



****Coronavirus Covid-19 Update****

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

Country Insight Snapshot

Spain

April 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB4d

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Deteriorating rapidly

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/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

Dun & Bradstreet downgrades Spain's country risk rating from DB3d to DB4d as the coronavirus crisis escalates, undermining business continuity and economic activity.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

R

Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating rapidly

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

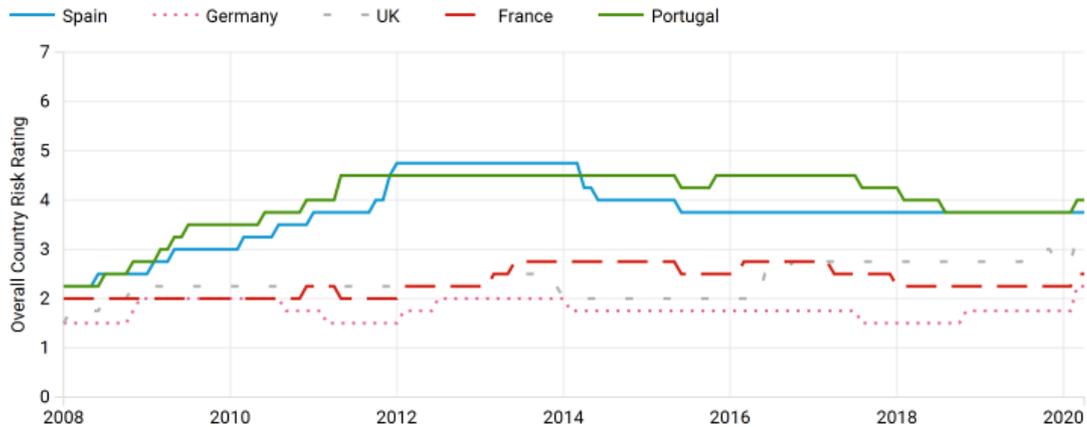
Trend: Deteriorating

Key Development has had a negative impact on the outlook.



KEY INDICATORS

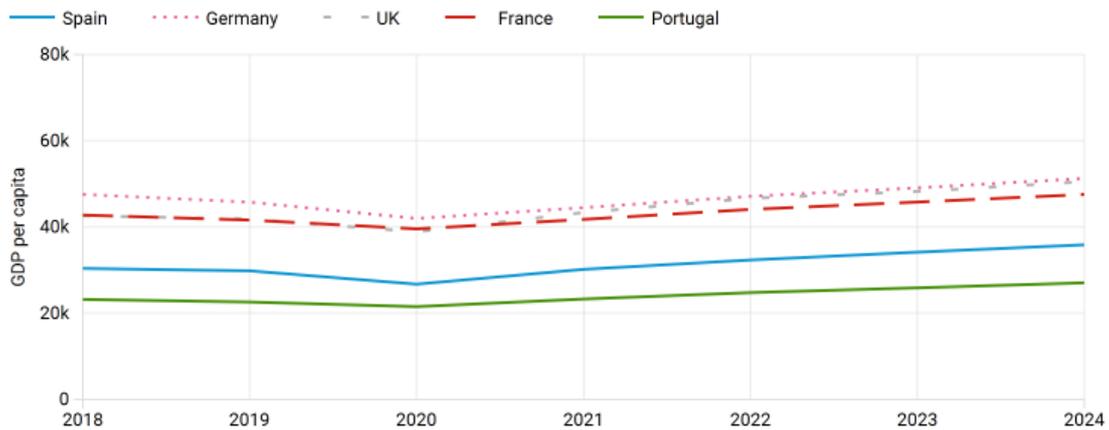
Rating History and Comparison



Source: Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2017	2018	2019e	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	2.7	1.9	1.2	-1.4	-0.8	-0.8	-0.9	-0.8
Govt balance, % GDP	-3.0	-2.5	0.0	-20.0	-5.0	-1.5	-1.2	-1.6
Inflation, annual avge %	2.0	1.7	0.8	3.0	1.8	2.0	2.2	2.2
Real GDP Growth, %	2.9	2.4	2.0	-10.0	8.0	2.3	2.4	1.8
Unemployment, %	17.2	15.3	14.1	20.0	17.0	15.0	13.7	13.4

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Despite the coronavirus crisis, there is no imminent risk of the government imposing exchange or capital controls that might prevent foreigners converting local currency into foreign currency and transferring it out of the country. Under Spain's national law, foreign investors are entitled to free and unrestricted repatriation of their profits in foreign currency, provided that they have met their tax obligations. The government is also subject to legal constraints arising from its international obligations, most notably the IMF's Articles of Agreement which oblige the government not to impose restrictions on current payments and maintain the convertibility. In this context, the few controls on capital transactions derive from Spain's adoption of EU banking and anti-money-laundering laws. In order to comply with the law, companies must provide proof of having paid all tax liabilities and notarised evidence of distributed profits to shareholders, and formally declared their intention to remit capital out of the country. Meanwhile, in common with other EU members, Spain imposes a limit of EUR10,000 on the amount of cash that can be carried across its borders.

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

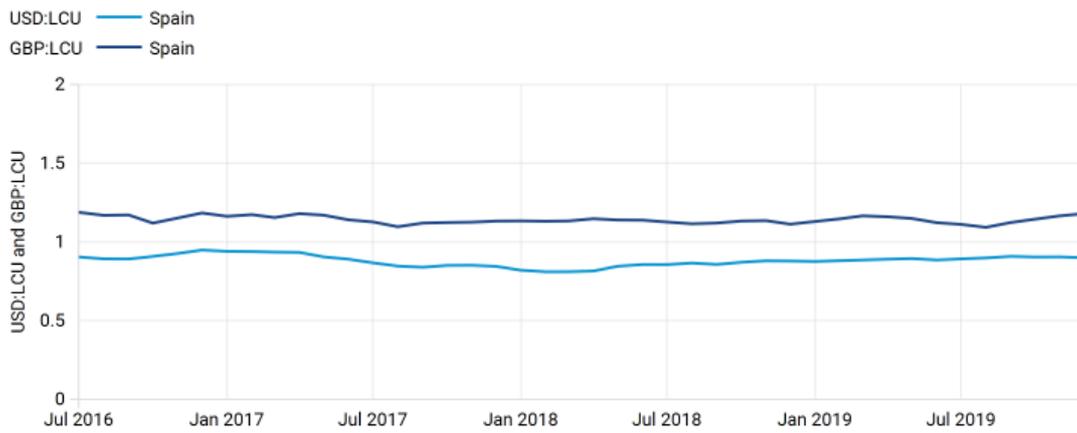
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: No delays reported

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.



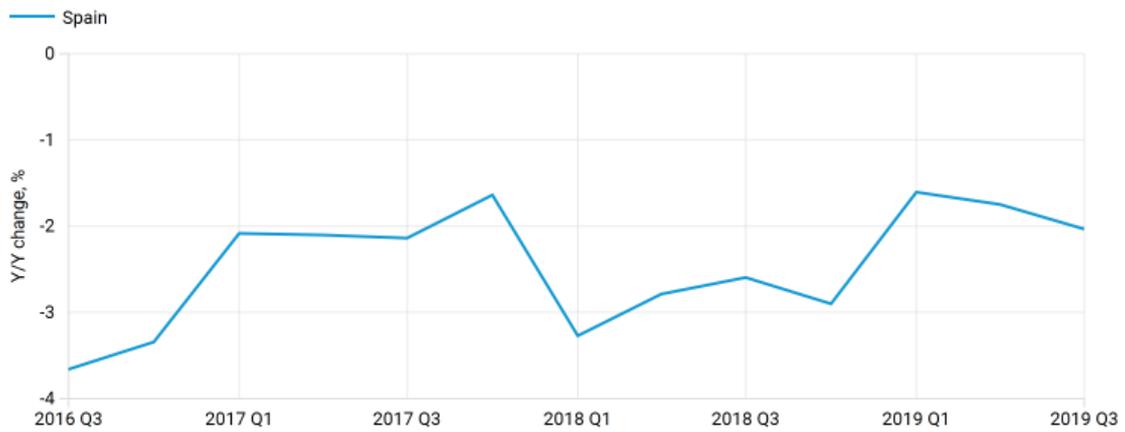
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = euro

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



RISKS AND OPPORTUNITIES

Business Continuity

Country risk rating downgraded from DB3d to DB4d

Dun & Bradstreet has downgraded Spain's overall country risk rating from DB3d to DB4d as the coronavirus crisis escalates. By the end of March, the country had recorded some of the highest casualty figures in the world, leading the government to declare a state of emergency and impose a lockdown of the country in an attempt to prevent the spread of the virus. Externally, the government has closed all of Spain's seaports, airports and land borders to non-Spaniards (with just a few exceptions), allowing only commercial vehicles to enter the country. Internally, the government has imposed sweeping measures to separate the population, including the closure of all public amenities and non-essential businesses, and instructed the population to leave home only for essential reasons such as buying food and medicine - enforceable by the police and military - which have imposed checkpoints on the streets of Spain's major towns and cities.

In the meantime, the government has requisitioned all private hospitals and ordered any factory capable of manufacturing protective masks and glasses, gloves and other medical or pharmaceutical products to do so, on pain of fines. In such circumstances, normal economic life has been brought to a virtual standstill, and we are now speculatively forecasting a cut in GDP of 10% in 2020, on the assumption that a collapse in the second quarter will be followed by a moderate rebound in growth in the second half of the year.

Short-Term Economic Outlook

Public debt heading for 120% of GDP

To ameliorate the consequences of the lockdown, the government has announced a huge economic rescue package, amounting to EUR200bn. Half of this is comprised of state-guaranteed loans to businesses to ensure their continued liquidity, and the other half is comprised of payments to workers made unemployed by the lockdown. In the meantime, the government has imposed a moratorium on the payments of taxes, contributions and VAT as well as ongoing household expenses such as mortgages and utility bills. Inevitably, this will put intense strain on the national finances, which never properly recovered from the financial crisis last decade. With public debt amounting to 97.9% of annual GDP at the end of 2019, and the new measures set to cost the government an estimated 22% of GDP, public debt is consequently on course to reach 120% of GDP this year, double the Eurozone's official limit.

In this context, the government has allied itself with eight other Eurozone members to push for the creation of 'coronabonds' - in effect, a bailout from the Eurozone's richer members in the form of a permanent fund of money to which all Eurozone members contribute, and from which the monetary union's most afflicted members can draw, to support their public finances. However, this idea is fiercely resisted by countries such as the Netherlands, Germany and Austria which have consistently rejected the transformation of the Eurozone from monetary union into a fiscal union, creating great uncertainty about Spain's ability to manage the rise in its national debt once the coronavirus crisis abates.



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)	46.7
GDP (USD billions)	1,394.1
GDP per capita (USD)	29,829
Life expectancy (years)	83.2
Literacy (% of adult pop.)	98.4
Surface area (sq km)	505,370

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2015	2016	2017	2018	2019e
Real GDP growth (%)	3.8	3.0	2.9	2.4	2.0
Nominal GDP in USDbn	1,196	1,232	1,310	1,419	1,394
Nominal GDP in local currency (bn)	1,078	1,114	1,162	1,202	1,245
GDP per Capita in USD	25,617	26,423	28,076	30,396	29,829
Population (year-end, m)	46.7	46.6	46.6	46.7	46.7
Exchange rate (yr avge, USD-LCU)	0.9	0.9	0.9	0.8	0.9
Current Account in USDbn	24.2	39.3	35.1	27.7	16.7
Current Account (% of GDP)	2.0	3.2	2.7	1.9	1.2
FX reserves (year-end, USDbn)	333.9	344.4	353.2	378.4	390.8
Import Cover (months)	1.4	1.5	1.4	1.3	1.4
Inflation (annual avge, %)	-0.6	-0.3	2.0	1.7	0.8
Govt Balance (% GDP)	-5.2	-4.3	-3.0	-2.5	0.0

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	-10.0	8.0	2.3	2.4	1.8
Nominal GDP in USDbn	1,250	1,411	1,511	1,595	1,673
Nominal GDP in local currency (bn)	1,158	1,271	1,326	1,387	1,442
GDP per Capita in USD	26,740	30,183	32,349	34,163	35,876
Population (year-end, m)	46.8	46.7	46.7	46.7	46.6
Exchange rate (yr avge, USD-LCU)	0.9	0.9	0.9	0.9	0.9
Current Account in USDbn	-17.7	-11.2	-12.6	-14.5	-13.6
Current Account (% of GDP)	-1.4	-0.8	-0.8	-0.9	-0.8
FX reserves (year-end, USDbn)	410.8	427.4	444.8	467.5	546.9
Import Cover (months)	1.4	1.4	1.3	1.3	1.4
Inflation (annual avge, %)	3.0	1.8	2.0	2.2	2.2
Govt Balance (% GDP)	-20.0	-5.0	-1.5	-1.2	-1.6

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Spain	Germany	UK	France	Portugal
Income per Capita (USD)	26,740	41,982	38,878	39,563	21,525
Country Population (m)	46.8	83.8	67.9	65.3	10.2
Internet users (% of population)	80.6	89.6	94.8	85.6	70.4
Real GDP Growth (% p.a., 2020 - 2029)	1.5 - 3.0	1.8 - 3.0	1.8 - 3.5	1.3 - 2.5	1.0 - 2.5

Source: Various sources/Dun & Bradstreet



LINKS

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Additional information relevant to country risk can be found in the online *International Risk & Payment Review*, which provides timely and concise economic, political and commercial information and analysis on 132 countries. This subscription-based service (www.dnbcountryrisk.com) carries essential information on payment terms and delays. It also includes the unique Dun & Bradstreet Country Risk Indicator to help monitor changing market conditions.

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