones of the actions of, and definition of scientific policy by, the Office of the Secretary of State for Research, Development and Innovation, as reflected in the *2013-2020 Spanish Science, Technology and Innovation Strategy* and the *2013-2016 State Plan for Scientific and Technical Research*.

The State Plan has a clearly international focus, given its structure and strict alignment with the R&D&I targets established in Horizon 2020.

Lastly, in late 2015, the Government approved the creation of the State Research Agency in order to provide the Spanish science, technology and innovation model with a swifter, more flexible and independent management system. This new body, which is responsible for financing, assessing and allocating R&D funds, acts in conjunction with the Center for Industrial and Technological Development (CDTI), the other major R&D&I funding body focusing specifically on business.

## 4. Infrastructure

The Government intends to continue with its program of heavy investment in this area in the future.

In this connection, the Transport and Housing Plan (PITVI) was approved which, based on an analysis of the current situation and a rigorous assessment of Spanish needs, establishes the priorities and action plans up to 2024.

The Plan's objectives notably include: (i) enhancing the efficiency and competitiveness of the global transport system, optimizing the existing capacity; (ii) contributing to balanced economic development; (iii) promoting sustainable mobility, combining its economic and social effects with respect for the environment; (iv) reinforcing territorial cohesion and accessibility to all State territories through the transport system; and (v) improving the functional integration of the transport system as a whole by taking an intermodal approach.

The motorway and dual carriageway network, of nearly 17,021 kilometers, has undergone constant renovation with a view to enhancing its efficiency and Spain is one of the European countries with the most kilometers of these types of roads. The improvement of the motorway and dual carriageway network and an increase in high-capacity roads, with investment of €36,439 million, are among the objectives of the plan.

Spain is ranked eleventh<sup>10</sup> worldwide in terms of road infrastructure.

As far as railway transport is concerned (where Spain has a network of almost 20,861 kilometers), high-speed networks have become a priority.

Madrid currently has high-speed train connections to 29 Spanish cities, following the inauguration in 2015 of new high-speed routes

to Zamora, Palencia and León. The last section of the Atlantic Corridor was completed in 2015, connecting Galicia from North to South. The Barcelona-Paris line has enabled a high-speed rail connection between the Spanish and French capitals, with a connection to the French border via Vitoria and Irún (the Basque Country) to be added shortly.

In recent years, Spain has become a global high-speed rail pioneer, having multiplied the kilometers of high-speed lines in service more than fivefold, from just over 550 kilometers to more than 3,100 kilometers, with over 1,900 kilometers of new railway lines at various stages of development, giving Spain a larger high-speed rail footprint than France and Germany combined. Indeed, since its inception, approximately €45,120 million has been invested in the high-speed rail network, making a commitment to ensuring that 9 out of every 10 citizens live less than 30 kilometers away from a high-speed rail station. Spain has thus become the leading country in Europe and the second worldwide, after China, in terms of the number of kilometers of high-speed lines in operation, outperforming countries such as France and Japan.

Also noteworthy is the important network of relations with managers of railroad infrastructure in other countries, established as a result of signing cooperation protocols. In the context of these agreements representatives from a range of countries, such as the US and Brazil, have visited Spain to learn about its high-speed model. Spanish companies have participated in the construction of rail infrastructure and equipment in countries such as Turkey, Morocco, Mexico, Russia, Poland, Colombia, Peru, Kuwait or the United Arab Emirates; and in the construction of the high-speed line connecting Medina and Mecca in Saudi Arabia.

A process for the deregulation of rail passenger transport is currently underway, having commenced with the deregulation of rail transport for tourism purposes.

Finally, the freight sector liberalization since 2005 has led to the creation of private enterprises that transport goods by railroad.

<sup>10</sup> *Global Competitiveness Report 2015-2016* by the World Economic Forum.

The Spanish Government plans to approve a series of measures to promote this type of transport.

Air transport links the main Spanish cities via Spain's 46 airports, which also connect Spain to the world's leading cities. Spain is a major hub for routes linking the Americas and Africa to Europe. The most significant investments in the pipeline are aimed at the two principal international airports in Madrid and Barcelona. With the inauguration of Terminal 4 in 2006, Madrid airport saw its capacity increase to 70 million passengers per year. In 2016, Spanish airports handled more than 230 million passengers, making Spain one of the leading countries worldwide in terms of passenger numbers.

Furthermore, with over 46 international ports on the Atlantic and Mediterranean coasts, Spain boasts excellent maritime transport links. The reinforcement of short-distance maritime transport, both domestic and European, and the development of seaside motorways are some other key initiatives. Moreover, the Seaside Motorway between Spain and France is now in operation, linking Vigo with the French port of Nantes-Saint Nazaire. Spain plans to promote this type of link in the Mediterranean, through agreements with Italy and other countries, with a view to increasing the number of lines already on offer and operating with good results between the Spanish ports of Barcelona, Valencia, Castellón and Tarragona and the Italian ports of Genoa, Civitavecchia, Livorno, Cagliari and Salerno.

This will permit a more sustainable alternative in some of the main flows within the EU. In addition, with a view to improving the competitiveness of ports, in 2010 the Ports Law was amended to reduce restrictions on inter- and intra-port competition and boost the competitiveness of Spanish ports in the global economy.

As part of its plans for internationalization, the State Port Authority is promoting alliances with the major Chinese operators, with the Barcelona Europe South Terminal (BEST) at the port of Barcelona being operated by Chinese group Hutchinson Port

Holdings (HPH), the leading port terminal operator in the world. Three major Spanish ports (Bahía de Algeciras, Valencia and Barcelona) are listed among the top 100 ports worldwide in terms of container traffic, thereby confirming Spain's strategic position in the global maritime transport industry.

Spain is well equipped in terms of technological and industrial infrastructure, having seen a boom in recent years in technological parks in the leading industrial areas, as well as around universities and R&D centers. There are currently 69 technological parks<sup>11</sup> housing over 7,700 companies, mainly engaged in the telecommunications and IT industries, in which a large number of workers are employed in R&D activities.

Spain also boasts a solid telecommunications network, with an extensive conventional optic fiber cable network covering the country almost in its entirety, on top of one of the world's largest undersea cable networks and satellite link-ups spanning the five continents. Particularly noteworthy is the significant deregulation set in place some years ago in the majority of industries, including the telecommunications industry, meeting the deadlines set for such purpose by the EU with ease. Among other advantages, this deregulation has meant a more competitive range of products on offer as reflected in costs, essential for economic development.

Also notable is Government backing for integral management of water resources, based on environmental management and recovery, more efficient use of water and planned management of risks such as droughts and flooding. As part of these initiatives, under Royal Decree 1/2016, the Government has approved the review of the Water Plans for the Western Cantabrian, Guadalquivir, Ceuta, Melilla, Segura and Júcar river basin districts, and the Spanish sections of the Eastern

Cantabrian, Miño-Sil, Duero, Tajo, Guadiana and Ebro river basin districts.

## 5. Economic structure

The structure of the Spanish economy is that of a developed country, with the services sector being the main contributor to GDP, followed by industry. These two sectors represent more than 92% of Spain's GDP with agriculture's share today representing a 2.33% of GDP, having declined sharply as a result of the country's economic growth (see Table 4).

**Table 4**  
**STRUCTURE OF GDP (% OF TOTAL, CURRENT PRICES)**

Sector	2014	2015	2016*
Agriculture and fishery	2.50	2.56	2.33
Industry	17.59	18.05	17.86
Construction	5.67	5.59	5.55
Services	74.24	73.80	74.26

\*Data up to third quarter of 2016.

SOURCE: National Statistics Institute.

Throughout 2016, the Spanish economy continued the growth observed in the last two quarters of 2013. GDP grew at a quarter-on-quarter rate of 0.8% and 1% in the first two quarters of 2016, respectively. This growth was consolidated in the last two quarters, with a rise of 0.7%<sup>12</sup> in the third and fourth quarters. Overall, GDP grew 3.2% in 2016, with the Spanish economy recording one of the highest growth rates in Europe.

<sup>11</sup> Members of the Association of Science and Technology Parks in Spain <http://www.apte.org/es>

<sup>12</sup> National Statistics Institute. Data for fourth quarter of 2016.

Moreover, inflation in Spain has been falling slowly since the end of the 1980s. Average inflation between 1987 and 1992 was 5.8%; it dropped below 5% for the first time in 1993, and it has been shrinking gradually since then. The year-on-year inflation rate at December 2016 was 1.6%, due mainly to rising fuel prices.

**Table 5**  
**GROWTH FOR OECD COUNTRIES (PERCENTAGES)**

	Real GDP Growth		
	2014	2015	2016*
<b>EU countries</b>			
Germany	1.6	1.5	1.7
France	0.7	1.2	1.2
Italy	0.2	0.6	0.9
United Kingdom	3.1	2.2	2.1
Spain	1.4	3.2	3.3
<b>Other countries</b>			
United States	2.4	2.6	1.5
Japan	-0.1	0.6	0.6
<b>Total Euro Zone</b>	1.2	1.9	1.7
<b>Total OECD</b>	1.9	2.2	1.7**

\* Data up to third quarter of 2016.

\*\* Data up to second quarter of 2016.

SOURCE: Bank of Spain.

## 6. Domestic market

Growth in the Spanish economy in recent times has been driven by a sharp increase in demand and a substantial expansion of production in the current context of globalization of the economy.

Today Spain has a domestic market of almost 46.6 million people with a per capita income in 2015 of €23,290 according to data

from the National Statistics Institute, with additional demand coming from the record 75.6 million tourists who visited Spain in 2016<sup>13</sup>, a 10.3% increase on 2015. This record figure places Spain among the top three most visited countries worldwide. Links with Latin America and North Africa and the obvious advantages of using Spain as a gateway to those countries are significant factors.

Table 6 reflects the growth of production and demand components in the last years. The consolidated growth rate of the Spanish economy is mainly due to the rise in private consumption, gross capital formation and good performance of net foreign demand. The foreign demand trend stems from faster growth in exports than in imports.

**Table 6**  
**GROWTH OF PRODUCTION AND DEMAND COMPONENTS (PERCENTAGES)**

Production components	2015	2016*
Agriculture and fishery	-2.9	3.1
Industry	5.5	2.7
Construction	0.2	2.0
Services	2.6	3.5
Demand components	2015	2016*
Private consumption	2.9	3.1
Public consumption	2.0	1.4
Gross fixed capital formation	6.0	3.8
Domestic demand	3.4	3.0
Exports of goods and services	4.9	4.4
Imports of goods and services	5.6	3.6

\* Data up to third quarter of 2016.

SOURCE: Bank of Spain.

<sup>13</sup> Tourism Border Movements (FRONTUR) statistics. Data at December 2016. National Statistics Institute.

## 7. Foreign trade and investment

Rapid growth in international trade and foreign investments in recent years has made Spain one of the most internationally-oriented countries in the world.

With regard to the trading of goods, Spain is ranked 18<sup>th</sup> in the world as an exporter and 15<sup>th</sup> as an importer; while in the trading of services it occupies 11<sup>th</sup> place as an exporter and 21<sup>st</sup> place as an importer<sup>14</sup>.

Spanish exports and imports of goods account for 1.7% and 1.8%, respectively, of the worldwide total, while Spanish exports and imports of services represent 2.5% and 1.4%, respectively.

The breakdown by industry of foreign trade is relatively diversified, as can be seen in the following table:

<sup>14</sup> WTO *World Trade Statistical Review 2016*.

**Table 7**  
**DISTRIBUTION OF EXPORTS AND IMPORTS 2016 (AS A % OF TOTAL)**

Exports		Imports	
Capital goods	20.2	Capital goods	21.7
Automobile industry	18.0	Chemical products	15.7
Food	16.7	Automobile industry	13.8
Chemical products	14.2	Consumer goods	12.9
Consumer goods	10.1	Food	11.7
Semi-manufactured non-chemical products	10.0	Energy products	10.6
Energy products	5.1	Semi-manufactured non chemical products	6.9
Raw materials	2.2	Raw materials	3.2
Durable consumer goods	1.7	Durable consumer goods	2.8
Other goods	1.7	Other goods	0.5

SOURCE: Ministry of Economy, Industry and Competitiveness. January – November 2016 data.

As would be expected, the countries of the EU are Spain's main trading partners. Accordingly, during 2016<sup>15</sup>, Spanish exports to the European Union accounted for 66.5% of total exports and sales to the Eurozone represented 51.9% of the total. Imports from the European Union accounted for 57.1% of the total and those from the Eurozone represented 45.8%.

Specifically, Spain's leading trade partners are France and Germany. Outside the EU, Asia and Africa have displaced Latin America and North America from their traditional role as Spain's main non EU trading partners.

The positive adaptation of Spanish companies to the new worldwide economic scenario, reflected mainly in the progressive diversification of the markets to which Spanish products and services are directed, should also be underscored. Indeed,

<sup>15</sup> Annual data published by the Spanish Ministry of Economy, Industry and Competitiveness. January – November 2016 data.

Spanish exports are to some extent being redirected from the EU to the rest of the world. In this regard, Spain's share of exports to the EU dropped from 70.1% in 2007 to 66.5% of total exports in 2016.

As regards investment, Spain is one of the main recipients of investment worldwide.

Specifically, Spain is the 13<sup>th</sup> largest recipient of foreign investment worldwide in terms of stock (and 4<sup>th</sup> in the EU) with USD 533,306 million. Spain is the 14<sup>th</sup> largest source of FDI in terms of stock, with a volume equal to USD 472,116 million in 2015<sup>16</sup>.

With a view to making the Spanish economy more competitive and boosting the contribution made by foreign trade to growth and job creation, the Spanish Government has adopted a

<sup>16</sup> According to the UNCTAD *World Investment Report 2016*.

series of measures aimed at enabling Spanish businesses to access the financing required for their internationalization. Noteworthy among the financial instruments approved by the Spanish Government to provide official support for the internationalization of Spanish enterprise are the Foreign Investment Fund (FIEX), the Fund for Foreign Investment by Small and Medium-sized Enterprises (FONPYME) and the Enterprise Internationalization Fund (FIEM), as well as financing lines for investment in the electronics, information technology, communications and infrastructure concessions sectors, not to mention the 2017 ICO International Facility and the 2017 ICO-Exporters Facility.

By way of a summary of Spanish foreign trade, the balance of payments is set out below.

**Table 8**  
**SPAIN'S BALANCE OF PAYMENTS (Millions of euros)**

	2015	2016*
<b>I. Current Account</b>	<b>14,725</b>	<b>14,046</b>
Goods and services	26,228	27,023
Primary and secondary income	-11,503	-12,976
<b>II. Capital Account</b>	<b>7,008</b>	<b>2,372</b>
<b>III. Financial Account</b>	<b>25,185</b>	<b>7,532</b>
Total (excluding Bank of Spain)	65,345	56,613
Direct investment	29,375	10,804
Portfolio investment	-5,872	29,660
Other investment	43,080	18,403
Financial derivatives	-1,238	-2,253
Bank of Spain	-40,160	-49,081
Reserves	5,067	8,006
Claims with the Eurosystem	-50,929	-54,005
Other net assets	-5,702	-3,082

N.B.: A positive sign in the current and capital accounts means a surplus (receipts greater than payments) and represents a net loan from Spain to the rest of the world (increase in assets or decrease in liabilities), whereas in the financial account a positive sign means a net inflow of capital and represents a net loan from the rest of the world to Spain. A negative sign in reserves means an increase.

\*Data January-September 2016.

SOURCE: Bank of Spain.

## 8. Legislation on foreign investment and exchange control

Deregulation is the dominant feature in exchange control and foreign investment matters.

As a general rule, a foreign investor can invest freely in Spain without having to obtain any type of authorization or prior notification. The investor only needs to report the investment, once it has been made, within a maximum term of one month, to the Directorate-General for Trade and Investments of the

Secretary of State for Trade purely for administrative, statistical or economic purposes.

Exchange control and capital movements are fully deregulated in Spain, there being complete freedom of action in this field in all areas.

### 8.1. Legislation on foreign investment

Royal Decree 664/1999 deregulated practically all transactions of this kind (with the conditions and exceptions set forth below), adapting Spanish domestic law to the rules on the freedom of movement of capital contained in Articles 56 *et seq.* of the Treaty of the European Union.

The most noteworthy aspects of the regulations applicable to foreign investments are as follows :

- As a general rule, and for purely administrative, statistical or economic purposes, foreign investments must be reported afterwards to the Directorate-General for Trade and Investments, once the investment has been made<sup>17</sup>. The only exceptions are: (i) investments from tax havens, which in general are subject to a prior administrative notification; and (ii) foreign investments in activities directly related to

national security, and real estate investments for diplomatic missions by non-EU Member States, which require prior authorization by the Spanish Council of Ministers. There is no obligation for foreign investments to be formalized in the presence of a Spanish public certifying officer (unless an express provision provides otherwise).

- The parties subject to the obligation to report investments or divestments in transferable securities are not generally the investors, but rather the investment firms, credit institutions or other resident entities engaging, as the case may be, in any of the activities specific to the first two and acting at the risk and expense of the investor, as the interposed holder of such securities. Investors must report the investment only when the securities account or deposit is held at an institution domiciled abroad, where the securities are being kept by the holder of the investment; or where they acquire a holding of 3% or more in listed companies (the last case must be reported to the National Securities Market Commission).
- Foreign investments in the air transportation and radio industries, in industries relating to raw materials, minerals of strategic interest and mining rights, in the television, gaming, telecommunications and private security industries, in industries concerned with the manufacturing, marketing or distributing of arms and explosives and in national security-related activities (these latter activities are subject to the clearance rules), will be subject to the requirements imposed by the relevant bodies established by industry-specific legislation, although the general provisions may apply to them once those requirements are met.

<sup>17</sup> The contents and instructions to complete each declaration can be found at the following link: <http://www.comercio.gob.es/es-ES/inversiones-exteriores/declaracion-inversiones-exteriores/Paginas/declaracion-inversiones-exteriores.aspx>. The forms are obtained, completed and presented electronically using a help program called AFORIX, which can be downloaded from the electronic sub-office of the Secretary of State for Trade (at <https://sede.comercio.gob.es>, by accessing the option: "Procedimientos y servicios electrónicos->Descarga de programas de ayuda->AFORIX Programa para la cumplimentación de Formularios de Inversiones Exteriores"). It is necessary for the declarant to have an electronic signature in order to submit the declaration electronically. As an exception, in the event that the holder of the investment is an individual, he/she may also use, in addition to the forms obtained via AFORIX, the preprinted forms available at the General Register of the Ministry of Economy and Competitiveness and may choose whether to file the declaration electronically or on paper.

8.1.1. Foreign investments - Characteristics

Table 9  
FOREIGN INVESTMENTS

<b>Investors<sup>18</sup></b>	Non-resident individuals (that is, Spanish or foreign nationals domiciled abroad, or who have their principal place of residence abroad).
	Legal entities domiciled abroad.
	Public entities of foreign States.
<b>Regulated investments<sup>19</sup>. Reporting obligations</b>	Participation in Spanish companies, including their incorporation and subscription and acquisition of shares in joint-stock companies or in limited liability companies, and any legal transaction whereby voting rights are acquired.
	Establishment of, and increase of capital allocated to branches.
	Subscription and acquisition of marketable debt securities issued by residents (debentures, bonds, promissory notes).
	Participation in mutual funds recorded on the Registers of the Spanish National Securities Market Commission <sup>20</sup> .
	Acquisition by non-residents of real estate located in Spain, valued at more than €3,005,060, or where the investment originates from a tax haven, whatever its amount is.
	Incorporation, formalization or participation in joint ventures, foundations, economic interest groupings, cooperatives and joint-property entities, with the same characteristics as in the previous paragraph.
<b>Parties subject to obligation</b>	The investor.
	The Spanish public certifying officer who may have intervened in the transaction.
	However, investments in certain assets (securities, mutual funds, registered shares) may require that other individuals involved in the transaction report the investment (credit or financial institutions, deposit-taking or management companies of such assets, the Spanish company receiving the investment).

<sup>18</sup> A Spanish company in which foreign shareholders have a majority holding is not deemed to be an investor. A change of registered office of legal entities or a change of residence of individuals will be sufficient to change the classification of an investment as a Spanish investment abroad or a foreign investment in Spain.

<sup>19</sup> Foreign investments not included in the above list (such as equity loans) are totally deregulated, and no communication is required in relation to them. The foregoing, notwithstanding any industry-specific regulations that may apply to such investments, and the rules on exchange control, with respect to such investments.

<sup>20</sup> <http://www.cnmv.es/portal/home.aspx?lang=en>

Table 9 (Cont.)

FOREIGN INVESTMENTS

**Reporting rules**

As a general rule, all foreign investments subject to disclosure, and the liquidation thereof, must be reported after the event to the Investments Register of the Ministry of Economy and Competitiveness.

Investments from tax havens must be reported before and after the event. However, the following cases shall be excluded from the prior declaration:

- Investments in marketable debt securities issued or offered publicly, whether or not they are traded on an official secondary market, and units in mutual funds recorded on the Registers of the Spanish National Securities Market Commission.
- Where the foreign interest does not exceed 50% of the capital stock of the Spanish company in which the investment is made.
- Acquisitions of foreign investments in Spain as a result of *inter vivos* transfers for no consideration or *mortis causa* transmissions.

This prior disclosure obligation is not equivalent to a prior verification or authorization requirement and, once the investment has been disclosed, the investor may make its investment without having to wait for any reply from the authorities. In all cases, the declaration is valid for six months, so once notified, the investment must be made within that time period.

**8.1.2. Monitoring of foreign investments**

The Directorate-General for Trade and Investments (“DGCI”)<sup>21</sup> can generally or specifically require Spanish companies which have foreign shareholders, and Spanish branches of non-resident persons, to file an annual report with it on the status of their foreign investments. The DGCI may also require the holders of investments to provide the information necessary in each particular case.

**8.1.3. Suspension of the deregulation rules**

The Spanish Council of Ministers can suspend the application of the deregulation rules in certain cases, which will require the investments concerned to undergo a prior procedure to obtain administrative clearance from the Council of Ministers.

At present, the Council of Ministers has only suspended the deregulation rules in respect of foreign investments in Spain

in activities directly related to national security, such as the production or sale of arms, munitions, explosives and other armaments (except in the case of listed companies engaged in those activities, in which case clearance will only be required for acquisitions by non-residents that reach, exceed or fall below certain ownership thresholds, starting from 3% of the capital stock, or those acquisitions that without reaching such thresholds enable such investors to directly or indirectly form part of their managing bodies).

**8.2. Exchange control regulations**

Exchange control and capital movements are fully deregulated and in all areas there is complete freedom of action.

The basic regulation on exchange control is contained in Law 19/2003 on Capital Movements and Foreign Transactions and on Anti-Money Laundering, and in Royal Decree 1816/1991 on Economic Transactions Abroad, which uphold the principle of deregulation of capital movements.

**8.2.1. The main features of the Spanish exchange control provisions currently in force can be summarized as follows:**

**(i) Freedom of action**

As a general rule, all acts, businesses, transactions and operations between residents and non-residents which involve or may involve payments abroad or receipts from abroad are completely deregulated. This includes payments or receipts (made either directly or by offset), transfers to or from abroad and changes in accounts or financial debit or credit positions abroad. It also covers the import and export of means of payment.

**(ii) Safeguard clauses and exceptional measures**

EU rules may prohibit or restrict the performance of certain transactions, and the respective collections, payments, bank transfers or changes in accounts or financial positions, in respect of third countries.

The Spanish Government may also impose prohibitions or restrictions in respect of one State or of a group of States, a

<sup>21</sup> <http://www.comercio.gob.es/en/pages/default.aspx>

certain territory or an extra-territorial center, or suspend the deregulation system for certain acts, businesses, transactions or operations. However, the application of these prohibitions and limitations is only envisaged in especially serious scenarios.

### (iii) Types of bank accounts

Non-resident individuals and legal entities can hold bank accounts on the same conditions as resident individuals and legal entities. The only requirement, on opening the bank account, is that they provide documentary evidence of the non-resident status of the account holder. Additionally, such status must be confirmed to the bank every two years. Other minor formalities are also stipulated.

Moreover, residents may, subject to certain reporting requirements, freely open and hold bank accounts abroad either in euros or in foreign currency (when opened, they must be declared to the Bank of Spain), and foreign currency bank accounts in Spain at registered institutions (without being subject to any reporting requirement).

### (iv) Residence for exchange control purposes

For exchange control purposes, individuals are deemed to be resident in Spain if they reside habitually in Spain. Legal entities with registered offices in Spain, and the establishments and branches in Spain of individuals or legal entities resident abroad, are likewise deemed resident in Spain for exchange control purposes.

Individuals whose habitual residence is abroad, legal entities with registered offices abroad, and permanent establishments and branches abroad of Spanish resident individuals or entities are deemed non-residents for exchange control purposes.

Habitual residence is defined in accordance with tax legislation, albeit with the adaptations established by regulations (which regulations are currently pending implementation).

## 8.3. Foreign transactions declarations with the Bank of Spain

For purely statistical and informative purposes Circular 4/2012 of Bank of Spain establishes that individuals or entities (public or private) resident in Spain, other than payment service providers registered on the official registers of the Bank of Spain, that carry out transactions with non-residents or hold assets or liabilities abroad, must report them to the Bank of Spain<sup>22</sup>.

The frequency of the notifications will depend on the volume of transactions carried out by the subjects obliged to submit them in the immediately preceding year, and on the balance of assets and liabilities of these subjects at December 31 of the previous year, as follows:

- If the amount of the transactions during the immediately preceding year, or the balance of assets and liabilities at December 31 of the preceding year, is €300 million or more, the information shall be provided monthly, within the 20 days following the end of each calendar month.
- If the amount of the transactions during the immediately preceding year, or the balance of assets and liabilities at December 31 of the preceding year, is €100 million or more but less than €300 million, the information shall be provided quarterly, within the 20 days following the end of each calendar quarter.
- If the amount of the transactions during the immediately preceding year, or the balance of assets and liabilities at

<sup>22</sup> Without prejudice to the fact that the parties subject to the obligation to report to Bank of Spain detailed here are individuals and entities resident in Spain, we considered it of interest to include this section, since what gives rise to these reporting obligations are precisely transactions with nonresidents and/or assets and liabilities held abroad or which the nonresident entity holds in Spain (in other words, both the real estate held abroad by a Spanish company and the real estate held in Spain by a nonresident entity must be declared).

December 31 of the preceding year, is less than €100 million, the information shall be provided annually, within the first 20 days of January of the following year.

- When the aforementioned amounts do not exceed €1 million, the return will only be submitted to the Bank of Spain at the express request thereof, and in a maximum period of two months following the date of that request.

However, residents that have not reached the reporting thresholds mentioned above, but that will cross them in the current year, will be required to file the corresponding declarations within the timeframe previously established from the moment at which the limits are exceeded.

Notwithstanding, when neither the amount of the balances nor the transactions exceed €50 million, the declarations can be filed on a summarized basis, only indicating the opening and closing balances of assets and liabilities held abroad, the total sum of receipts and the total sum of payments in the period reported.

## 8.4. Import and export of certain means of payment and movements in Spain

Incoming or outgoing cross-border movements of means of payment for an amount of €10,000 or more or its equivalent in foreign currency is subject to prior administrative disclosure. If the disclosure is not made, Spanish customs officials may confiscate these means of payment.

Likewise, movements in Spain of means of payment for amounts of €100,000 or more, or its equivalent in foreign currency must also be disclosed previously.

For the purposes of the above, “movement” shall be deemed to mean any change of place or position verified outside the domicile of the holder of the means of payment.

“Means of payment” shall mean paper money and coins (domestic or foreign); bearer checks denominated in any currency as well as any other instrument, including the electronic ones, designed to be used as a bearer payment means. Solely for the purposes of entering or leaving Spain, “payment means” shall also be deemed to be bearer negotiable instruments, including monetary instruments such as travelers’ checks, negotiable instruments, including checks, promissory notes and payment orders, whether in bearer form, endorsed without restriction, made out to a fictitious payee or any other form in which ownership thereof is transferred on delivery, and incomplete instruments, including checks, promissory notes and payment orders that are signed but omit the name of the payee.

## 9. Obligations in relation to anti-money laundering and counter-terrorism financing

In order to perform certain transactions in Spain, the parties thereto, before performing them, must provide specific documents relating to their identity and their business or professional activity, pursuant to the legislation applicable in relation to anti-money laundering and counter-terrorism financing (“AML/CTF”).

The main obligations applicable in Spain in relation to AML/CTF are established in Law 10/2010, of April 28, 2010, on the prevention of money laundering and of the financing of terrorism (“Law 10/2010”) and in Royal Decree 304/2014, of May 5, approving the Regulations of Law 10/2010 (“Royal Decree 304/2014”).

Spanish AML/CTF legislation is the result of the transposition of EU legislation on the subject, in particular, of Directive 2005/60/EC of the European Parliament and Council, of 26 October 2005, and Commission Directive 2006/70/EC of August 1, 2006, laying down the implementing provisions of the former. Current Spanish AML/CTF legislation also includes the recommendations issued by

the Financial Action Task Force (“FATF”) on money laundering and terrorist financing.

The legislation enacted in relation to AML/CTF applies to the transactions carried out by the parties bound by it (“relevant persons”), such as financial institutions, notaries, lawyers or real estate developers, with their customers and potential customers, regardless of whether those customers are persons resident in Spain or nonresidents. Thus, where a party seeks to carry out in Spain procedures such as opening a current account, executing a public deed or acquiring real estate, the relevant persons must perform certain formalities to identify their customers and the origin of their funds.

In particular, the relevant persons must have procedures in place for identifying and accepting customers, and classifying them according to risk. In this regard, although each relevant person has specific AML/CTF procedures tailored to the characteristics of their activity, the information generally required pursuant to AML/CTF legislation can be summarized as follows:

- (i) *Legally valid documents for formal identification purposes*<sup>23</sup>. Admissible identifying documents are the following:
  - a. Individuals.
    - Spanish nationals: national identity card.
    - Foreign national: residence permit, foreign identity card, passport or, in the case of citizens from the European Union or the European Economic Area, official letter or personal identity card issued by the authorities of origin.

<sup>23</sup> The relevant persons shall identify and verify, through legally valid documents, the identity of all the individuals or legal entities that seek to establish business relationships or carry out occasional transactions the amount of which is €1,000 or more. The identity shall be verified in all cases of transactions for sending money and managing transfers.

Exceptionally, other personal identity documents issued by a governmental authority could be accepted, provided they have appropriate guarantees of authenticity and include a photograph of the holder.

- b. For legal entities: the public documents proving their existence and containing their corporate name, legal form, address, the identity of their directors, their bylaws and tax identification number.
- c. Authorized representatives: a copy of the legally valid document relating to the representative and to the represented person or entity, and the public document evidencing the powers conferred.

The identification documents must be in force when business relationships are established or occasional transactions are executed.

- (ii) *Identification of the beneficial owner*<sup>24</sup>. The identification and verification of the identity of the beneficial owner may generally be carried out through a solemn declaration by the customer or the authorized representative of the legal entity.
- (iii) *Information on the purpose and nature of the business relationship*. Such information shall be gathered in order to know the nature of the customer’s professional or business activity. In this regard, in order to evidence the activity, it will suffice to provide, among others, some of these valid documents:

<sup>24</sup> The relevant persons shall identify the beneficial owner and adopt the appropriate measures in view of the risk in order to verify its identity before establishing business relationships, executing electronic transfers for amounts over €1,000 or executing other occasional transactions for amounts above €15,000.

- a. Salaried employees or pensioners: last pay slip, pension or subsidy, certificate of labor history or employment contract in force.
  - b. Customers with liberal professions or self-employed persons: proof of payment of social security contributions, professional association membership card or receipt of membership dues.
  - c. Legal entities: last corporate income tax return, financial statements, annual business report or annual external auditors' report.
- (iv) *Information and, as appropriate, evidence of the origin of the funds to be contributed.*

The relevant persons shall carry out enhanced verifications of the information provided to them in those situations in which, given the nature and characteristics of the transaction and in view of the criteria established in legislation, they consider that there is, in principle, a higher risk of money laundering or terrorist financing.

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