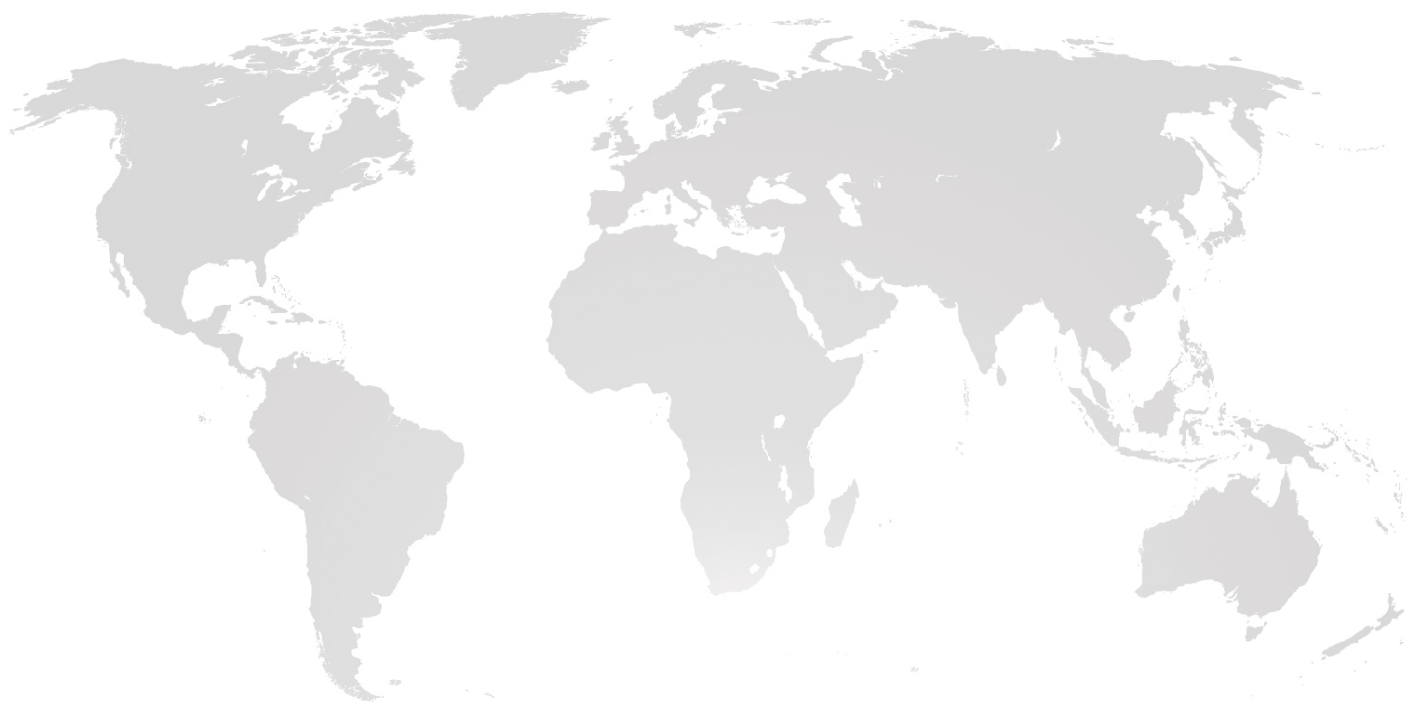




D&B Country Insight Snapshot: Spain

February 2015





Overview

Overall Country Risk Rating : DB4a



Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Rating Outlook: Stable →

Core Outlook

- + Look for commercial opportunities in the services sector (especially in tourism), which is expected to continue to grow in the medium to long term.
- + Due to still-high (albeit decreasing) unemployment, do not expect significant upward pressure on wages in the coming years.
- Bank lending to the private sector is unlikely to increase in the quarters ahead due to constraints on both demand and supply of credit.
- The small size of the vast majority of businesses is a factor that will slow technological innovation, as will high costs and difficult access to credit.

Key Development

Growing retail sales and strengthening labour market conditions boost economic performance. However, rising public debt will limit the government’s capacity to foster growth and lending to the private sector is falling.

Credit Environment Outlook

Key Development has had a positive impact on the outlook.

Supply Environment Outlook

Key Development has had a neutral impact on the outlook.

Market Environment Outlook

Key Development has had a positive impact on the outlook.

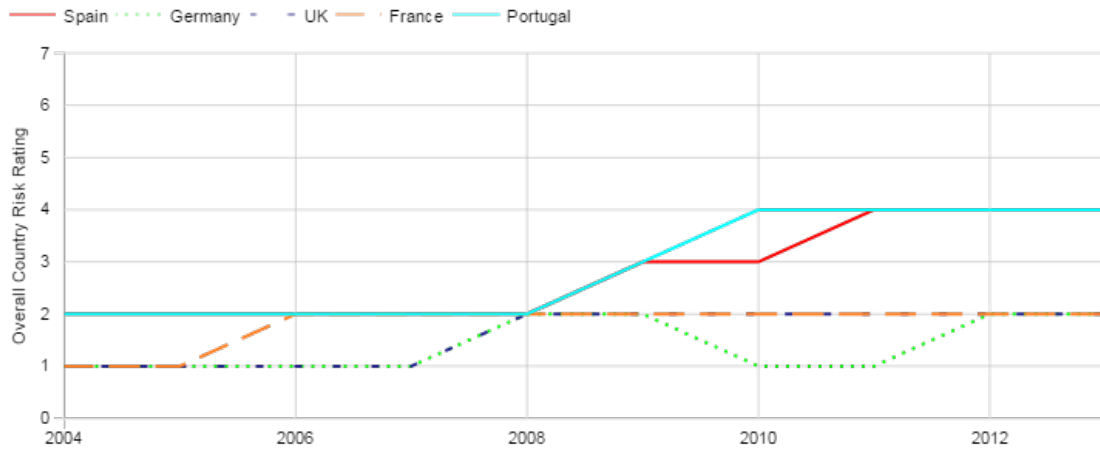
Political Environment Outlook

Key Development has had a positive impact on the outlook.



Key Indicators

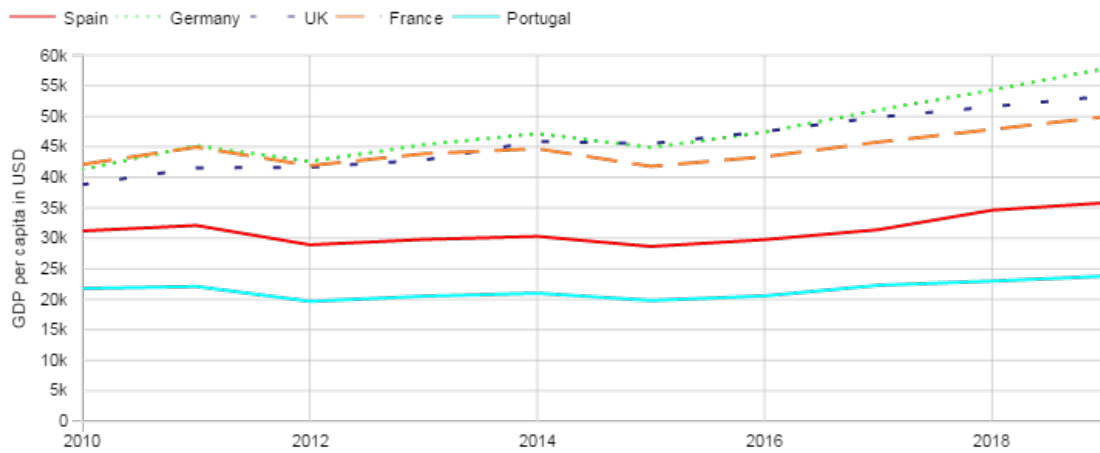
Rating History and Comparison



Source : D&B

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : D&B

Chart of the Month



Source : National Statistical Offices / Haver Analytics

Economic Indicators

Indicator	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
C/A balance % GDP	-3.2	-0.3	1.4	1.5	2.0	0.9	0.9	0.9
Govt balance, % GDP	-9.4	-10.3	-6.8	-2.5	-4.5	-3.0	-2.8	-2.6
Inflation, annual avge %	3.1	2.4	1.5	0.3	1.0	1.2	1.4	1.5
Real GDP Growth, %	0.1	-1.6	-1.2	0.8	1.5	1.7	1.7	1.8
Unemployment, %	21.4	24.8	26.1	24.2	23.5	23.0	22.8	22.5

Source : Haver Analytics/D&B

Trade and Commercial Environment

The World Economic Forum's *Global Competitiveness Report 2014-15* ranks Spain 35th out of 144 countries for the ease of doing business, unchanged compared with its 2013 score. Access to financing, inefficient government bureaucracy and restrictive labour regulations are cited as the top three problematic factors when doing business in the country. Meanwhile, negative credit growth continues to adversely affect credit and payment risk. The latest data from the Bank of Spain show that credit to non-financial corporations shrank by 9.0% y/y in Q2 2014, while credit to households fell by 3.3% y/y. That said, tight lending policies will be partially offset by the private sector's low demand for credit in the months ahead.

Trade Terms and Transfer Situation

Minimum Terms: SD

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 90-120 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-2 months

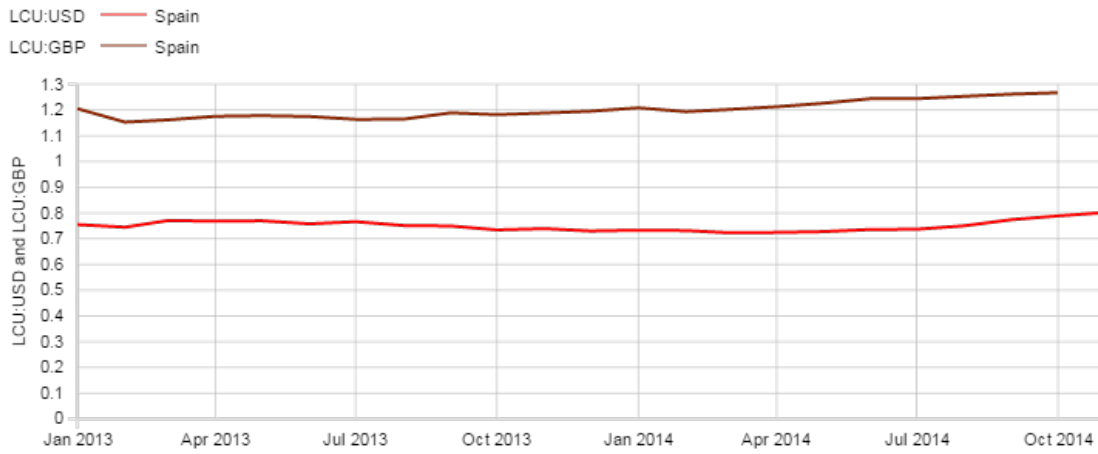
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



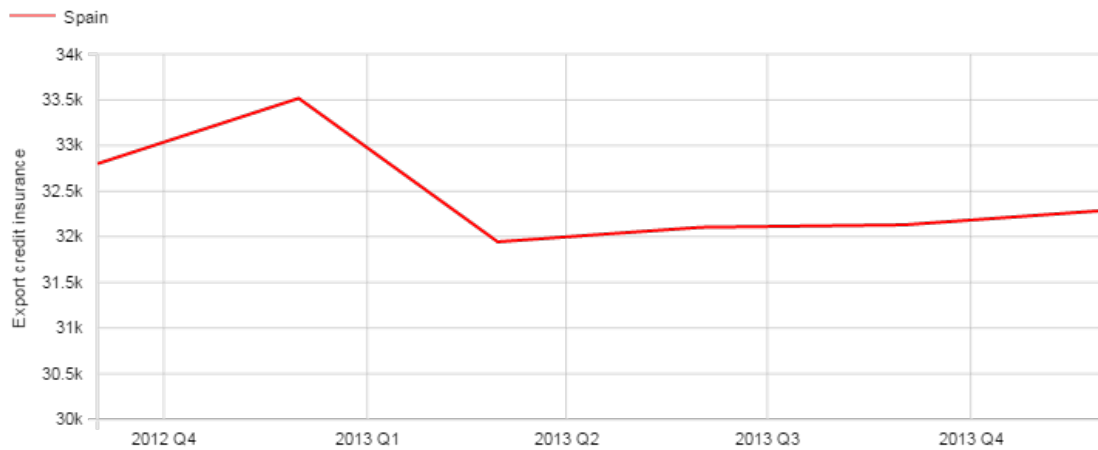
Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

LCU = Local Currency Unit

Credit Conditions



Source : Haver

Insured export credit exposures, USDm

Risks and Opportunities

Short-Term Economic Outlook

The economy continues to improve

Proxy indicators for Q4 suggest that the Spanish economy continues to improve. In particular, growing retail sales (up by 1.8% y/y in November) bode well for future private consumption readings. Indeed, retail sales tend to be closely correlated to real private consumption, which suggests that the latter may also have strengthened during Q4. Looking ahead, household spending is expected to gain further traction due to gradually improving labour market conditions (unemployment fell from 26.1% in 2013 as a whole to 23.9% in November) and a modest rise in real incomes against a backdrop of deflation (prices fell by 0.6% y/y in Q4). However, the contribution of private consumption (and domestic demand in general) to overall output growth is set to be constrained by still-high unemployment, as well as still-high and rising government debt (close to 100%). Increasing public debt limits the government's capacity to foster growth in the context of ongoing fiscal consolidation. The weak recovery in unemployment mainly reflects the lagged response of employment to output growth; however, the positive impact of past and recent labour market reforms, which have boosted flexibility and supported private sector job creation, is likely to bolster employment levels in 2015-16. Less positively, albeit improved, credit conditions remain unhelpful: the latest data from the national central bank show that lending to private sector fell 6.4% y/y in Q3. A breakdown by lending components reveals that credit to households shrank by 3.7% y/y, while credit to non-financial corporations dropped by almost 10% y/y.

Market Potential

Market potential increases

Meanwhile, rising industrial production (up 2.7% y/y in November) is broadly consistent with recent forward-looking indicators. In December, Markit's *Purchasing Managers' Index (PMI)* for the services sector rose to 54.3 points (from 52.7 points in November) due to higher levels of incoming new work, which in some cases were reported to be long term in nature. Furthermore, according to Markit, the latest data marked the eighth month in nine that a net increase in staffing levels was recorded. Similarly, the latest manufacturing *PMI* readings signal that operating conditions in the manufacturing sector continued to improve in December relative to November. The *PMI* registered a 53.8 reading; while lower than November's reading, this is still above the 50-mark point (the threshold dividing a sectorial expansion from contraction). According to Markit, increased new order intakes prompted a strong expansion of production in December; while the rate of output growth slowed since November, it remained well above the long-run series average. Against a backdrop of a slowly improving domestic economy, consumer confidence is also strengthening. Since the indicator tends to track GDP growth, this suggests a good start to the last quarter. We forecast a 1.5% rise in Spain's real GDP in 2015; growth should accelerate in 2016 when a more robust macroeconomic environment should boost households' purchasing power and increase corporate profitability.

Country Profile and Statistics

Overview

Spain is situated in the Iberia Peninsula, and borders France and Portugal. Following its transition to democracy in 1977, Spain has become a modern economy and has consolidated its role in the EU.

The country has been governed by two main parties, the Socialist Party (PSOE) and the centre-right Popular Party (PP) since the return to democracy. However, regional parties, mainly from Catalonia and the Basque Country, have pushed for further autonomy, and have also played a role in national governments. By institutional design, governments tend to be very stable. The armed Basque separatist movement, ETA, remains active.

The Spanish economy has changed radically over the past decades. High economic growth driven by high levels of liquidity has helped standards of living to converge with those of the rest of Western Europe. Although productivity is relatively low, companies from sectors such as banking, fashion and telecommunications have become important global players. With reduced levels of liquidity, the economy will post slow economic growth in the coming years.

Key Facts

Key Fact	Detail
head of government	Prime Minister Mariano RAJOY
Capital	Madrid
Timezone	GMT +01-00
Main language	Spanish
Population (millions)	47.1
GDP (USD billions)	1,426.6
GDP per capita (USD)	30,310
Life expectancy (years)	82
Literacy (% of adult pop.)	99.9
Surface area (sq km)	505,370

Source : UN / Haver Analytics / D&B

Historical Data

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	-0.2	0.05	-1.64	-1.22	0.8
Nominal GDP in USDbn	1,394.16	1,453.23	1,319.59	1,363.98	1,397.62
Nominal GDP in local currency (bn)	1,046	1,046	1,029	1,023	1,034
GDP per Capita in USD	30,188	31,243	28,223	29,066	29,695
Population (year-end, m)	46.18	46.51	46.76	46.93	47.07
Exchange rate (yr avge, USD-LCU)	0.75	0.72	0.78	0.75	0.74
Current Account in USDbn	-62.62	-54.12	-15.93	10.62	14.51
Current Account (% of GDP)	-4.49	-3.72	-1.21	0.78	1.04
FX reserves (year-end, USDbn)	0.3	0.32	0.33	0.33	0.35
Import Cover (months)	1.34	1.21	1.31	1.32	1.4
Inflation (annual avge, %)	2	3.1	2.4	1.5	0.3
Govt Balance (% GDP)	-9.4	-9.4	-10.3	-6.8	-5

Source : D&B

Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	1.5	1.7	1.7	1.8	2
Nominal GDP in USDbn	1,376.7	1,435.3	1,499.5	1,613.6	1,673.3
Nominal GDP in local currency (bn)	1,060.1	1,090.84	1,124.66	1,161.77	1,204.75
GDP per Capita in USD	29,169	30,324	31,595	33,908	35,082
Population (year-end, m)	47.2	47.3	47.5	47.6	47.7
Exchange rate (yr avge, USD-LCU)	0.8	0.8	0.8	0.7	0.7
Current Account in USDbn	21.3	13.2	14	14.5	14.5
Current Account (% of GDP)	1.55	0.92	0.93	0.9	0.87
FX reserves (year-end, USDbn)	0.4	0.4	0.4	0.4	0.4
Import Cover (months)	1.5	1.5	1.3	1.3	1.3
Inflation (annual avge, %)	1	1.2	1.4	1.5	1.7
Govt Balance (% GDP)	-4.5	-3	-2.8	-2.6	-2

Source : D&B

Comparative Market Indicators

Indicator	Spain	Germany	UK	France	Portugal
Income per Capita (USD)	29,169	44,894	45,687	41,795	19,800
Country Population (m)	47.2	82.6	63.8	65	10.8
Internet users (% of population)	71.6	84	89.8	81.9	62.1
Real GDP Growth (% p.a., 2014 - 2023)	1.1 - 1.7	2 - 3	1.5 - 3.5	1.2 - 2.1	-1.5 - 1.8

Source : D&B

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