



Decide with Confidence

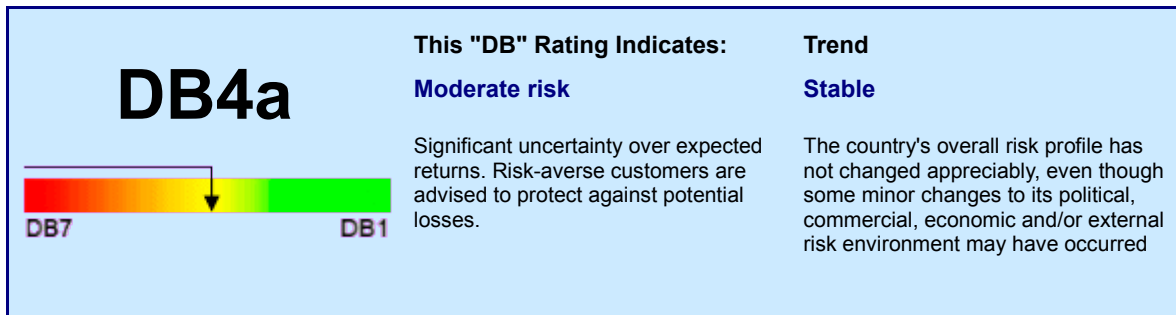
D&B Country RiskLine Report

SPAIN

Region : Western Europe

Edition : August 2014

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	46.1m
Surface area (sq km):	505,370
Capital:	Madrid
Timezone:	GMT +01:00
Main language:	Spanish
Head of government:	Prime Minister Mariano RAJOY
GDP (USD):	1.4trn
GDP per capita (USD):	30,748
Life expectancy (years):	81
Literacy (% of adult pop.):	99.9

Country 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, which have pushed for further autonomy, 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 remains 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 coming years.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	SD
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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
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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
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months
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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
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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.

Trade & Commercial Environment

The World Economic Forum's *Global Competitiveness Report 2013-14* ranks Spain 35th out of 185 countries for the ease of doing business, an improvement of one position compared with 2012. Access to financing, inefficient government bureaucracy and restrictive labour regulations are cited as the top three problematic factors when doing business in the country. Defaults are still common in the aftermath of Spain's property collapse: the number of bankruptcies was 22.8% higher in Q1 2013 than in the corresponding period a year earlier, according to National Statistics Institute data. The sectors hardest hit by the crisis were construction and property development, where some 25.0% of firms were declared bankrupt.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

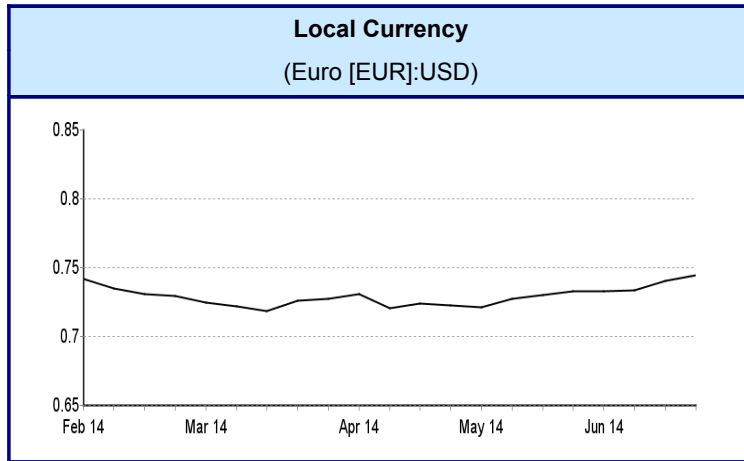
Economic Indicators

	2011	2012	2013	2014f	2015f
Real GDP growth, %	0.1	-1.6	-1.2	0.6	1.5
Inflation, annual ave, %	3.1	2.4	1.5	0.6	1.0
Govt balance, % GDP	-9.6	-10.6	-7.1	-6.0	-4.5
Unemployment, %	21.4	24.8	26.1	25.5	25.0
C/A balance, % GDP	-3.7	-1.2	0.8	1.0	1.5

Inflation and unemployment are based on EU-harmonised data.

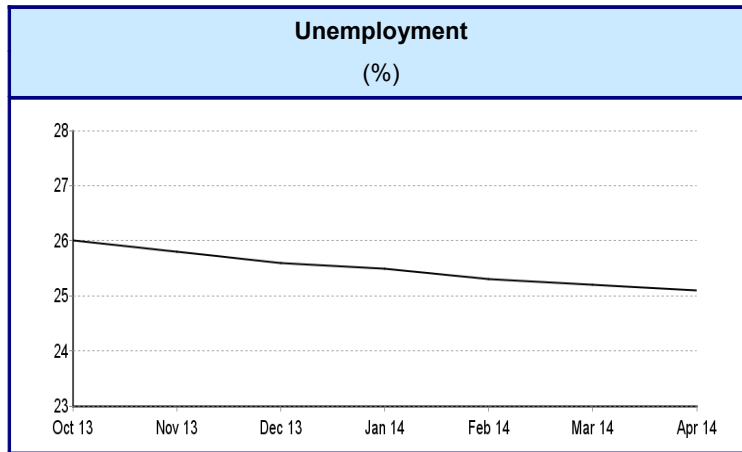
Currency Information

Exchange Rates (London, 28 Jul 14)	
GBP	1.2637
JPY*	0.7311
USD	0.7444
*(x 100)	



Local Currency (Euro [EUR]:USD)					
	Feb 14	Mar 14	Apr 14	May 14	Jun 14
Week 1	0.742	0.724	0.730	0.721	0.733
Week 2	0.734	0.721	0.720	0.727	0.733
Week 3	0.731	0.718	0.724	0.730	0.740
Week 4	0.729	0.726	0.722	0.732	0.744
Week 5		0.727			

Unemployment



Data Table						
Oct 13	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14
26.0	25.8	25.6	25.5	25.3	25.2	25.1

Risk Factor

Spain's economy may have grown at its fastest pace in six years over the second quarter. Flash estimates released by the Bank of Spain (BOF, the central bank) suggest that real GDP is likely to have expanded by 0.5% quarter on quarter (q/q) in Q2 on account of a positive contribution from the external sector and an ongoing recovery in domestic spending. In particular, household consumption is benefitting from a gradual easing in the pace of fiscal austerity, and a marginal improvement in financing conditions. Positive data for Spanish domestic output contrast with disappointing data for major European economies: flash estimates point to flat growth in Q2 for German and Italian GDP, and only modest growth for France (some 0.2% q/q). The latest data from the labour market are consistent with the recent and projected strengthening of momentum. Indeed, between Q1 and Q2 the number of unemployed in Spain fell by over 300,000. Decreasing unemployment (coupled with a significant increase in the number of new jobs created) led to a drop in the rate (which fell to 24.5% from 25.9% in Q1). Besides BOF's preliminary estimates, a number of other economic indicators also suggest that Spain's domestic output has continued to grow in Q2. Industrial production rose by 4.6% year on year (y/y) and by 2.7% y/y in April and May, respectively; retail trade expanded by 0.7% y/y and by 0.7% in April and May, respectively.

Survey-based indicators also signal a strengthening business environment. In June, Markit's *Purchasing Manager's Index* (PMI) for the services and manufacturing sectors remained comfortably above the 50-mark expansion threshold. Furthermore, consumer confidence is improving. Although it still remains below the 100-mark threshold (ratings below 100 points are considered as pessimistic perceptions of the economic situation), the consumer confidence indicator (released by the Sociological Research Centre) increased by 4.4 points in June, to reach 89.3 points. That said, ongoing private and public sector deleveraging, still-high unemployment, and disappointing economic developments in Spain's key trading partners, will continue to impact on the country's economic outlook in the quarters ahead. Against a backdrop of prevailing austerity, the government is planning sweeping tax cuts as a means of boosting growth and creating new jobs. However, the effect of the tax reform (which has not yet been approved by parliament) is unlikely to be felt by households before late 2015.

Meanwhile, inflation remains subdued (consumer prices stagnated in y/y terms in June). Even though we expect the rate of deflation to decelerate over the coming months, price pressures are likely to remain subdued in the short term on account of still-large output gaps and a strong euro (which keeps the price of imports low).

Glossary & Definitions

DEFINITIONS

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Recommended Terms:

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Usual Terms:

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

Local Delays:

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

F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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