



Decide with Confidence

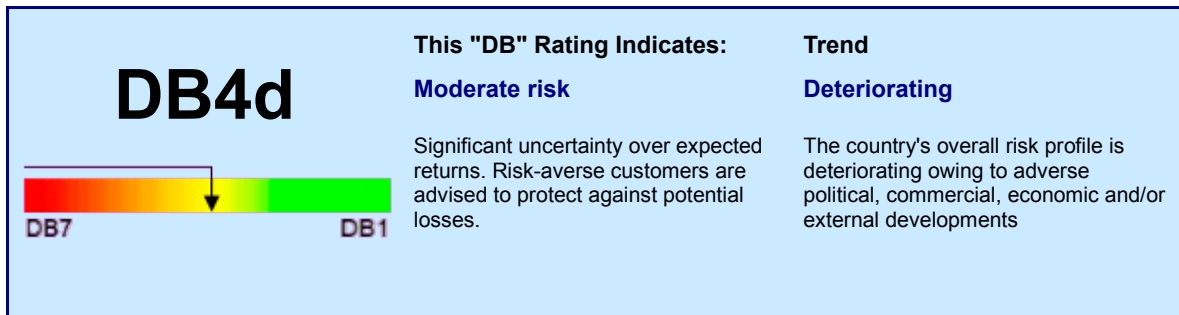
D&B Country RiskLine Report

SPAIN

Region : Western Europe

Edition : November 2013

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 Global Economic Forum's *Global Competitiveness Report 2013-14* ranks Spain 35th out of 185 countries for the ease of doing business; this is an improvement of one position compared with how the country fared in 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, with some 25.0% of firms declared bankrupt, were in the construction and property-development industry.

Export Credit Agencies

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

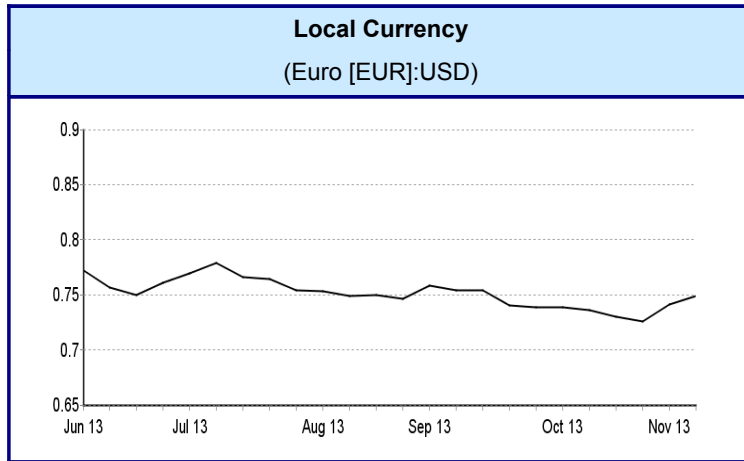
Economic Indicators

	2010	2011	2012	2013f	2014f
Real GDP growth, %	-0.3	0.4	-1.4	-1.5	0.1
Inflation, annual ave, %	2.0	3.0	2.4	1.5	1.5
Govt balance, % GDP	-9.7	-9.4	-10.6	-6.0	-5.6
Unemployment, %	20.1	21.7	25.1	27.0	26.0
C/A balance, % GDP	-4.5	-3.7	-1.1	0.8	2.2

Inflation and unemployment are based on EU-harmonised data.

Currency Information

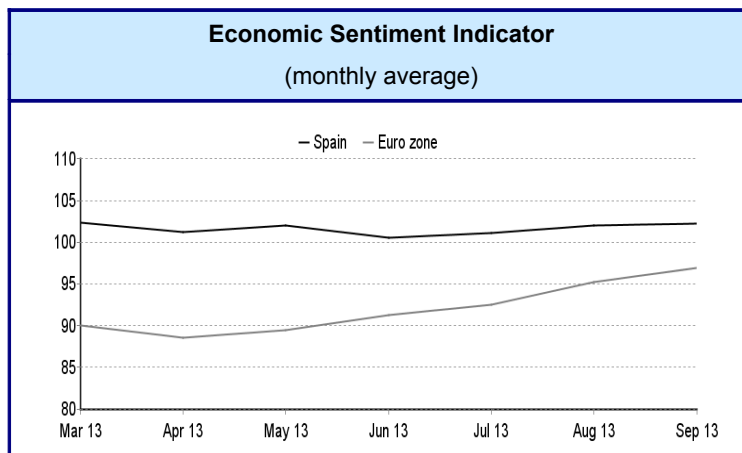
Exchange Rates	
(London, 11 Nov 13)	
GBP	1.1982
JPY*	0.756
USD	0.7491
*(x 100)	



Local Currency
(Euro [EUR]:USD)

	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13
Week 1	0.772	0.769	0.753	0.758	0.738	0.741
Week 2	0.756	0.779	0.749	0.754	0.736	0.749
Week 3	0.750	0.766	0.750	0.754	0.730	
Week 4	0.761	0.764	0.746	0.740	0.725	
Week 5		0.754		0.738		

Economic Sentiment Indicator



Data Table

Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13	Sep 13
102.4	101.2	102.0	100.5	101.1	102.0	102.3
90.0	88.6	89.5	91.3	92.5	95.2	96.9

Risk Factor

Subdued domestic demand continues to undermine Spain's outlook, although the latest data on Q3 real GDP, as well as a number of forward-looking indicators suggest that the pace of the slowdown may be easing. According to official data, real GDP shrank by 1.2% year on year (y/y) in Q3, which marks the lowest rate of contraction in the domestic product in 2013; real GDP fell by 2.1% y/y and by 1.7% y/y in Q1 and Q2, respectively. Although a detailed breakdown of what drove the weakness has not yet been released, the latest high-frequency indicators suggest that depressed private consumption may have been the main factor in the contraction as soft real disposable-income growth continues to impede household spending and suppress industrial sectors' profitability. Overall, we forecast a 1.5% real GDP contraction in 2013. Economic growth will rebound (albeit slightly) in 2014 in line with the expected upturn in the global economy, although uncertainty surrounding the magnitude of this upswing poses significant downside risks to our projections.

On the economic front, domestic headwinds in terms of high unemployment (which was unchanged in September from the August rate of 26.6%) and slack domestic consumption continue to act as a drag on the industrial sector. Industrial production fell by 4.4% y/y in August, dragged down by a 2.6% y/y contraction in consumer goods; intermediate goods and investment goods went down by 5.7% y/y and by 2.7% y/y, respectively. Over the same period, industrial turnover slid by 7.1% y/y on the back of a 3.1% y/y decrease in new orders. Meanwhile, households' disposable income continues to be constrained by high levels of unemployment and an extremely cautious approach to bank lending which, in turn, are feeding through into more muted consumer spending as underscored by negative retail sales' growth. Retail trade (a good proxy for the health of the broader economy) shrank by 2.1% y/y in Q3. With regard to bank lending, credit to the private sector continued to recede in Q2, when it shrank by 12.9% y/y. A breakdown by lending components reveals that lending to households decreased by 5.3% y/y (consumer credit contracted by 23.1% y/y, while lending for house purchases and renovations was 3.9% y/y lower); lending to business shrank by 20.0% y/y.

More positively, leading indicators reveal glimmers of a modest recovery. Consumer confidence rose by 4.1 points in October. Similarly, the *Markit Purchasing Managers' Index* (PMI) for both the services and manufacturing sectors point to an improvement in business conditions. The manufacturing PMI is stable above the 50-point expansion threshold, while the services PMI (albeit remaining below the 50.0 no-change mark) rose to 49.6 points from 49.0 points in September.

Glossary & Definitions

DEFINITIONS

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Usual Terms:

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Local Delays:

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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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