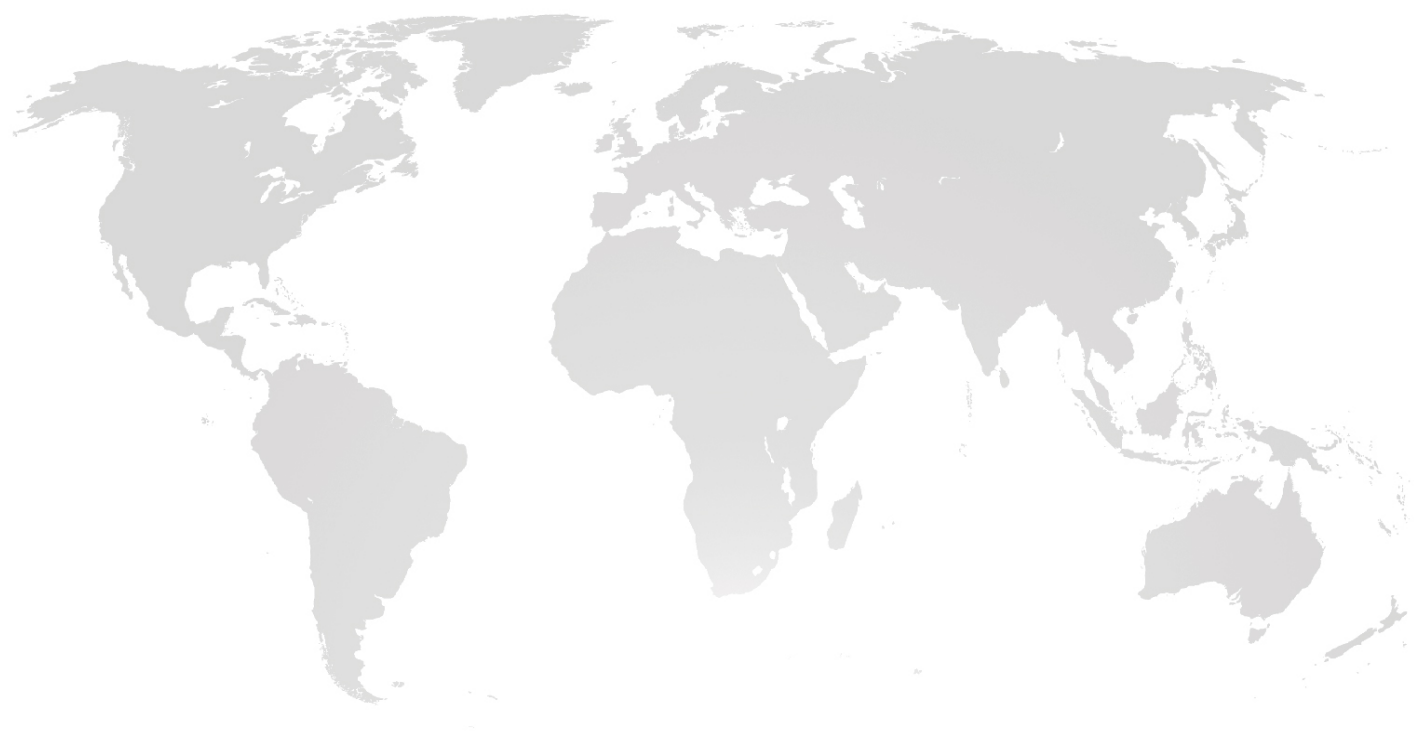


# Country Insight Snapshot

## Spain

January 2016





## OVERVIEW

OVERALL COUNTRY RISK RATING: DB3D

**Slight risk** : Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

**Rating Outlook:**

Stable



## CORE OUTLOOK

- + Seek commercial opportunities in the services sector (tourism in particular), 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 meaningfully due to constraints on both demand and the supply of credit.
- The small size of the vast majority of businesses will slow technological innovation, as will high costs and difficult access to credit.

## KEY DEVELOPMENT

The economy expands at its fastest annual rate in seven years, but uncertainty in the political arena clouds the macroeconomic outlook.

### CREDIT ENVIRONMENT OUTLOOK

A

Key Development has had a positive impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

A

Key Development has had a positive impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

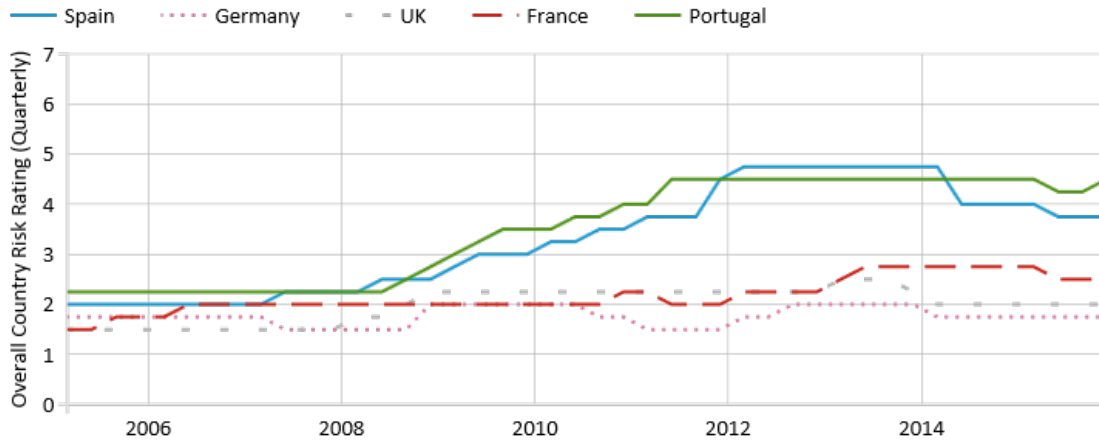
A

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

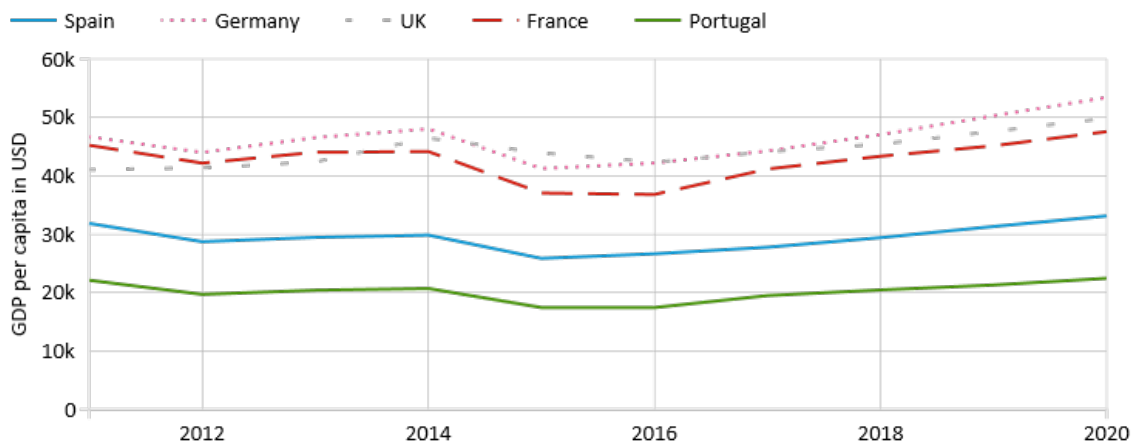
### Rating History and Comparison



Source : Dun & Bradstreet

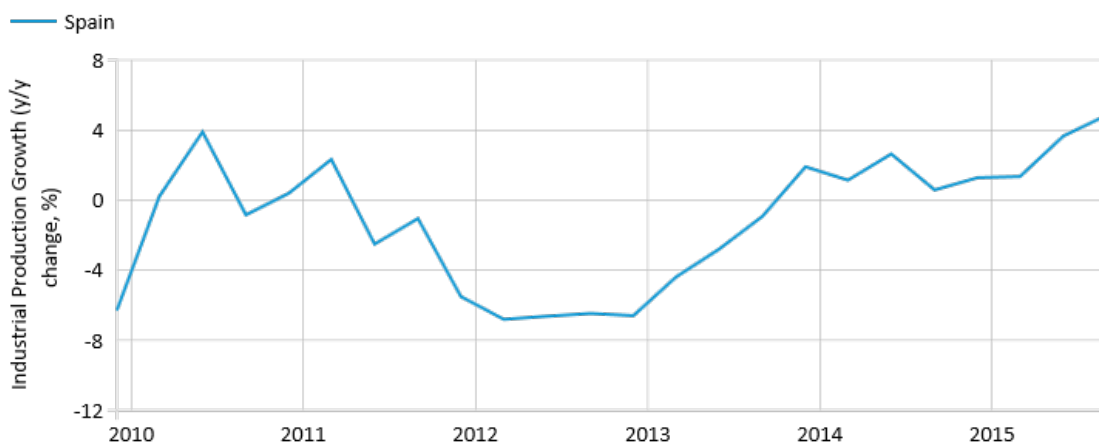
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	1.4	0.8	1.4	1.1	1.1	1.1	1.0	0.9
Govt balance, % GDP	-6.9	-5.9	-4.5	-3.0	-2.8	-2.6	-2.0	-2.0
Inflation, annual avge %	1.5	-0.2	-0.6	0.6	1.0	1.5	1.7	1.7
Real GDP Growth, %	-1.7	1.4	3.0	2.8	2.7	2.7	2.8	2.9
Unemployment, %	26.1	24.5	21.0	19.0	18.0	17.0	16.5	16.0

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

The World Economic Forum's *Global Competitiveness Report 2015-16* ranks Spain 33rd out of 140 countries for the ease of doing business. The country gained two positions compared to its 2013 ranking. Access to financing, as well as tax rates and inefficient government bureaucracy, are cited as the top three problematic factors when doing business in the country. Meanwhile, negative credit growth still adversely affects credit and payment risk. The latest data from the Bank of Spain shows that credit to non-financial corporations shrank by 4.6% y/y in Q2 2015, while credit to households fell by 4.8% 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 Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: LC

*Dun & Bradstreet'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

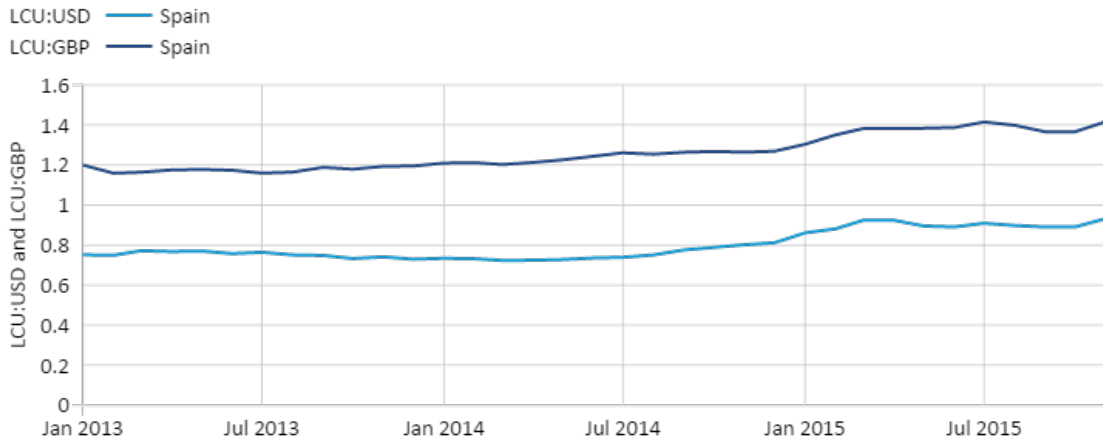
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



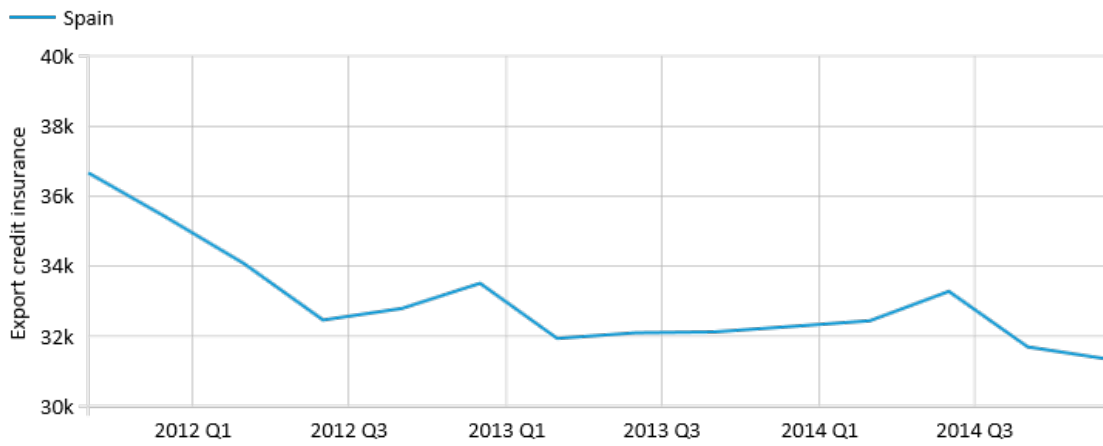
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU = Local Currency Unit*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### ***Economic growth hits seven-year high***

Spain's economy expanded at its fastest annual rate in seven years in Q3, data from the national statistics office show. The domestic product of the euro-zone's fourth-largest economy grew by 3.4% y/y, or 0.8% on a quarterly basis. The breakdown of the GDP components reveals that robust private consumption and investment growth was the main contributory factor to the output increase. Indeed, household spending and gross fixed capital formation went up by 1.0% q/q and by 1.1% q/q, respectively. Government spending rose by 0.9% q/q, while external demand dragged on growth, as a 2.8% q/q increase in exports was more than offset by a 4% q/q increase in imports. Looking ahead, improving labour market conditions and strengthening consumer and business confidence should further support private consumption, while a cheaper euro should help boost export growth. As a result, we expect Spain's real GDP to expand at a robust pace in 2015 (by some 3.0%) and to continue to grow (albeit at a slower pace) in 2016 and 2017.

Besides pointing to a gradually strengthening economy, a number of high-frequency indicators also suggest that Spain's domestic product has continued to grow in Q4. Indeed, after rising by 1.5% y/y in October, industrial production rose by 3.9% y/y in November (or by 2.9% m/m), supported by a 2.6% y/y increase in manufacturing output. Furthermore, the business confidence indicator remained close to an eight-year high, having turned positive in April for the first time in eight years. Positive signals are also emerging from the retail sector and the labour market. Retail sales volume expanded by 3.3% y/y in November (although it fell by 0.5% m/m), while the unemployment rate edged down further over the same month to 21.4%, down from an average 21.8% in Q3 and 23.1% in Q1.

### Insecurity/Civil Disorder Risk

#### ***Political uncertainty rises***

Meanwhile uncertainty in the political arena and doubts over the future government's stance towards fiscal discipline cloud the macroeconomic outlook. Indeed, the December general elections have not put an end to months of political uncertainty as none of the mainstream parties (the ruling Popular Party (PP) and the opposition socialist (PSOE)) won an outright majority in the 350-seat Congress. The PP came first with 123 seats but fell far short of the 176 majority needed to govern alone. Following the constitution, King Felipe invited incumbent Prime Minister Rajoy (the leader of the party with the most votes) to form a government. However, Rajoy's attempt failed as he did not manage to gain enough outside support. In the event that PSOE and Podemos (the second- and third-placed parties) formed a coalition, King Felipe could task them with trying to form a government, as they would have more parliamentary seats than the PP. Should none of the nominated party leaders be successful, the king must put forward a new candidate. If no government is formed within two months (which is our most likely scenario), fresh elections will be called.



## COUNTRY PROFILE AND STATISTICS

### Overview

Spain is situated in the Iberian Peninsula, and borders France and Portugal. Following its transition to democracy in 1977, Spain has become a modern economy and 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 in recent decades. High economic growth driven by good 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)	46.1
GDP (USD billions)	1,193.6
GDP per capita (USD)	25,880
Life expectancy (years)	82
Literacy (% of adult pop.)	98.1

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	-1	-2.62	-1.67	1.36	3
Nominal GDP in USDbn	1,488.7	1,340.3	1,369.4	1,381.6	1,193.6
Nominal GDP in local currency (bn)	1,070	1,043	1,031	1,041	1,066
GDP per Capita in USD	31,873	28,739	29,477	29,865	25,880
Population (year-end, m)	46.71	46.64	46.46	46.26	46.12
Exchange rate (yr avge, USD-LCU)	0.72	0.78	0.75	0.75	0.89
Current Account in USDbn	-47.84	-4.52	19.4	10.75	17.23
Current Account (% of GDP)	-3.21	-0.34	1.42	0.78	1.44
FX reserves (year-end, USDbn)	316.71	332.54	330.96	327.6	338.9
Import Cover (months)	1.22	1.34	1.3	1.26	1.5
Inflation (annual avge, %)	3	2.4	1.5	-0.2	-0.6
Govt Balance (% GDP)	-9.5	-10.4	-6.9	-5.9	-4.5

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	2.8	2.7	2.7	2.8	2.9
Nominal GDP in USDbn	1,228	1,280.6	1,357.1	1,447.1	1,531.5
Nominal GDP in local currency (bn)	1,102.1	1,142.9	1,190.9	1,244.5	1,301.7
GDP per Capita in USD	26,658	27,796	29,428	31,344	33,153
Population (year-end, m)	46.1	46.1	46.1	46.2	46.2
Exchange rate (yr avge, USD-LCU)	0.9	0.9	0.9	0.9	0.9
Current Account in USDbn	13.2	14	14.5	14.5	14.5
Current Account (% of GDP)	1.07	1.09	1.07	1	0.95
FX reserves (year-end, USDbn)	381.4	421	455.7	488.5	518.5
Import Cover (months)	1.62	1.68	1.69	1.67	1.66
Inflation (annual avge, %)	0.6	1	1.5	1.7	1.7
Govt Balance (% GDP)	-3	-2.8	-2.6	-2	-2

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Spain	Germany	UK	France	Portugal
Income per Capita (USD)	25,880	41,255	43,930	37,068	17,457
Country Population (m)	46.1	80.7	64.7	64.4	10.8
Internet users (% of population)	76.2	86.2	91.6	83.8	64.6
Real GDP Growth (% p.a., 2016 - 2025)	1.5 - 3	1.8 - 3	1.8 - 3.5	1.3 - 2.5	1 - 2.5

Source : Various sources/Dun & Bradstreet





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Telephone

UK: +44 (0)1628 492700

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Rest of World

contact your local office  
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#### Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: [countryinsight@dnb.com](mailto:countryinsight@dnb.com)

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