

Reasonable optimism but no euphoria

General Information



GDP	USD1,381.342bn (World ranking 14, World Bank 2014)
Population	46.405mn (World ranking 29, World Bank 2014)
Form of state	Parliamentary Monarchy
Head of government	Mariano Rajoy
Next elections	January 2020 (or June 26 th 2016 if no government formed until then)



Strengths

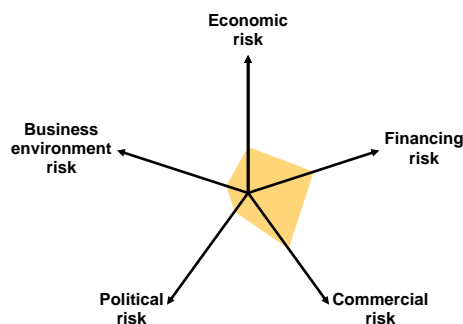
- Improving competitiveness thanks to deep structural reforms (banking sector, pensions, labour market)
- Modern infrastructure network
- Large companies with international presence
- Good performance in some industrial and innovative sectors
- Tourism potential
- Efficient system for R&D, relatively high-skilled labour

Weaknesses

- High fiscal deficit and public debt
- High private sector debt
- Weak banking system
- Downside pressures on prices
- Very elevated unemployment

Country Rating

A2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
France 15%	1	Germany 13%
Germany 10%	2	France 11%
Portugal 8%	3	Italy 7%
Italy 7%	4	China 6%
United Kingdom 7%	5	United Kingdom 5%

By product (% of total)

Exports	Rank	Imports
Cars And Cycles 11%	1	Crude Oil 12%
Agricultural Prod 5%	2	Refined Petroleum 6%
Refined Petroleum 5%	3	Vehicles Components 5%
Pharmaceuticals 4%	4	Cars And Cycles 5%
Plastic Articles 4%	5	Pharmaceuticals 4%

Sources: Chelem, UNCTAD



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Economic Overview

Real growth slowly decelerates but remains dynamic

In 2015 Spain was on the front line of European growth with real GDP expanding by +3.2%. Private consumption which accounts for 55% of GDP remained the main driver of the economy with a solid growth of +3.1%. Investment also contributed positively, markedly thanks to the rebound in construction investment which grew by +5.3%. Despite steady growth in exports (+5.4%), the surge in imports (+7.5%) caused a negative contribution of net exports (-0.6pp) to growth.

Euler Hermes expects this momentum to somewhat slow down. We expect real GDP growth to moderate to +2.6% in 2016 and +2.1% in 2017. Protracted low oil prices coupled with accommodative monetary policy from the ECB will continue to support private consumption (+2.5% forecast in 2016) and investment (+4.6%). Exports are also expected to remain dynamic (+4.6% forecast in 2016), sustained by a low euro and the competitive gains made since 2012, notably in the car industry.

These positive economic prospects translate into an improving situation for corporates and the labor market. In 2015, firm's profitability was one of the highest in the Eurozone (42% of value-added) and business insolvencies decreased by -26%. The latter remain however three times the levels of 2007. In 2016 insolvencies are expected to decline by another -10% while the unemployment rate should finally go below 20% - still well above its European peers.

High level of debt and downward price pressures remain important hurdles to recovery

The fall in consumer prices deepened in 2015 to -0.6% on average after -0.2% in 2014, weighing on corporates' margins. Inflation should make a slight comeback this year (+0.1%) and finally accelerate in 2016 (+1.5%), though still below the +2% ECB target. Downward pressures on prices are also a major risk to the ongoing deleveraging process. Household debt remains among the highest in the Eurozone (107% of gross disposable income), while indebtedness of companies still accounts for nearly 150% of gross value added. Public debt is expected to stabilize around 100% of GDP, far above the 60% stated in European rules.

Political uncertainty is affecting businesses' and consumers' confidence

If it persists, the uncertainty stemming from the current political deadlock might also become a downside risk for growth as it could compromise consumers' and investors' confidence. The inability to form a majority since the last elections held on December 2015 puts at risk the government's capacity to keep up its reform agenda which has been crucial to Spain's current recovery.

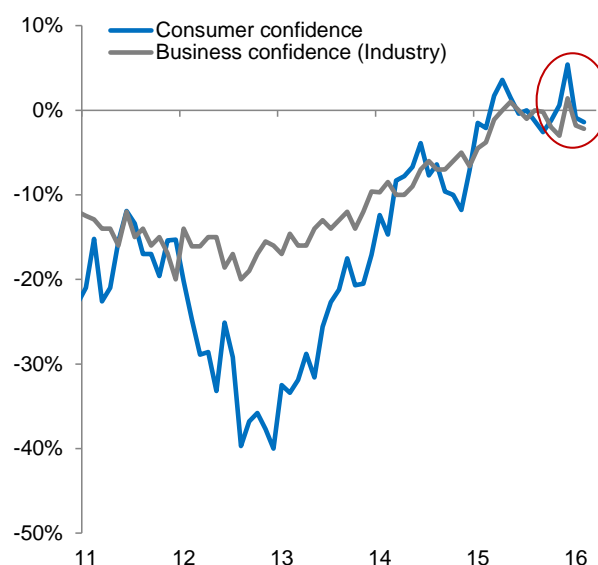
Spain: Key economic forecasts

	share	2014	2015	2016	2017
GDP	100%	1.4	3.2	2.6	2.1
Private consumption	55%	1.2	3.1	2.5	2.3
Public consumption	2%	0.0	2.7	0.8	0.7
Investment	2%	3.5	6.4	4.6	4.0
Construction	9%	-0.2	5.3	2.8	2.8
Equipment	12%	6.4	7.2	5.9	4.8
Stocks*	1%	0.3	0.2	0.0	0.1
Exports	36%	5.1	5.4	4.6	4.0
Imports	34%	6.4	7.5	4.8	4.7
Net exports*	2%	-0.3	-0.6	0.0	-0.2
Employment		1.2	3.0	1.8	1.0
Unemployment rate (%)		24.4	22.1	19.9	18.7
Wages		-0.8	0.3	0.4	0.5
Inflation		-0.2	-0.6	0.1	1.5
Fiscal balance (% of GDP)		-5.9	-4.5	-3.5	-3.0
Public debt (% of GDP)		99.3	100.1	101.1	100.5
Current account (% of GDP)		1.0	1.5	-0.1	-0.5

Change over the period, unless otherwise indicated

* contribution to GDP growth

Consumer and business confidence



Sources: National sources, IHS, Euler Hermes

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