



Decide with Confidence

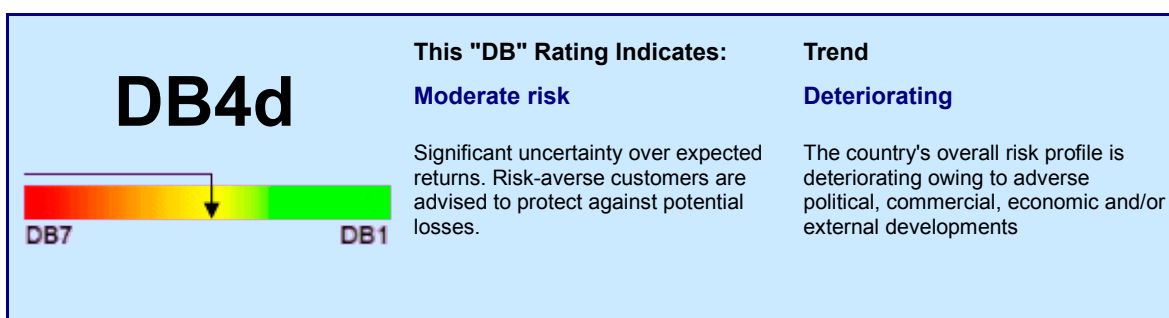
D&B Country RiskLine Report

SPAIN

Region : Western Europe

Edition : March 2012

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

Spanish banks have had a large outflow of deposits in 2011, a trend which in D&B's view will continue in 2012, with larger banks perceived as a safer option compared to smaller ones. Competition for deposits resulted in a shrinking credit to the economy, especially in the construction and real-estate sectors, which saw stabilisation in lending only at the end of 2011 after the sharp drop in 2009 and 2010. The longer-term refinancing operation launched by the ECB in 2011 is supposed to ease the pressure on banks' experiencing the deposit outflow; however, the impact of this intervention is yet to be assessed. D&B suggests a selective approach when dealing with Spanish banks and maintains the recommended trade terms of LC.

Export Credit Agencies

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

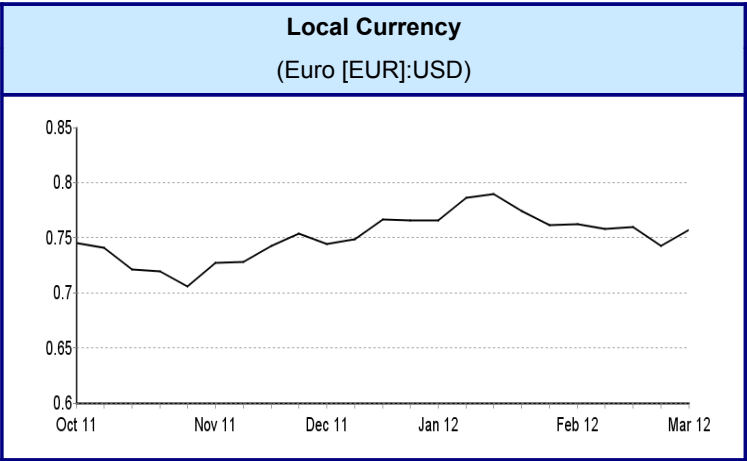
Economic Indicators

	2009	2010	2011	2012f	2013f
Real GDP growth, %	-3.7	-0.1	0.7	-1.2	1.2
Inflation, annual ave, %	-0.2	2.0	3.1	2.5	2.5
Govt balance, % GDP	-11.2	-9.3	-8.5	-8.8	-7.2
Unemployment, %	18.0	20.1	21.7	23.0	25.0
C/A balance, % GDP	-5.2	-4.5	-4.6	-4.2	-4.6

Inflation and unemployment are based on EU-harmonised data.

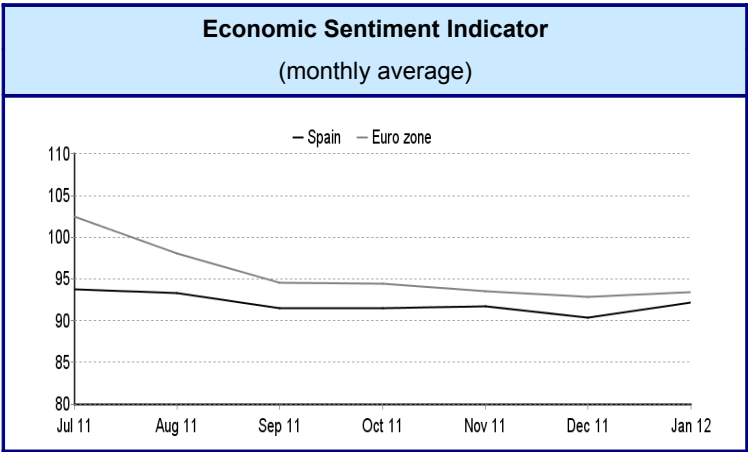
Currency Information

Exchange Rates (London, 05 Mar 12)	
GBP	1.2008
JPY*	0.9286
USD	0.7573
*(x 100)	



Local Currency (Euro [EUR]:USD)						
	Oct 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12
Week 1	0.745	0.727	0.745	0.765	0.762	0.757
Week 2	0.741	0.728	0.748	0.786	0.758	
Week 3	0.721	0.742	0.766	0.790	0.760	
Week 4	0.720	0.754	0.765	0.774	0.743	
Week 5	0.705			0.762		

Economic Sentiment Indicator



Data Table						
Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12
93.7	93.3	91.5	91.5	91.7	90.4	92.2
102.5	98.1	94.6	94.4	93.5	92.8	93.4

Risk Factor

Financial conditions (and refinancing rates for government debt, in particular) and bank credit availability to the economy improved in Spain at the beginning of 2012; this was partly attributable to the ECB's longer-term refinancing operation programme. The latter is a provision of cheap, unlimited three-year loans to banks, which has averted a disorderly collapse of systemically important institutions overloaded with sovereign debts of European southern countries not only in Spain but also in other euro-zone countries. However, D&B notes that the ECB's move has only served to mask Spain's fundamental economic and fiscal problems.

Spain is likely to see its GDP contract in 2012. Export-led demand for Spanish agricultural goods (tomatoes, olive oil, pork and grapes) in 2011 is likely to ease throughout 2012. Two-thirds of Spanish exports go to EU countries, and as such a sustainable recovery in Germany, France, UK and other EU members is crucial for Spain. Market indicators, however, point out that conditions for Spanish businesses are deteriorating externally and internally. The latest Markit *Purchasing Managers' Index* (which measures performance of the manufacturing economy) posted 45.0 in February, indicating worsening conditions for businesses. New export orders are decreasing, though at a slower rate than orders driven by domestic demand. An unwelcome sign in February was a return to input cost inflation for the first time since September 2011. Combined with another drop in output prices in the face of intense competition, the surge in costs have added more pressure to manufacturers' margins. On the positive side, the number of tourists from Germany, UK and France choosing Spain as their favourite holiday destination has gradually been recovering on the back of discounts applied by hotel chains, and turmoil in several other Mediterranean destinations.

However, household demand (accounting for 65% of GDP) is under pressure, stemming from unemployment, which, already the highest in Europe, increased further in February, as jobs cuts were the sharpest paced in more than two years. In 2012 household spending will be further pressurised by the austerity measures, announced by the new government, aimed at keeping the budget deficit at 4.4% in 2012, a big challenge taking into account the 8.5% deficit posted in 2011. Positively, highly indebted households can receive some relief from a drop in the interbank rates, which have decreased due to ECB intervention. Lower rate will save money for mortgagees, as almost 98% of Spanish mortgages are floating and usually linked to the 12-month Euribor. Overall, despite several positive economic events, the downside trends are prevailing, pushing Spain's economy into a prolonged downturn in 2012.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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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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