

Country Insight Snapshot

Spain

May 2019





OVERVIEW

OVERALL COUNTRY RISK RATING: DB3d

Slight risk: Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

Rating Outlook: Stable

CORE OUTLOOK

- + The services sector, and tourism in particular, is expected to continue to grow in the medium to long term, offering commercial opportunities.
- + Economic growth has strengthened over the past few years, supported by improvements in labour markets.
- + Due to still-high (albeit decreasing) unemployment, do not expect significant upward pressure on wages in the coming years.
- Bank lending to the private sector is unlikely to increase meaningfully due to constraints on the demand for, and supply of, credit.
- The small size of the vast majority of businesses will slow technological innovation, as will high costs and the difficulty in accessing credit.
- The economy has the fifth-largest debt-to-GDP ratio in the euro zone, putting the government's budget for 2019 under scrutiny.

KEY DEVELOPMENT

The outcome of April's snap election was consistent with our expectations, with the third election in four years ending with a victory for the incumbent centre-left government under Pedro Sanchez.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

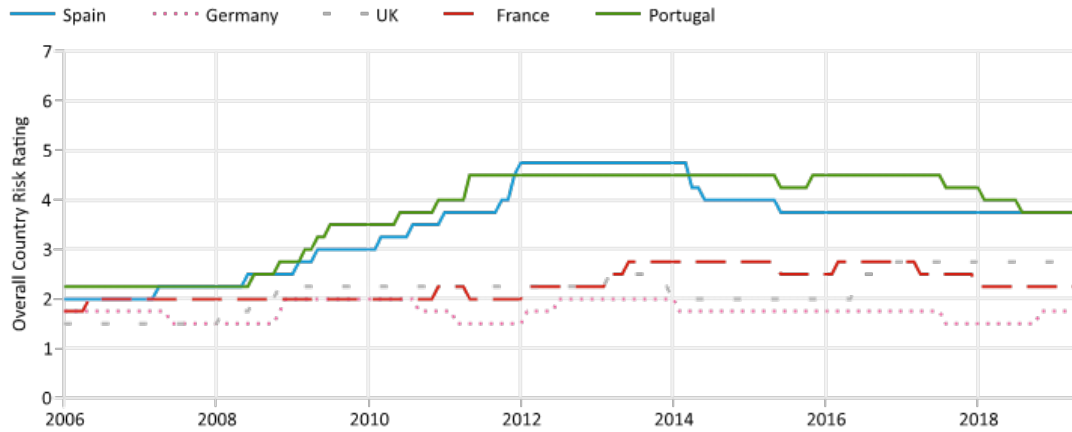
Trend: Deteriorating

Key Development has had a positive impact on the outlook.



KEY INDICATORS

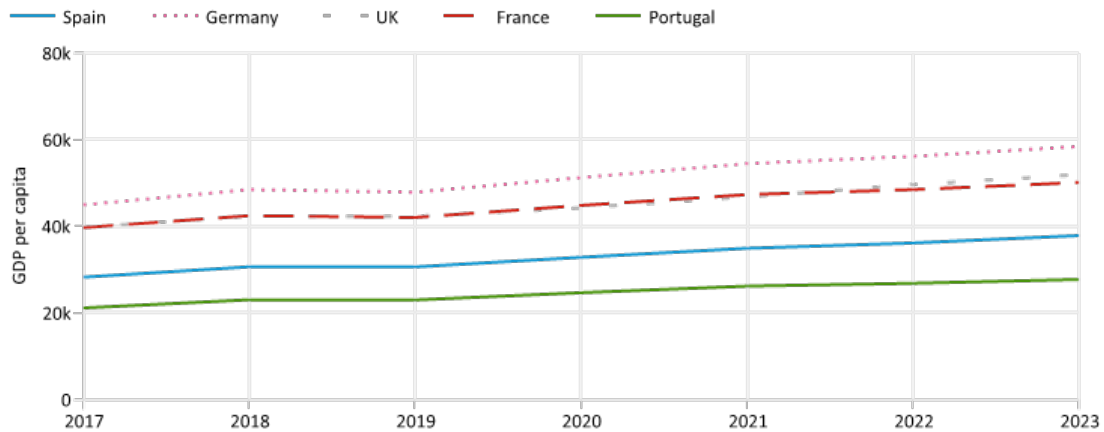
Rating History and Comparison



Sources: Dun & Bradstreet

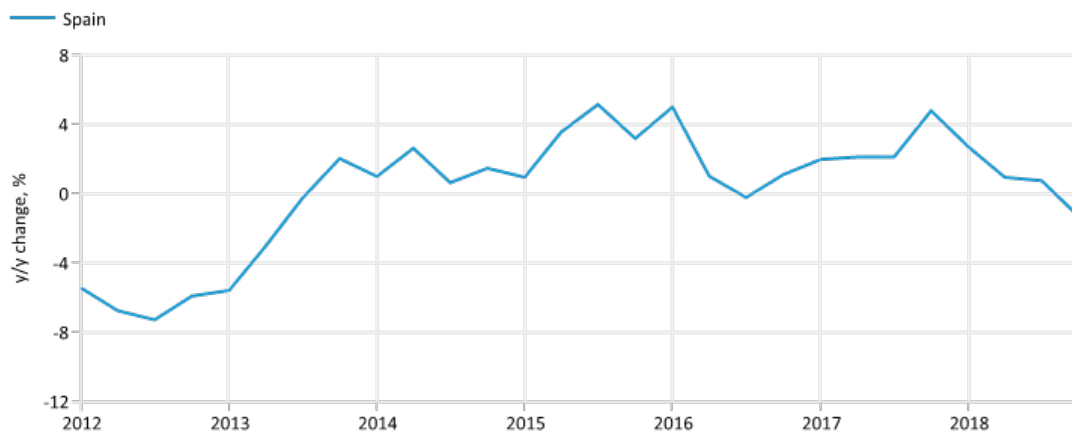
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Sources: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Sources: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	2.2	1.8	0.9	1.0	1.1	1.2	1.3	1.3
Govt balance, % GDP	-4.5	-3.1	-2.5	-2.3	-2.1	-1.8	-1.5	-1.2
Inflation, annual avge %	-0.3	2.0	1.7	1.4	1.6	1.8	2.0	2.2
Real GDP Growth, %	3.2	3.0	2.5	2.2	2.0	1.9	2.3	2.4
Unemployment, %	19.6	17.2	15.4	14.8	14.5	14.2	14.0	13.7

Sources: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The World Economic Forum's (WEF) latest *Global Competitiveness Report 2018* suggests that Spain's international competitiveness has remained broadly stable over the past year. The WEF currently ranks the country as the world's 26th most competitive economy (out of 140 countries), one position below last year's ranking. However, the country scores particularly well in four macro-categories: infrastructure (10th), health (1st), ICT adoption (21st) and market size (16th). In particular, the country performs better than most of its peers in terms of life expectancy (3rd), security (18th), transport infrastructure (9th), and research and development (16th). On the other hand, inefficient government bureaucracy, tax rates, restrictive labour regulations and insufficient capacity to innovate continue to undermine Spain's international competitiveness.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: SD

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

Dun & Bradstreet'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

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

Local Delays: 0-2 months

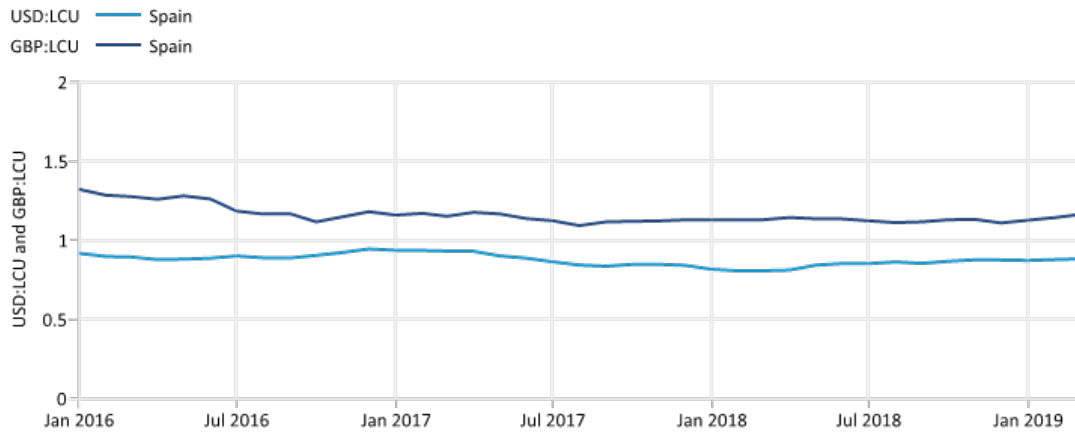
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

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.



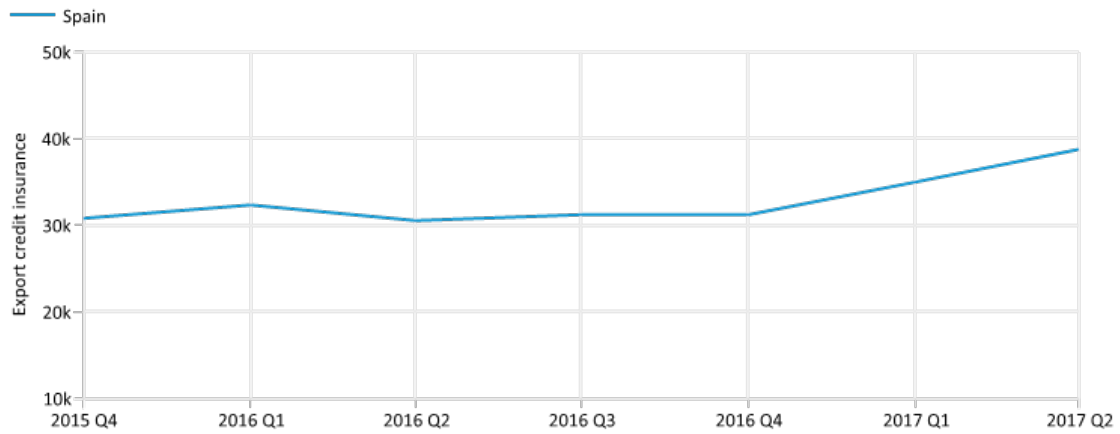
Exchange Rate



Sources: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = euro

Credit Conditions



Sources: Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Socialist Party regains victory in snap elections

The outcome of Spain's snap elections in April was consistent with Dun & Bradstreet's expectations, as the third election in four years ended with the victory of the incumbent centre-left government under Pedro Sanchez. Although the socialist's PSOE party failed to win an outright majority, Sanchez regained control of his mandate and this has provided the government with another opportunity to tackle the current challenges of Catalan independence and separatism. The formation of a stable coalition government looks difficult, as the political environment has become increasingly polarised in Spain, whilst there are also various economic implications over current and potential reforms emerging from the anticipated coalition, which is expected to be formed after the European and local elections in May.

Our expectation of a possible collaboration with the far-left Unidas Podemos party has increased amid the ongoing strengthening of relations between the parties - the Socialist's recent labour market reform to increase the national minimum wage is consistent with the view of Podemo's leader, Pablo Iglesias. However, we do not see a coalition forming between the PSOE and Albert Rivera's centrist party Ciudadanos. Additionally, the Socialist leader could benefit from gaining some support from Catalan separatist parties.

Furthermore, the newly-formed government is faced with the ongoing challenge to deliver a national budget for 2019 which can successfully pass through congress. Importantly, this will hinge on the government's ability to continue with the macroeconomic objectives - effective fiscal consolidation and progression with structural reforms will be decisive factors in the success of the budget. Meanwhile, we have maintained our current risk ratings and growth forecasts for 2019, as we continue to expect Spain's economy to deliver robust growth of 2.2% - continuing to outpace the euro area.

Market Potential

Payments performance is still average

The average cross-border payment delay for Spanish businesses to EU counterparties rose slightly between Q2 and Q4 2018, from 12.95 days to 13.30 days beyond agreed terms, respectively. The delay in Q2 was slightly below the EU average of 13.26 days. Despite the 0.35 days difference in average payment delays from Q2 to Q4, Spanish companies, on average, paid with less delay than elsewhere in Europe since Q1 2016. Year-earlier cross-border delays stood at 11.86 days for Spanish importers and 13.32 for EU importers. Spanish cross-border payment delays continue to compare well since 2010, despite a slight uptick in Spanish firms' payment delays.

Meanwhile, a number of factors suggest that the housing market could recover over the medium term. Official data from Instituto Nacional de Estadística (INE) reveals that house sales rose by 15.4% y/y in 2017, then rose again by a still robust 10.6% y/y in the first 11 months of 2018. That said, the temporary nature of most new work contracts means that many potential house buyers are still locked out of the mortgage market. Furthermore, although house prices are far below their pre-crisis levels, they are still too high for the average household; an average family needs 6.4 times its combined annual income to buy a house. Only 10.2% of total sales related to new housing, with the bulk of real-estate transactions represented by second-hand housing; protected housing accounted for 4.3% of the total.



COUNTRY PROFILE AND STATISTICS

Overview

Spain is situated on the Iberian Peninsula, and borders France and Portugal. Following its transition to democracy in 1977, Spain has become a modern economy and consolidated its role within the EU. Since the return to democracy, the country has been governed by two main parties, the Socialist Party (PSOE) and the centre-right Popular Party (PP). However, regional parties, mainly from Catalonia and the Basque Country, have pushed for further autonomy, and have also played a role in national governments. The Basque separatist movement, ETA, remains active, although it has disarmed.

The Spanish economy has changed radically in recent decades, and high economic growth, driven by good levels of liquidity, has helped standards of living converge with those of the rest of Western Europe. Although productivity is relatively low, companies from sectors such as banking, fashion and telecommunications have become important global players. The country's still-tight credit conditions are unlikely to ease significantly in the quarters ahead.

Key Facts

Key Fact	Detail
Head of government	Prime Minister Pedro SANCHEZ
Capital	Madrid
Timezone	GMT +01-00
Main language	Spanish
Population (millions)	46.4
GDP (USD billions)	1,426.4
GDP per capita (USD)	30,744
Life expectancy (years)	83.0
Literacy (% of adult pop.)	98.3
Surface area (sq km)	505,370

Sources: Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	1.4	3.6	3.2	3.0	2.5
Nominal GDP in USDbn	1,377	1,200	1,238	1,315	1,426
Nominal GDP in local currency (bn)	1,038	1,081	1,119	1,166	1,208
GDP per Capita in USD	29,602	25,854	26,703	28,361	30,744
Population (year-end, m)	46.5	46.4	46.3	46.4	46.4
Exchange rate (yr avge, USD-LCU)	0.8	0.9	0.9	0.9	0.8
Current Account in USDbn	14.2	13.7	27.8	24.2	13.3
Current Account (% of GDP)	1.0	1.1	2.2	1.8	0.9
FX reserves (year-end, USDbn)	327.6	333.9	344.4	353.2	378.4
Import Cover (months)	1.3	1.4	1.5	1.4	1.4
Inflation (annual avge, %)	-0.2	-0.6	-0.3	2.0	1.7
Govt Balance (% GDP)	-6.0	-5.3	-4.5	-3.1	-2.5

Sources: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	2.2	2.0	1.9	2.3	2.4
Nominal GDP in USDbn	1,427	1,530	1,627	1,683	1,761
Nominal GDP in local currency (bn)	1,252	1,297	1,345	1,403	1,467
GDP per Capita in USD	30,727	32,937	35,031	36,256	37,954
Population (year-end, m)	46.4	46.5	46.4	46.4	46.4
Exchange rate (yr avge, USD-LCU)	0.9	0.8	0.8	0.8	0.8
Current Account in USDbn	13.8	16.8	20.0	21.5	23.0
Current Account (% of GDP)	1.0	1.1	1.2	1.3	1.3
FX reserves (year-end, USDbn)	397.7	417.9	434.9	452.6	475.6
Import Cover (months)	1.4	1.3	1.3	1.3	1.2
Inflation (annual avge, %)	1.4	1.6	1.8	2.0	2.2
Govt Balance (% GDP)	-2.3	-2.1	-1.8	-1.5	-1.2

Sources: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Spain	Germany	UK	France	Portugal
Income per Capita (USD)	30,727	47,966	42,406	42,142	23,085
Country Population (m)	46.4	82.4	67.0	65.5	10.3
Internet users (% of population)	80.6	89.6	94.8	85.6	70.4
Real GDP Growth (% p.a., 2019 - 2028)	1.5 - 3.0	1.8 - 3.0	1.8 - 3.5	1.3 - 2.5	1.0 - 2.5

Sources: Various sources/Dun & Bradstreet



LINKS

User Guide

Please click [here](#) to visit our online user guide.

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