



Decide with Confidence

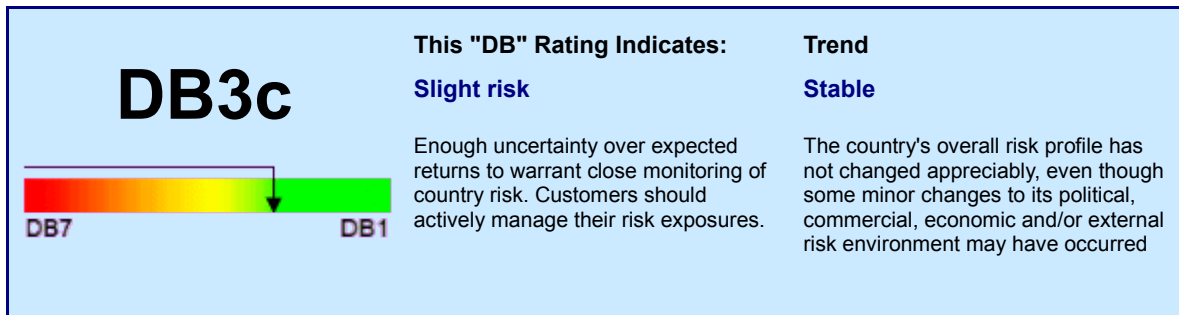
D&B Country RiskLine Report

SPAIN

Region : Western Europe

Edition : August 2010

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:	45.2m
Surface area (sq km):	505,370
Capital:	Madrid
Timezone:	GMT +01:00
Main language:	Spanish
Head of government:	Prime Minister Jose Luis Rodriguez ZAPATERO
GDP (USD):	1.5trn
GDP per capita (USD):	32,512
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:	SD
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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:	0-1 month
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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

Despite the recovery in Q1 2010 most sectors of the economy will show slow growth in the two-year forecast period, affecting the risk of doing business in Spain. Amid increasing unemployment and a bleak macroeconomic outlook, credit to the private sector dropped by 1.9% in Q1 (in year-on-year terms). The number of bankruptcies and arrears on payments rose across all sectors in 2009. Although the financial sector has proven resilient to the liquidity crunch, the sharp decline in bank funding to businesses (and especially households) is harming Spanish companies' turnover. We expect restricted liquidity to worsen payment delays and the number of insolvencies to remain high during our two-year forecast period.

Export Credit Agencies

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

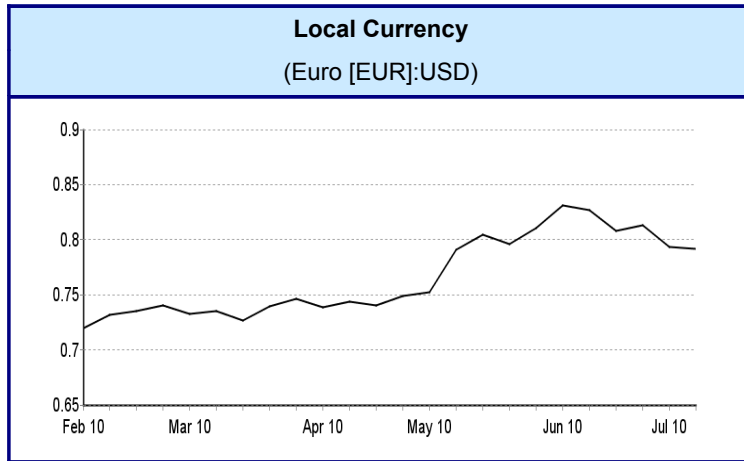
Economic Indicators

	2007	2008	2009	2010f	2011f
Real GDP growth, %	3.6	0.9	-3.6	-0.7	1.1
Inflation, annual ave, %	2.8	4.1	-0.3	1.3	1.8
Govt balance, % GDP	1.9	-4.1	-11.2	-10.2	-7.5
Unemployment, %	8.3	11.4	18.0	19.5	17.0
C/A balance, % GDP	-10.0	-9.7	-5.4	-5.0	-5.0

"Payments Performance" chart reflects experiences of EU rather than US companies. Inflation and unemployment are based on EU-harmonised data.

Currency Information

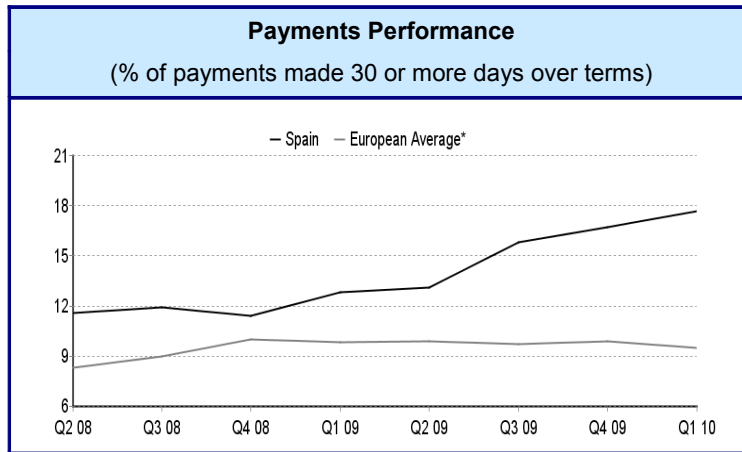
Exchange Rates	
(London, 12 Jul 10)	
GBP	1.196
JPY*	0.8946
USD	0.7915
*(x 100)	



Local Currency
(Euro [EUR]:USD)

	Feb 10	Mar 10	Apr 10	May 10	Jun 10	Jul 10
Week 1	0.720	0.733	0.739	0.752	0.831	0.794
Week 2	0.732	0.735	0.744	0.790	0.827	0.792
Week 3	0.735	0.727	0.740	0.805	0.808	
Week 4	0.740	0.739	0.748	0.796	0.814	
Week 5		0.746		0.811		

Payments Performance



Data Table

Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
11.9	11.4	12.8	13.1	15.8	16.7
9.0	10.0	9.8	9.9	9.7	9.9

Risk Factor

D&B has downgraded Spain's country risk indicator by one quartile to DB3c (Slight Risk) as the macroeconomic outlook has not improved as fast as expected and uncertainty is affecting the political sphere. Although the Spanish economy expanded in Q1 2010 we believe the outlook for the forecast period is bleak, and therefore the operating environment for companies in the country or dealing with local companies will be weak. One of the main risks facing businesses is the lack of liquidity. The European central bank's recently announced decision to stop providing extra liquidity to banks in the euro-zone will lead to a further cut in the credit available for the private sector, reducing business opportunities. Moreover, the measures to cut the government's budget deficit (from 11.2% of GDP in 2009 to 3.0% in 2013) will also affect liquidity. As a result, we expect the economy to expand at a very slow pace in coming years, unemployment to continue at historically high levels and the number of companies facing difficulties to increase.

Positively, despite the increasing ratio of non-performing loans, the Spanish banking sector has proved resilient. The Bank of Spain (central bank) has managed the process of mergers and acquisitions for the regional saving banks (*cajas*) that is reducing systemic risk. The central bank intends the number of cajas to be reduced to around 15 (from the more than 40 that currently operate). Moreover, the central bank will publish stress tests for many banks and regional banks operating in the country to increase the transparency of the sector and show the resilience of the institutions. We believe the two measures are positive, as an organised and planned restructuring of the banking sector, led by an institution with such a high reputation as the Bank of Spain, will contribute to the sector's strength.

The effect of the economic outlook continues to damage the government of Prime Minister Jose Luis Rodriguez Zapatero from the Socialist Party (PSOE). Although we expect Zapatero to serve out his term as prime minister (given the country's institutional arrangements), we cannot rule out early elections; we expect the main opposition party, the centre-right Popular Party (PP), to win the next general election (due by March 2012). Although in June the government managed to introduce some reforms in the labour market it did not have the support of any other political forces, and the unions that tend to support the PSOE responded with a general strike. Moreover, in early July the Catalanian people marched to protest against a decision from the Supreme Court curtailing Catalanian autonomous rights included in the Catalanian constitution (which was approved by referendum in 2006). The court underlined the unconstitutionality of 14 articles and subjected 27 others to restrictive legal interpretations.

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:

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.

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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