# A Storming Recovery

## Spain is giving Ireland a run for its money as the poster child for a successful austerity program.

By Maria Jackson

Spain's management of its banking crisis has been widely praised as an example of efficient fiscal responsibility. In 2007 the country's construction bubble burst, which saw its banks burdened by bad real estate debt. In July 2012, the combined effects of Spain's housing crash and the global financial situation led the government to agree a €100 billion ($125 billion) rescue package for its banks. Importantly, Spain only ever called on €41 billion of the loans allocated by its eurozone partners and it exited its bailout program - without a precautionary credit line - after only 18 months in January 2014. At that stage its economic revival still looked fragile, with the economy contracting by 1.2 percent in 2013 on the back of a 2.1 percent contraction in 2012. In addition, the country's unemployment rate was hovering at around 26 percent. However, fast forward 18 months and the picture is very different.

"The story in Spain is largely positive. Strong growth of around 3 percent is expected in Spain in 2015, creating over 500,000 jobs," says Luis de Carlos, managing partner of Uría Menéndez. "Consumption is looking solid and the market fundamentals remain strong. That said, the Greek crisis has become more complicated, which could create a little uncertainty but overall 2015 should be a successful year."

All the relevant indicators show that the country has undoubtedly turned a corner, with robust GDP growth, a strengthening service sector and falling unemployment all demonstrating that the future looks bright for Europe's fifth largest economy.

## ROAD TO RECOVERY

Similar to Ireland and Portugal, the eurozone's other successful bailout participants, Spain's rescue package was dependent on certain conditions being met. Among the key reforms undertaken by the Spanish government, it has focused on overhauling its labor laws including making it easier to dismiss workers, it has strengthened its banking regulations and it has clamped down on government spending.

"There have been two critical sets of reforms. The reform of the Spanish financial system was particularly relevant and crucial for putting Spain's banking market back on an even keel. In particular, the formation of the 'bad bank' helped to lure foreign investors back to Spain," says de Carlos. "The labor reform was also a successful package of legislation; it injected more flexibility into our labor regulations, which has helped to increase employment."

Following the evident success of the government's comprehensive reform program, it could be forgiven for resting on its laurels. However, it continues to focus on new ways to modernize the economy and promote competitiveness.

"We are still working our way through the insolvency reforms passed in 2014, which introduced new alternatives and majorities in restructuring financial debt at pre-insolvency stages," says Miguel Ángel Melero, corporate partner at Cuatrecasas, Gonçalves Pereira. "Furthermore, a very recent reform has tackled finance and entrepreneurship among SMEs, the new law should allow better access to alternative sources of financing to the traditional banking system on which Spanish companies have been historically dependent."

In addition to providing support to domestic businesses, the positive effects of recent reforms continues to bolster Spain's attractiveness to foreign investors.

"Recent reforms of the Spanish insolvency legislation have contributed to provide much needed oxygen to the Spanish industrial, retail and distribution sectors and have also boosted distressed acquisitions in debt and assets by foreign investors," says Rubén Ferrer, resident partner of Gómez-Acebo & Pombo's New York office. "U.S.-based hedge funds and private equity firms have been playing a protagonist role in these type of investments. Also, recent and upcoming tax reforms will affect restructuring at large corporations and some international investment structures will have to be revisited. M&A transactions have also benefited from the changes in direct and indirect taxation. The much-needed relaxation of the Spanish labor and employment regulations has encouraged new inbound investments as well as the restructuring of existing ones by foreign investors with a more flexible approach in this regard."

## HOME AND AWAY

Increasing foreign investment remains a key aim of Spain's reform program. According to the United Nations Conference on Trade and Development (UNCTAD), Spain is the second largest recipient of foreign direct investment (FDI) in the European Union (E.U.). In 2014, Spain attracted $22,904 million worth of FDI inflows, with its links to Latin America proving especially beneficial. According to data provider Dealogic, in 2013 Latin American companies spent more on Spanish acquisitions than the other way around.

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"During the recent decade LatAm has consistently been raising a preeminent position among the main players for cross-border deals in Spain," says Fernando Vives, executive chairman at leading Iberian law firm Garrigues. "Garrigues has increased its international capabilities recently in LatAm, with the opening of three of its own offices in the past two years in Bogotá, Lima and Mexico. This is a result of not only inbound, but also outbound investments. We are anticipating this trend to continue and, as such, plan on growing our LatAm presence by opening additional offices in key cities."

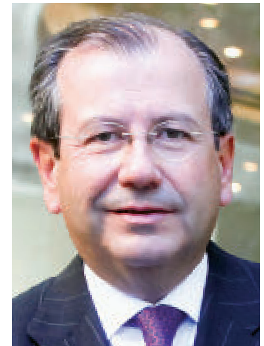
Garrigues' LatAm network also counts a platform in São Paulo. Other high-profile Iberian law firms with offices in Latin America include Uría Menéndez (Bogotá, Buenos Aires, Lima, Mexico City, Santiago and São Paulo); and Cuatrecasas, Gonçalves Pereira (São Paulo).

"It is extremely important to highlight the growing activity of Latin American investors in Spain," says de Carlos. "Companies from Mexico particularly, but also from Colombia and Brazil, are using their invest-

ments as an opportunity to get a platform in Spain and therefore the E.U."

That said, the most recent available data from the Organization for Economic Cooperation and Development (OECD) shows that Europe remains the dominant region of origin in terms of investment into Spain. In 2013, the Netherlands was home to the largest proportion of inward investors, representing 23.3 percent of Spain's foreign investment total. In second place with 15.1 percent of investments was Luxembourg and the U.K. was third with 9.8 percent.

**LUIS DE CARLOS**
URÍA MENÉNDEZ



**FERNANDO VIVES**
GARRIGUES

## DEAL DRIVERS

Spain's ability to lure a broad geographical spread of investors into the country is testament to its lucrative business opportunities. According to figures from corporate news agency Mergermarket, in 2014 Spain was home to $57.2 billion worth of deals, which represented a 77.1 percent increase on 2013. Although the first half of 2015 has been more subdued in the run-up to the country's general elections in November, there have been several bright spots. Most notably, real estate continues to be a hot sector and in the first quarter of 2015 Spain registered two property deals worth €1.3 billion (around $1.4 billion), which marked a 33 percent increase on the first quarter of 2014 according to Mergermarket.

"The latest forecasts for Spain predict a robust growth of the economy over the next two years (above 3 percent, according to the government figures). The acceleration in M&A activity is mainly driven by very supportive financing conditions (both from local banks and from alternative sources), the depreciation of the euro, which sweetens the business plans of companies with a potential in exportation, and also, lower oil prices," explains Vives. "This mix –which favors near all sectors- enable Spanish targets to illustrate nice business predictions and poses a good opportunity both to sellers willing to make cash and to buyers aiming to invest it."

As Vives goes on to point out, there was little correlation between deal volumes and sectors in 2014 with telecoms, finance and infrastructure all attracting major deals.

"The situation seems to be the same in 2015," says Vives. "There is an increasing number of transactions taking place in very diverse sectors."

The perceived value being seen in the market is leading to many opportunistic acquisitions, which may explain the wide spread of business segments appealing to investors.

**Plaza de Cibeles, Madrid**

"In essence, low prices and expectations of quick return on investments are driving transactional activity," says Fernando de las Cuevas, head of M&A at Gómez-Acebo & Pombo. "The crisis has given rise to unjustified low prices for many assets and investors are aware of that. The situation may not last long though and in some sectors (such as prime real estate) there is a sort of gold rush to acquire assets."

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The consensus among law firms, both domestic and global, is that Spain's business environment is on the path of a gradual but sustained growth.

"Developments in the market and recent financial ratios can be described in terms of a general and progressive recovery of the Spanish economy and boost in activity," says Jaime Velázquez, managing partner of Clifford Chance's Spanish offices. "Foreign investors have renewed confidence in Spain, particularly international investment funds looking for business opportunities."

There is no doubt that Spain currently remains among the healthiest of Europe's original bailout countries and its investment profile continues to strengthen.

"In 2014, Spain led unemployment reduction and employment creation in the eurozone," says Francisco Aldavero, corporate partner at independent Spanish law firm Araoz & Rueda. "Over the last twelve months employment has increased by more than 504,000 people. In addition, consumer confidence picked up again, Spanish GDP grew by 1.6 percent and private sector deleveraging continued at a fast pace. In this scenario, analysts and foreign investors expect a sustained growth of the Spanish economy for the next two years." ■