

Country Insight Snapshot

Spain

June 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: March 2022 (DB3c → DB3d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

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

WorldWatch Headline

The snap election called by PM Pedro Sanchez is likely to lead to a change of guard, increasing the uncertainty regarding planned labour reforms and existing tax structure.

Recent Changes

- Following the resounding defeat of the ruling Socialist party and its allies in local and regional elections in late May, Prime Minister Pedro Sanchez announced dissolving the government in July 2023 and snap elections thereafter.
- Consumer prices rose 3.2% y/y in May, lower than 4.1% in April and the lowest since July 2021; core inflation also dropped slightly to 6.1%, from 6.6% in April.
- The government is planning a EUR2.2bn initiative aimed at assisting farmers and consumers in dealing with an ongoing drought, worsened by the unprecedentedly hot and dry April.

Events to Watch

- Torrential rains have swept the coastal southeast Spain, causing flash floods that cut off roads and seriously damaged crops; however, they also raise hopes of normalisation of drought conditions.
- In May, the ECB increased interest rates for the seventh consecutive time; however, the latest hike is the smallest within the current cycle, suggesting that the period of increasingly tightening monetary policy may be reaching its conclusion.
- A victory for the right-wing People's Party is expected to usher in more business-friendly policies and trim taxes (e.g., the windfall tax), but structural reforms (such as in the labour market) are expected to take a backseat.

Call to Action

- Factor into business plans elevated utility costs and high overall inflation.
- Note that we are at the end-curve of the rate hiking cycle globally; further increases will be of less magnitude, which will help stabilise borrowing costs.
- Factor into business plans a change of government in the upcoming elections.
- Look for opportunities in the EV and solar energy sectors, which are expected to benefit under the Spanish Recovery and Resilience Plan.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: March 2022 (DB3b → DB3d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

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

Risks and Opportunities

- GDP beat expectations of a recession, growing 0.5% q/q in Q1 2023, lifted by investment and foreign trade; however, private consumption fell amid high inflation.
- Consumer prices rose 3.2% y/y in May, lower than 4.1% in April and the lowest since July 2021; core inflation also dropped slightly, to 6.1% in May, from 6.6% in April.
- The government is planning a EUR2.2bn initiative aimed at assisting farmers and consumers in dealing with an ongoing drought, worsened by the unprecedentedly hot and dry April.
- Between August 2022 and May 2023, the ECB increased the main refinancing rate from 0.5% to 3.75%, drastically tightening financial conditions.
- The Spanish government has lowered the budget deficit target for 2024 to 3% of GDP due to high tax revenues, meeting the EU's common fiscal target a year earlier than expected.
- The tourism industry saw robust growth in 2022, but the number of visitors was still only 86% of the pre-Covid levels, and risks to the outlook persist due to a slowdown in the euro area.
- Labour reforms implemented in 2022 have had a positive effect; the share of temporary workers fell from 26% in 2021 to 18% by the end of 2022, close to the eurozone average of 14.6%.
- The Spanish Banking Association has argued that if banks are forced to pay EUR3bn in taxes, it would reduce their lending capacity by EUR50bn, as it would cut the amount of regulatory capital they can hold against those loans; Unicaja bank's net profits dropped 43% in Q1 2023 (y/y) due to the new banking tax.

Trade Terms

Description	Terms
Minimum Terms	SD
Recommended Terms	SD
Usual Terms	90-120 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CIA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden (EKF)	Full cover available, conditions apply
ECGD	Medium- or long- term cover only
Euler Hermes AG	Medium- or long- term cover available, limited short-term cover

Source: Export Credit Agencies

Call to Action

- Factor into business plans elevated utility costs and high overall inflation.
- Note that while overall inflation may have peaked, core inflation has continued to rise (and broaden).
- Note that we are at the end-curve of the rate hiking cycle globally; further increases will be of less magnitude, which will help stabilise borrowing costs.
- Monitor counterparty risk closely, given the deteriorating payment performance.

SUPPLY ENVIRONMENT

Current Risk Indicator:



- Last change: June 2023 (DB4c → DB4d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- Temperatures in April 2023 were the warmest on record, being 10-15 degrees higher than average; 27% of the country is in a state of drought 'emergency' or 'alert', while water reserves are at 50% capacity.
- Torrential rains have swept the coastal southeast Spain, causing flash floods, which cut off roads and seriously damaged crops.
- Since an EU mandate to liberalise railways in 2021, Spain has tripled its high-speed operators, leading to increased competition, improved availability of trains and low prices.
- The Bank of Spain expects food inflation to peak at 12% y/y in 2023, which will push headline inflation as it has the highest weightage in the Consumer Price Inflation (CPI) basket.
- The EU has approved Spain's request to extend its temporary cap on reference prices for natural gas and coal used by power plants, until at least the end of 2024.
- The government plans to scrap sales tax for six months on essential food items such as bread, milk, cheese, eggs and fruit and vegetables, and to bring down taxes on pasta and cooking oil.
- The government has agreed to continue the maximum 2% cap on rent increases throughout 2023, shielding renters from rising inflation.
- In October 2022, VAT on natural gas was reduced from 21% to 5%; this temporary measure has reduced heating bills.
- Spain is one of the leading markets for AT1 debt issuance in Europe, which has come under pressure following the collapse of Credit Suisse; high coupons for these bonds will further increase the cost of capital for banks.

Call to Action

- Be cognisant of strikes by public and private sector employees, despite efforts to increase wages in various sectors; this trend may continue in 2023, until inflation comes down meaningfully.
- Continually monitor the risk of disruption to activities due to protests.
- Monitor the **solvency of businesses**, especially small and medium-sized enterprises (SMEs), as government initiatives are gradually withdrawn and conditions for business continuity deteriorate.
- Use our **Procurement and Supplier Management service** to uncover risks for suppliers in their procurement processes.

MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: May 2023 (DB4a → DB4b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- Blistering temperatures have hampered tourism in coastal regions, especially in southern Spain.
- During its six-month presidency of the Council of the EU in H2 2023, Spain aims to push for consolidation in the telecommunications market to increase competitiveness and intends to draft a set of regulations for the development of AI.
- Spain may soon follow Ireland and Portugal in abolishing the 'citizenship by investment' programmes; a bill has already been submitted in Congress to annul the 'Golden Visa' scheme introduced in 2013.
- Trade with Algeria has declined significantly, following improved ties with Morocco; in December 2022, Spanish exports to Algeria amounted to USD11.81m (EUR10.8m), a fall of 84% from the previous year.
- The lack of storage systems and an efficient marketplace often leads to wastage of wind and solar energy generated in Spain.
- Lower-than-forecast rain has pushed olive oil prices to record levels, with analysts warning that a harsh and dry summer will lower crop yields later this year.
- The Spanish aircraft engine company, ITP Aero, is leading a national consortium targeting the testing and development of the first in-country-developed, hydrogen-powered commercial aircraft engine.
- A tourist tax proposed by the EU might pose problems for Spain's tourism sector.

Call to Action

- Note that the tax on interest and fees income will have a negative impact on banks' profitability.
- Look for opportunities in the EV sector.
- Expect the Russia-Ukraine conflict to lead to a restructuring of the energy supply chain, which will keep supply tight in the short to medium term.
- Make use of **analytical tools** to identify potential customers and market opportunities.
- We urge customs agencies to take steps to improve connectivity with other agencies and trading partners.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: November 2022 (DB4a → DB3c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

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

Risks and Opportunities

- Following the resounding defeat of the ruling Socialist party and its allies in local and regional elections in late May, Prime Minister Pedro Sanchez announced dissolving the government in July 2023 and snap elections thereafter.
- The prime minister's popularity had been damaged by the rising cost of living, with the conservative People's Party overtaking the Socialists in national polls and registering a decisive victory in a regional election in Andalucía; however, it might need support of the far-right Vox party to govern in several regions.
- In April, the regional government in Catalonia announced the expropriation of 70 unused properties of large property owners to be converted to social housing.
- A reform of the penal code to replace 'sedition' with 'aggravated public disorder' benefitted Catalan pro-independence leaders, but cost the Socialist party dearly in the recent regional elections.
- Spain has stepped up gas exports to Morocco, even as Algeria suspended a friendship treaty with Spain after the latter reversed its neutral position on the Western Sahara dispute between Algeria and Morocco.
- Healthcare workers, taxi drivers and teachers across the country have protested against privatisation.

Call to Action

- Monitor developments in talks with Algeria, as relations are increasingly strained; this is a threat to Spain's energy security.
- Factor into business plans a change of government in the upcoming elections.
- We urge investors in strategic sectors and from countries without bilateral investment treaties to take out guarantees against expropriation.
- Keep up to date with the latest information on entities and individuals that threaten national security or that bypass lawful trade and commerce.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	2.3	2	-11.3	5.5	5.5	1.6	2.2	2.3	2.1	2.5
Nominal GDP in USDbn	1,421	1,394	1,274	1,428	1,398	1,541	1,645	1,698	1,756	1,824
Nominal GDP in local currency	1.2tn	1.2tn	1.1tn	1.2tn	1.3tn	1.4tn	1.5tn	1.5tn	1.6tn	1.6tn
GDP per Capita in USD	30,374	29,584	26,905	30,061	29,404	32,422	34,654	35,807	37,075	38,559
Population (year-end, m)	46.8	47.1	47.4	47.5	47.6	47.5	47.5	47.4	47.4	47.3
Exchange rate (yr avge, USD-LCU)	0.8	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Current Account in USDbn	27.6	29.7	7.7	13.6	11.3	9.3	11.3	8.4	11.8	15.9
Current Account (% of GDP)	1.9	2.1	0.6	1	0.8	0.6	0.7	0.5	0.7	0.9
FX reserves (year-end, USDbn)	378.4	386.6	422.9	568.7	591.8	622	673.2	743.1	836.4	978.5
Import Cover (months)	1.3	1.4	1.6	2	2.2	2.1	2.1	2.2	2.4	2.6
Inflation (annual avge, %)	1.7	0.8	-0.3	3	8.3	4.2	2.4	1.1	0.9	0.9
Govt Balance (% GDP)	-2.6	-3.1	-10.1	-6.9	-4.8	-4.1	-3.5	-3.7	-3.3	-3

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Spain	Germany	UK	France	Portugal
Income per Capita (USD)	32,422	54,319	48,515	47,200	27,207
Country Population (m)	47.5	83.3	67.7	64.8	10.2
Internet users (% of population)	93.2	89.8	94.8	84.8	78.3

Source: Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	No delays reported
Local Delays	0-2 months

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Spain	Western & Central Europe	OECD Average
Restrictions on non-Residents' Accounts	0	0	0.06
Restrictions on Payments for Imports	0	0.12	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	0.36	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



How Dun & Bradstreet can help

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User Guide

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