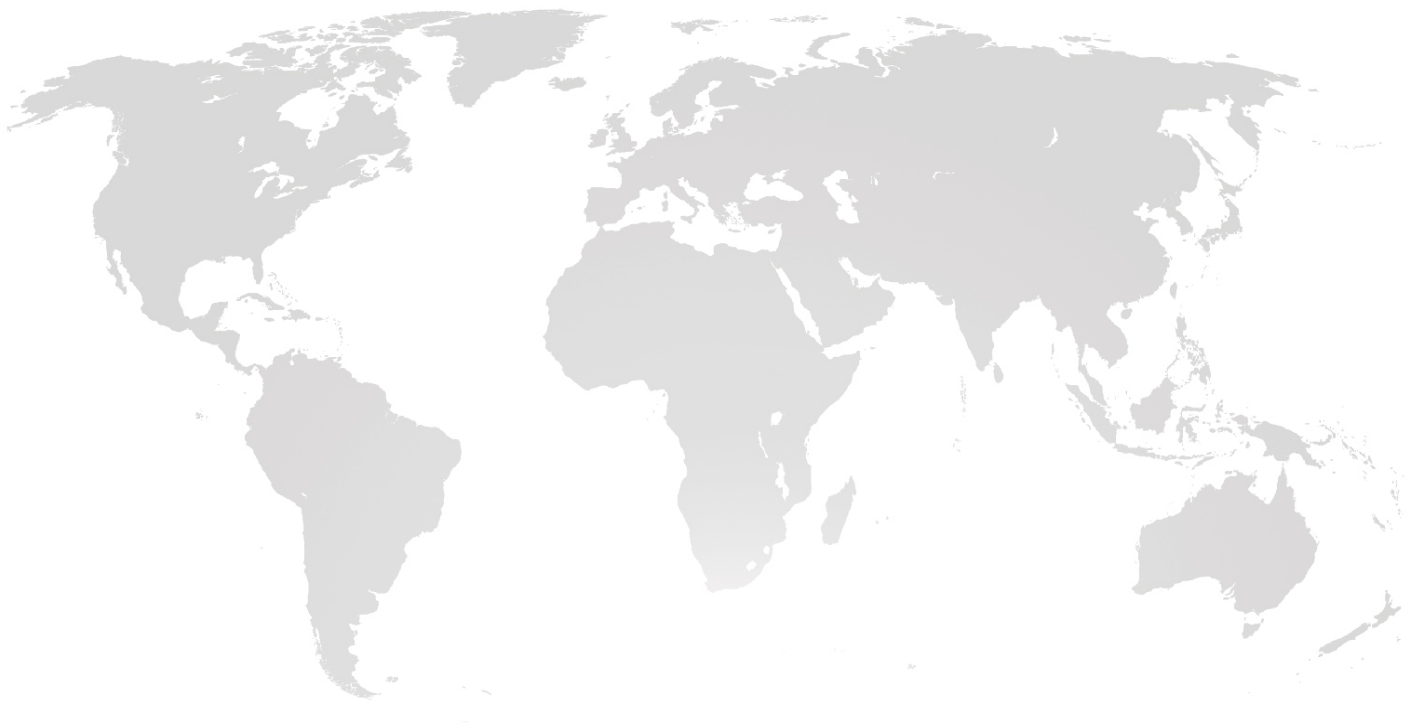


Country Insight Snapshot

Spain

July 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 the demand and 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 maintains momentum amid high uncertainty stemming from the UK's Brexit vote, but the political arena remains a source of concern.

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.

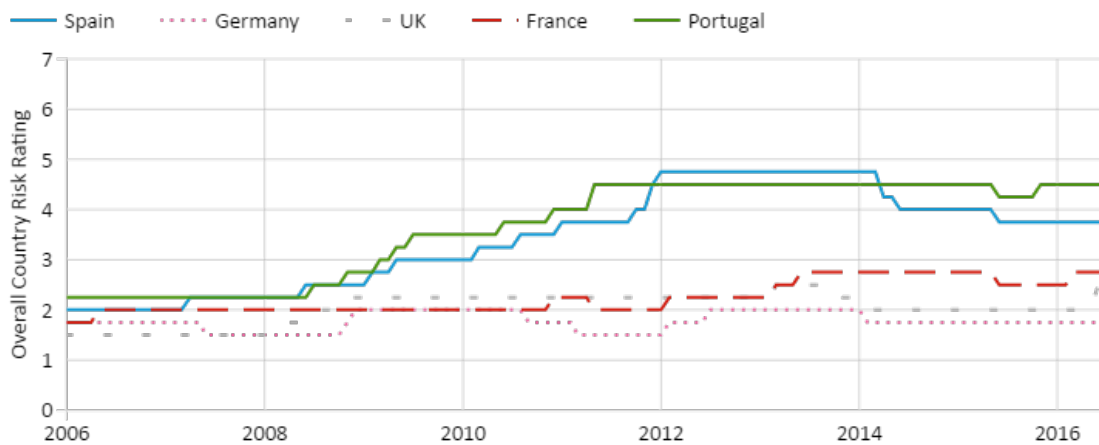
POLITICAL ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

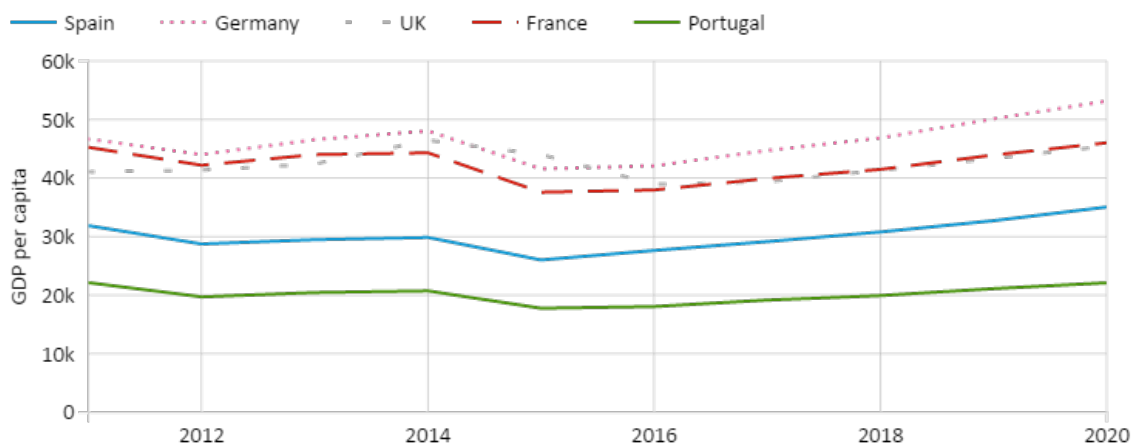
Rating History and Comparison



Source : Dun & Bradstreet

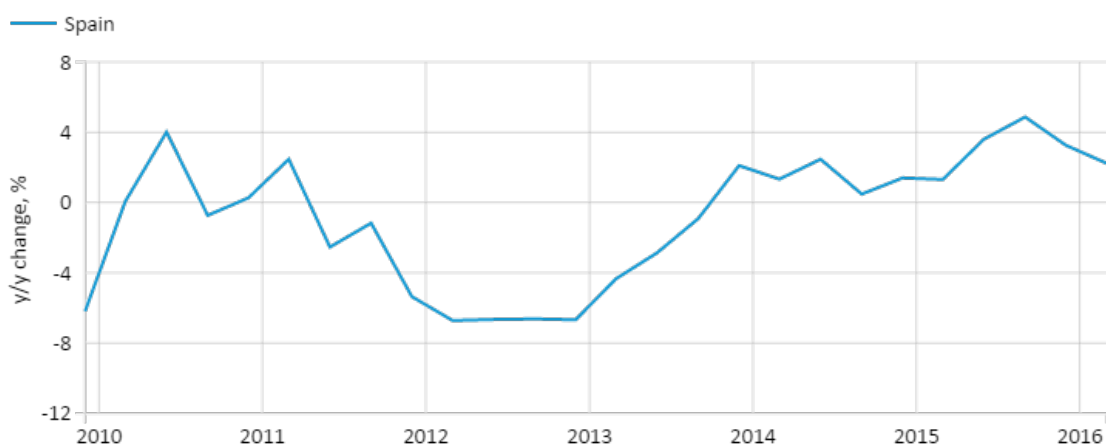
Note: 1 = Low Risk, 7 = High Risk

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	1.5	0.9	1.4	1.0	1.0	1.0	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	0.2	1.0	1.5	1.7	1.7
Real GDP Growth, %	-1.7	1.4	3.1	2.8	2.7	2.7	2.8	2.9
Unemployment, %	26.1	24.4	22.1	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 2015-2016 Report* ranks Spain 33rd out of 140 countries for the ease of doing business. The country improved by two positions compared to its 2013 ranking. Access to financing, 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 9.7% y/y in Q1, while credit to households fell by 3.5% 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

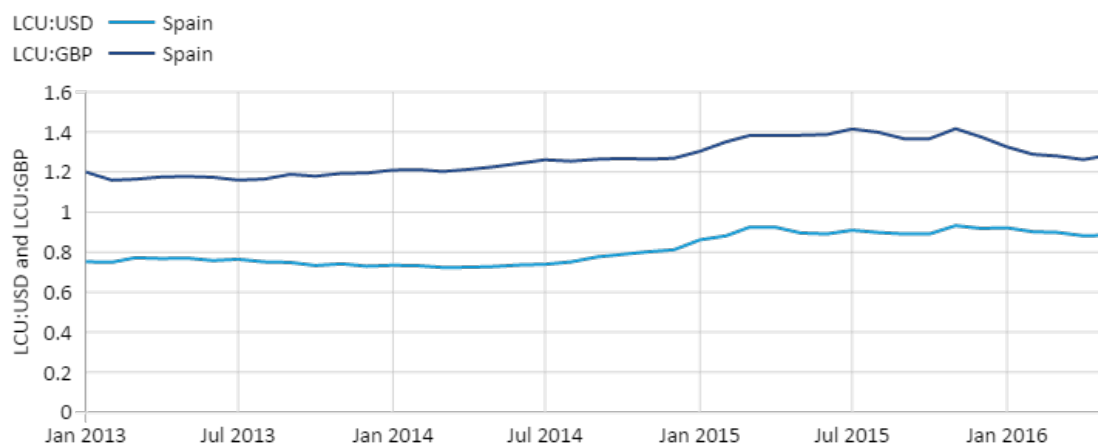
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



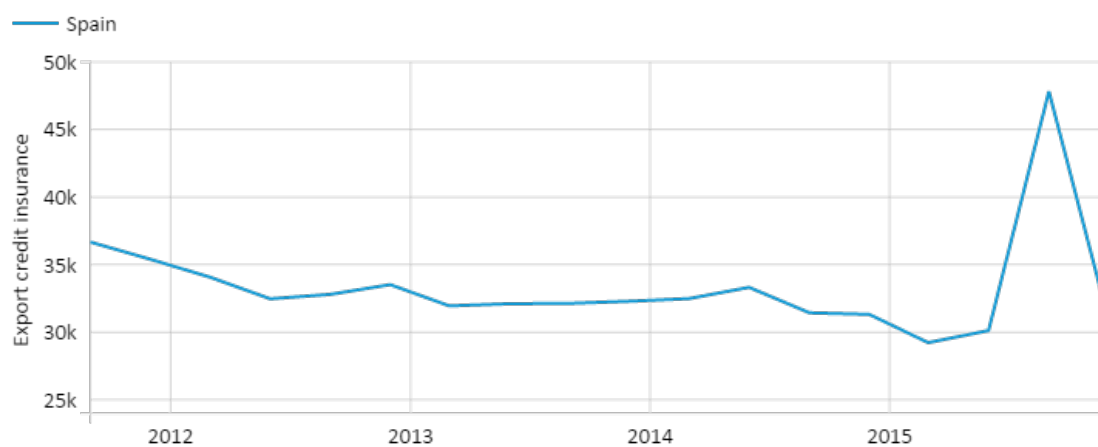
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = euro

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Economic expansion continues

The Spanish economy is maintaining its momentum in the face of high uncertainty stemming from June's Brexit vote in the UK. Official data reveal that labour market conditions improved further in May, with the unemployment rate falling to 19.8%, its lowest level since September 2009. The recovery in the job market has taken hold in all sectors of the economy: the number of contributors to the social security systems (a good proxy for employment) increased by 2.7% and 2.4% in industry and manufacturing respectively, and by 3.2% and 0.4% in services and agriculture, respectively. Youth unemployment (i.e. among those under 25) also declined, to reach 43.9%, down from 44.8% previously. Against this backdrop, high-frequency indicators hint at further economic growth in Q2. Indeed, after rising by 4.2% y/y in April, industrial production went up by 1.7% y/y in May, boosted by a 4.3% y/y rise in consumer goods and by a 5.7% y/y increase in investment goods. Similarly, retail sales (a good proxy for the health of the broader economy) also expanded in April and May, increasing by 3.9% y/y and by 2.3% y/y, respectively. Positive high-frequency data suggest that the flash estimates for Q2 real GDP, released by the Bank of Spain in July, will highly likely be confirmed by definitive future figures. According to the bank, Spain's economy expanded by 0.7% q/q in Q2, boosted by domestic demand, especially private and consumption spending. On the other hand, investment slowed on account of ongoing political uncertainty triggered by the second inconclusive general election in June.

Meanwhile, despite the ongoing economic recovery, inflation continued to moderate in the first half of 2016, with the annualised rate falling further into negative territory (-1% y/y) in Q2. Core inflation stood at 0.6% y/y in Q2, lower than its Q1 average of 0.8% y/y. We expect inflation to remain subdued in 2016-17, hovering around 0.5%. However, inflation should rise gradually over the medium term as the economic recovery gathers speed and improving labour market conditions add upside pressure on nominal wages, and thus on price levels.

Political/Insecurity Risk

Political uncertainty persists

Less positively, political risk remains a major source of concern, with uncertainty stemming from June's inconclusive election seemingly not dissipating. The Popular Party, led by acting Prime Minister Mariano Rajoy, won the most seats in June's ballot but fell short of a parliamentary majority. Attempts to form a coalition with the PSOE Socialist party (which seemed the only viable option to restore political stability in the country), have been unsuccessful. With a view of forming a new government, King Felipe VI will open the first round of consultations in late July. If no political agreement is reached, a third round of elections will have to be called. Irrespective of who governs, political uncertainty and doubts over the future government's stance towards fiscal discipline will cloud the macroeconomic outlook.



COUNTRY PROFILE AND STATISTICS

Overview

Spain is situated on 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 within 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. 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 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. The still-tight credit conditions are unlikely to ease significantly in the quarters ahead.

Key Facts

Key Fact	Detail
Head of government	Acting Prime Minister Mariano RAJOY
Capital	Madrid
Timezone	GMT +01-00
Main language	Spanish
Population (millions)	46.1
GDP (USD billions)	1,199.6
GDP per capita (USD)	26,009
Life expectancy (years)	82
Literacy (% of adult pop.)	98.1
Surface area (sq km)	505,370

Source : UNPOP

Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	-1.0	-2.6	-1.7	1.4	3.1
Nominal GDP in USDbn	1,489	1,340	1,369	1,382	1,200
Nominal GDP in local currency (bn)	1,070	1,043	1,031	1,041	1,081
GDP per Capita in USD	31,873	28,739	29,477	29,865	26,009
Population (year-end, m)	46.7	46.6	46.5	46.3	46.1
Exchange rate (yr avge, USD-LCU)	0.72	0.78	0.75	0.75	0.9
Current Account in USDbn	-47.7	-3.7	20.0	12.9	16.7
Current Account (% of GDP)	-3.2	-0.3	1.5	0.9	1.4
FX reserves (year-end, USDbn)	316.7	332.5	331.0	327.6	333.9
Import Cover (months)	1.2	1.3	1.3	1.3	1.5
Inflation (annual avge, %)	3.0	2.4	1.5	-0.2	-0.6
Govt Balance (% GDP)	-9.5	-10.4	-6.9	-5.9	-4.5

Source : Various sources/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	1,273	1,343	1,420	1,510	1,619
Nominal GDP in local currency (bn)	1,114	1,155	1,203	1,257	1,315
GDP per Capita in USD	27,629	29,148	30,788	32,718	35,045
Population (year-end, m)	46.1	46.1	46.1	46.2	46.2
Exchange rate (yr avge, USD-LCU)	0.88	0.86	0.85	0.83	0.81
Current Account in USDbn	13.2	14.0	14.5	14.5	14.5
Current Account (% of GDP)	1.0	1.0	1.0	1.0	0.9
FX reserves (year-end, USDbn)	375.8	414.8	449.0	481.2	510.8
Import Cover (months)	1.5	1.6	1.6	1.6	1.5
Inflation (annual avge, %)	0.2	1.0	1.5	1.7	1.7
Govt Balance (% GDP)	-3.0	-2.8	-2.6	-2.0	-2.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Spain	Germany	UK	France	Portugal
Income per Capita (USD)	26,009	41,567	44,019	37,579	17,759
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 : Haver Analytics/Dun & Bradstreet



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