



Decide with Confidence

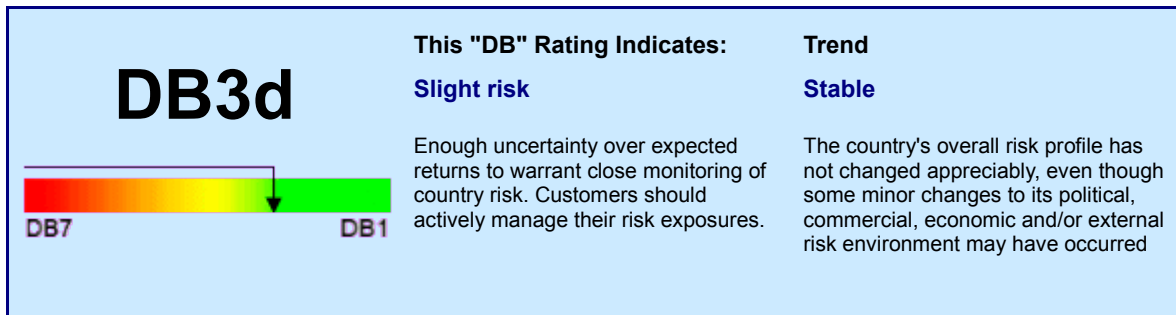
D&B Country RiskLine Report

SPAIN

Region : Western Europe

Edition : September 2011

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 Jose Luis Rodriguez ZAPATERO
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:	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:	0-2 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

Cross-border payment delays remain prevalent in Spain. D&B's proprietary payments performance data show that Spanish firms paid 14.9% of their bills 30 or more days over terms in the year to end-Q2 2011, far above the European average (8.4%). This was unchanged from the 12 months to end-Q1, but down from 18.3% in the year to end-Q2 2010. Meanwhile, the risk of non-payment as a result of insolvency also remains elevated. According to the latest official data, the number of business failures rose 16.4% in H1 2011, with particularly sharp rises in the hotel/catering, retail/vehicles trade, and durable consumer goods sectors. We expect payment risks to remain elevated in 2011-12 amid a weak economic outlook, concerns about public debt and fragile credit conditions.

Export Credit Agencies

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

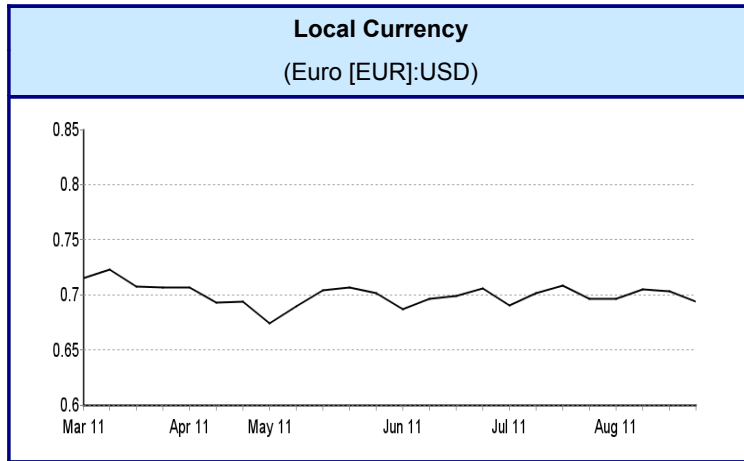
Economic Indicators

	2008	2009	2010e	2011f	2012f
Real GDP growth, %	0.9	-3.7	-0.1	0.7	1.3
Inflation, annual ave, %	4.1	-0.2	2.0	3.2	2.5
Govt balance, % GDP	-4.2	-11.1	-9.2	-7.0	-6.0
Unemployment, %	11.4	18.0	20.1	17.0	15.0
C/A balance, % GDP	-9.7	-5.1	-4.5	-4.5	-4.8

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

Currency Information

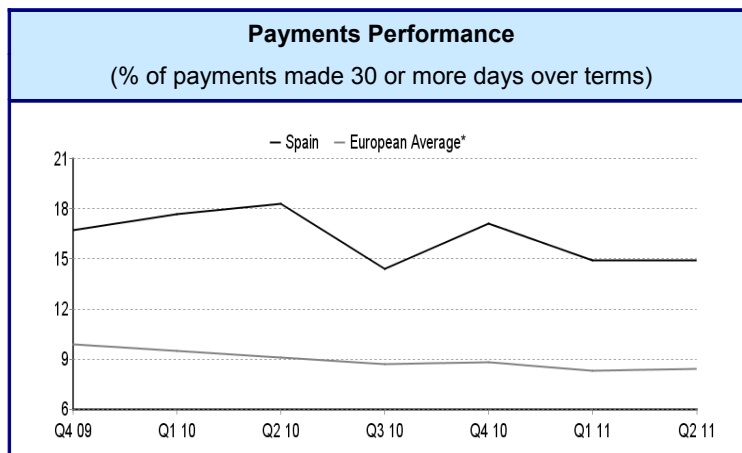
Exchange Rates	
(London, 15 Aug 11)	
GBP	1.1449
JPY*	0.9163
USD	0.7035
*(x 100)	



Local Currency
(Euro [EUR]:USD)

	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11
Week 1	0.715	0.707	0.674	0.686	0.690	0.696
Week 2	0.723	0.693	0.689	0.696	0.701	0.705
Week 3	0.707	0.694	0.704	0.699	0.708	0.704
Week 4	0.707		0.707	0.706	0.696	0.694
Week 5			0.701			

Payments Performance



Data Table

Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
16.7	17.7	18.3	14.4	17.1	14.9	14.9
9.9	9.5	9.1	8.7	8.8	8.3	8.4

Risk Factor

The economic outlook remains fragile amid ongoing concerns about the country's public finances and banks. According to provisional data by the Institute of National Statistics (INE), real GDP rose by a meagre 0.2% quarter on quarter in Q2 (down from 0.3% in Q1), and 0.7% year on year (unchanged from Q1). INE highlighted that domestic demand continued to detract from GDP growth, while foreign demand remained the key driver of the recovery. This is worrying given our expectation of a continued global slowdown in H2 2011. With Spain's main trade partners in the euro area (including Germany and France) now experiencing a marked slowdown, we are concerned that the government will miss its 2011 growth target of 1.3%. We have downgraded our growth forecast for 2011 to 0.7% (from 1.1%) and for 2012 to 1.3% (from 1.5%).

Slower growth also threatens the government's fiscal consolidation plan, which aims at reducing the budget deficit from 9.2% of GDP in 2010 to 6.0% this year and to 4.4% in 2012. In light of the expected shortfall in tax revenues due to the sluggish economic recovery, we expect much wider deficits for 2011 (7.0%) and 2012 (6.0%). Hence, debt financing risks will remain elevated. Positively, by buying Spanish (and Italian) government bonds since early August, the ECB has helped to reduce the interest rates that the Spanish government has to pay on its debt, with yields on 10-year government bonds falling from 6.3% to below 5% between early and mid-August. However, the ECB is unlikely to sustain its bond purchase scheme beyond the short term; the government has to convince financial markets that its consolidation strategy works. In August, the government announced another set of measures to reduce the deficit by EUR5bn (including changes to the methodology for advance corporate tax payments by large firms). However, the unpopular centre-left Socialist government will struggle to implement further austerity measures given the negative effects of budget cuts on domestic demand, and rising public opposition; even if the centre-right Popular Party wins the November general election (as is likely), fiscal consolidation will remain the top policy priority.

It is crucial that ECB intervention (in the short term) and the government's fiscal plan (in the medium term) keep borrowing costs at bay, because higher interest rates on Spanish sovereign debt would also affect the capability of the private sector (including banks) to obtain funding. The delicate situation of the financial sector (which struggles to access international funding) could deteriorate, further reducing liquidity in the economy. Moreover, financial sector consolidation (mainly the saving banks, *cajas*) may require more public funds than expected (between 2% and 8% of GDP), threatening the government's solvency.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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Recommended Terms:

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:

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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